BKT

BANKA KOMBETARE TREGTARE

Annual Report 2010

Contents

Banka Kombëtare Tregtare (BKT) was legally established in January 1993, after the merging of the Albanian Commercial Bank (ACB) and the National Bank of Albania (NBA) and was incorporated as a joint stock company in 1997. However, its history dates back to November 30, 1925, to the opening of Durres branch which is considered as the official establishment date of the Bank, and the 85th anniversary of which was celebrated in 2010.

BKT by Numbers

>>

Financial Highlights

(US$ Thousand)	2008	2009	2010	Change % (2009-2010)
Total Assets	1,161,290	1,340,042	1,509,902	12.2
Loans and Advances to Customers	385,774	494,271	551,046	11.5
Customer Deposits	1,047,955	1,167,147	1,309,652	12.2
Share Capital	63,400	78,299	84,622	8.1
Total Shareholder's Equity	83,855	94,671	118,670	25.4
Net Profit	19,544	13,044	25,003	91.7

Key Ratios

Performance Indicators (%)	2008	2009	2010
Capital Adequacy Ratio	17.78	13.24	13.06
Return on Average Assets (RoAA)	1.58	1.10	1.83
Return on Equity (RoE)	29.87	12.90	25.35
Non-performing Loans/Total Loans (PAR 90)	3.96	5.05	8.47

Shareholding Structure

Çalık Financial Services, a subsidiary of Turkey's Çalık Holding, became the sole and full owner of BKT in 2009.

The Shareholding Structure as at 31 December 2010	Number of Shares	Total in US$	%
Çalık Finansal Hizmetler A.Ş.	6,852,000	84,622,200	100

The successful strategies of BKT have been well reflected in its robust financial and operational results in 2010.

Total Assets (US$ million)

$ 1,510 million

2008	1,161	
		15.4%
2009	1,340	
		12.7%
2010	1,510	

In 2010, total assets of BKT increased by 12.7% and reached US$ 1,510 million.

Loans (US$ million)

$ 551 million

2008	386	
		28.0%
2009	494	
		11.5%
2010	551	

Showing a rise of 11.5% in 2010, total loans of BKT reached US$ 551 million.

Net Profit (US$ million)

$ 25 million

2008	20	
		-35.0%
2009	13	
		92.3%
2010	25	

Almost doubled the figure of 2009 BKT booked US$ 25 million in net profit.

Market Share in Deposits (%)

16.7%

2008	14.3	
		180 bps
2009	16.1	
		60 bps
2010	16.7	

As a result of its succeessful strategies BKT's market share in deposits rose to 16.7%.

Number of Branches (Including Kosovo)

72

2008	62	
		6
2009	68	
		4
2010	72	

With the addition of 4 new branches BKT's network expanded to 72 branches as of year-end 2010.

Number of Staff (Including Kosovo)

922

2008	763	
		91
2009	854	
		68
2010	922	

In 2010, total headcount of BKT reached 922, up 68 versus 2009.

Milestones

>>

In 2010, BKT celebrated the 85th anniversary of its Durres Branch's establishment.

With its foundation dating back to 1925, Banka Kombëtare Tregtare (BKT) began operating under its present title in 1993.

1993

Banka Kombëtare Tregtare was founded in January 1993, after the merging of the Albanian Commercial Bank (ACB) and the National Bank of Albania (NBA).

1997

Banka Kombëtare Tregtare was established as a Joint Stock Company in July 1997, with assets reaching ALL 2.7 billion.

2000

BKT accomplished its privatization process. The new shareholders invested US$ 10 million, resulting in the strong capitalization of the Bank.

2001

The new shareholders structure brought BKT major transformations including the development of a new infrastructure and the restructuring of all aspects of the Bank's operations.

2003

- The paid-up capital reached the amount of US$ 14.64 million, turning BKT into the most capitalized bank in the whole Albanian banking system.
- BKT was awarded as the Bank of the year in Albania by The Banker magazine.

2006

- 60% of the BKT shares transferred to Çalık-Şeker Konsorsiyum Yatırım A.Ş.
- BKT was awarded as the Bank of the year in Albania by The Banker magazine.

2007

A new branch opened in Pristine, Kosovo in November 2007 as the first foreign investment of BKT.

2009

- BKT became a 100% subsidiary of the Çalık Group following the acquisition of the remaining shares by Çalık Finansal Hizmetler.
- BKT is evaluated as "The Best Bank in South East Europe for 2009".

2010

- BKT celebrated the 10th anniversary of privatization.
- BKT celebrated the 85th anniversary of its Durres Branch's establishment.
- BKT was awarded as the Bank of the year in Albania by The Banker magazine.

Çalık Holding

>>

Ahmet Çalık - Chairman of Çalık Holding and Sali Berisha - Albanian PM at the ceremony held for the launch of electronic banking products.

Ahmet Çalık - Chairman of Çalık Holding making a speech at the ceremony held for the launch of electronic banking products.

Çalık Group companies are strong competitors in international arena as they pursue business in different sectors and countries with a deep respect and sensitivity for human, social, and environmental values.

Çalık Group is one of Turkey's largest conglomerates active in the areas of finance, energy, construction, telecommunication, textiles, media and mining with more than 20.000 employees in 14 countries.

Apart from being a major employer in Turkey, Çalık has been one of the leading Turkish investors in Central Asia, and has been recently involved in significant telecom and banking operations in the Balkans. Çalık Group is focused on creating more added values for all its stakeholders through a rapid and effective growth model based on the principle spreading its fields of operation into different geographies and sectors.

Establishing sound and long-term international partnerships is an important component of Group's strategy that paved the way for cooperation with ENI from Italy, EWE from Germany, Qatar Investment Authority, Mitsubishi, EBRD and IFC in wide range of business areas.

The Group is determined to further strengthen its identity as a "corporate citizen" that is mindful of its stakeholders, society at large, and the environment and is firmly committed to the rules of ethics.

Board of Directors

>>

Mehmet Usta
Chairman

Mehmet Ertuğrul Gürler
Vice Chairman

The BKT Board of Directors continues to exercise its foresight in the identification of its goals and to design the exact strategies that are needed to achieve them.

Seyhan Pencaplıgil
CEO & Board Member

İzzet Serhat Demir
Board Member

İsmail Hakkı Ergener
Board Member

Senior Management

>>

Seyhan Pencaplıgil
CEO & Board Member

Suat Albayrak
BKT Kosovo
Managing Director

Abdurrahman Balkız
Operations Group
Group Head

Kaan Pekin
Treasury & Financial Institutions Group
Group Head

Ercüment Korkut
Audit Committee
Executive Member

The dedicated efforts of BKT's professional management team have contributed greatly towards obtaining excellent financial and operational results in this year of activity.

Cüneyt Erigüç
Retail Banking Group
Group Head

Pekhan İşipek
Commercial Banking Group
Group Head

Aydın Argın
Corporate Banking Group
Group Head

Skender Emini
Financial Control, Planning and
Reporting Division, Division Head

Natasha Ahmetaj
Network Division
Division Head

Ndue Maluta
Risk Managment Group
Deputy Group Head

Chairman's Message

>>

Mehmet Usta
Chairman

In 2010, we continued to improve efficiencies in our core business, expanding not only our marketing and sales efforts but also our geographical presence on the one hand while also focusing on to develop an even higher-quality loan portfolio on the other.

Mehmet Usta, Chairman of BKT, with VIP guests including the Prime Minister, joining the ceremony held for the launch of electronic banking products.

Driven by a distinctive and proven strategy that produces impressive results, BKT hold leading market positions, enjoyed high levels of customer satisfaction and confidence, and continued to pursue its goal of becoming the best-performing financial service company in the Albanian market during 2010.

BKT is one of the most highly capitalized banks in the Albanian banking system, with shareholders' equity amounting to US$ 118.7 million as of year-end 2010. As of the same date, the Bank also ranked as the country's second largest bank in terms of assets, worth US$ 1,510 million.

In 2010, we continued to improve efficiencies in our core business, expanding not only our marketing and sales efforts but also our geographical presence on the one hand while also focusing on to develop an even higher-quality loan portfolio on the other.

We showed a consistently high and profitable performance reaching a Return on Equity of 25.3% accompanied by an increased market share that stands at an all-time high of 16.7% in deposits in a market where almost all banks belong to foreign banking groups.

BKT has long recognized the importance of good corporate governance, diversity, ethics, privacy, and security and we conduct all our operations accordingly. Throughout our organization, corporate governance goes far beyond merely complying with individual laws or rules. Corporate governance is what drives proactive initiatives at BKT and all employees recognize and acknowledge that the integrity of our organization and the trust of our stakeholders are the cornerstones of BKT's ongoing success.

Through a combination of well-targeted corporate donations and assistance and the dedicated involvement of its employees, BKT continues to reinvest in the community in which we live and operate. By providing financial support for social and cultural events along with its own value-creating economic performance, BKT improves the quality of people's lives as well as their material well-being.

We particularly put emphasis on issue of education and throughout 2010 we continued our scholarship programs with the Tirana University's Faculty of Economics and Durres University. Within the framework of these programs, we sponsored talented young students through scholarship as well as provided them with guaranteed employment upon graduation. The number of students benefitting from BKT sponsored scholarships reached 69 in 2010.

Moreover, the "FASTIP" project which we jointly conduct with Durres University and GTZ of Germany still continues with success. We expect this program, which educates future bankers, to produce its first graduates in 2011 and hope to see successful young people among us.

It is the commitment, dedication, hard work, and intelligence of our management and staff that created 2010's impressive results. I'm certain of their ability to excel in their creativity and in their responsiveness to the needs of customers, colleagues, and the community. It is the optimism and vision of this team that propels us forward to an even greater, more rewarding 2011.

In 2010, BKT has achieved record profit and asset size growth in its history. I would like to thank all of our staff including employees, customers, counter-party correspondent banks and financial institutions for their valuable contributions to the results of the Bank.

Mehmet Usta
Chairman

CEO's Message

>>

Seyhan Pencapligil
CEO & Board Member

2010 marked a return to high profitability compared to 2009, when we had concentrated on being prudent and liquid. Our net profit doubled from its 2009 level to reach US$ 25 million, corresponding to a return on equity of 25.3%.

Seyhan Pencaplıgil - CEO of BKT, providing information on BKT's important steps forward in the field of electronic banking products.

BKT enjoyed another year of solid growth in 2010. We succeeded in shaping our business activities to stimulate sustainable growth, profitability, and high returns over the longer term.

2010 marked a return to high profitability compared to 2009, when we had concentrated on being prudent and liquid. Our net profit doubled from its 2009 level to reach US$ 25 million, corresponding to a return on equity of 25.3%.

The high profit and high growth we recorded raised our market shares in all major business lines. In 2010, when our total assets had risen to US$ 1.5 billion and total deposits to US$ 1.3 billion, we maintained our position as the second largest bank in Albania.

In keeping with our strategic direction, we took action to expand our geographical reach and we opened seven more agencies in 2010, four in Albania and three in Kosovo. As we have also merged four branches/agencies into two and closed one border agency, the number of our network units reached 72 (including Kosovo) by end-2010.

In 2010 we organized an event which was very important for us to mark the launch of electronic banking products, which we had put into trial last year, under "electronic banking solutions". VIP guests like the Prime Minister, Ministers and the Governor of the BoA, as well as about 500 guests joined the launch party. I believe that the launch, which created a tremendous impression in the Albanian media, will raise the rate of use of our products.

In 2010, we also celebrated the 85th anniversary of the establishment of our branch in Durres, which date (November 30, 1925) is now the official establishment date of BKT.

BKT underwent a major reorganization in 2010, in an effort to increase efficiency. We divided the Corporate and Commercial Banking Group, which used to serve as a single group, into two groups; Corporate Banking and Commercial Banking. Thus, while we are able to serve our customers more efficiently, we aim to capture a higher market share. We also expect the new structure to ensure faster, safer and more business lending.

Several significant projects which were undertaken the year before have successfully been implemented and became operative this year.

Super loans have been re-introduced in 2010 as planned and are doing well. Mortgages have doubled in terms of number of files and increased by 30% in amount.

The European Fund for Southeast Europe (EFSE), the most prestigious fund in lending to micro and small enterprises (MSE), has provided BKT a loan of EUR 20 million. The loan agreement signed in November 2010 will contribute to expanding the MSE lending operations of the Bank and will be an indication of BKT's commitment to making the Bank the most active commercial bank in small business lending. It is also the first loan agreement between EFSE and BKT and it addresses the lack of long-term credit available to MSEs in Albania, which are considered as the backbone of the country's economic development.

We have obtained additional rights to our banking license in 2010, allowing us to do various financial intermediary and custodial transactions, as well as factoring and gold transactions.

We increased the paid-in capital by capitalizing the retained earnings, to US$ 84.6 million.

As it has done in the past, BKT will continue in the days ahead to carry its strength into the future and to offer the best in service to its customers on the principles of profitability and productivity.

We are confident that our financial growth will continue in 2011 as well, a year in which we expect to reach a balance sheet growth of 27%, so that the total assets will pass US$ 1.9 billion and net profit will reach US$ 36 million. This will bring the shareholders' equity to US$ 155 million and correspond to a RoE of 30% for the year.

With the support of our customers, with the close teamwork of the Board and the dedicated efforts of our employees, I remain confident that these targets, too, will be reached.

Seyhan Pencaplıgil
CEO and Board Member

2010 Awards and Ratings

>>

Mehmet Usta, Chairman of BKT, at The Banker Award Ceremony

The Banker selects BKT as "the Bank of the Year in Albania-2010"

Awards

As one of the most renowned and trusted financial institutions in Albania, BKT has been continuously awarded as the country's best bank by international organizations.

In 2010, The Banker, the banking industry magazine of the Financial Times, has selected BKT as "the Bank of the Year in Albania-2010" based on its performance over the past year.

Also in 2010, BKT has been awarded ISO 9001:2008 Quality Management System certificate, issued by the Italian institute Certiquality, applicable for banking services.

Ratings

Globally recognized agencies once again affirm that BKT is one of the most reliable and financially strong banks in Albania.

BKT is the only bank in Albania that has been rated with AAA (Alb) from the prestigious institution Japan Credit Rating Agency JCR-Eurasia Rating. In 2010, JCR-ER has confirmed its AAA (Alb) rating with stable outlook, while Moody's has assigned B1, the highest an Albanian entity can get under its methodology.

Kosovo Branch

>>

Licensed in 2007, BKT Kosovo has successfully terminated its third full year of operation and achieved highly satisfactory figures in 2010.

Licensed in 2007 and started to operate in 2009, BKT Kosovo has successfully terminated its second full year of operation and achieved highly satisfactory figures in 2010.

There was significant growth in total assets and deposits: total assets and total deposits were up 60% and 14% respectively and 34.1 million and 5.4 million in Euro terms. Total assets reached Euro 91 million while total deposits stood at Euro 43.3 million at year-end 2010. Total loans also grew by 78% reaching Euro 67.9 million with 5 % market share. Net profit increased to about Euro 1 million, yielding a 15.4% rate of return on equity.

In line with its growth strategy, BKT Kosovo opened 3 new branches in 2010, expanding its branch network to 15. Serving its customers with its dedicated staff of 171 people, BKT continued to be the author of firsts in Kosovo. Thanks to the newly implemented financial products such as Installment Card, the number of customers increased to 30 thousand which was 12 thousand last year.

BKT Kosovo has been reelected in 2010, as in 2009, as the first runner-up in "Best Company in the Services Sector in Kosovo", a commendation announced by the government though the Ministry of Industry and Trade.

The number of customers, which was 12 thousand last year, increased to 30 thousand.

With an economy now on a growth trend, the banking sector in Kosovo, which is one of the driving forces behind economic growth in the country, is also to grow strongly. The Kosovan banking sector has total assets of nearly Euro 2.5 billion, and BKT aims to grow soundly by maintaining a focus on profitability at all times.

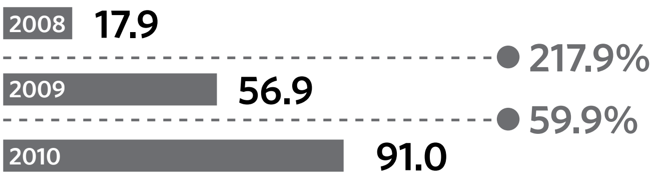
BKT envisages that trade will increase next year; based on this projection, it aims to increase its market share and to double its figures.

In line with its growth strategy, BKT Kosovo opened 3 new branches in 2010.

BKT Kosovo has been reelected in 2010, as in 2009, as the first runner-up in “Best Company in the Services Sector in Kosovo”, a commendation announced by the government through the Ministry of Industry and Trade.

Total Assets (Euro million)

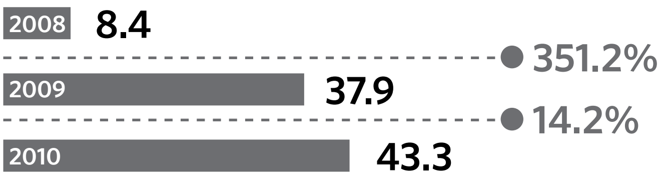
Euro 91.0 million



In 2010, total assets of BKT Kosovo increased by 59.9% and reached Euro 91.0 million.

Total Deposits (Euro million)

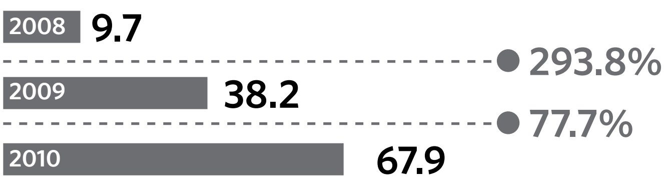
Euro 43.3 million



With a rise of 14.2% in 2010, total loans of BKT Kosovo reached Euro 43.3 million.

Total Loans (Euro million)

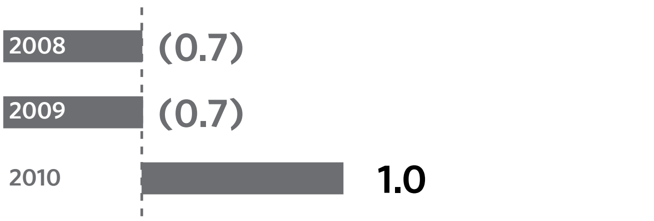
Euro 67.9 million



Total loans of BKT Kosovo performed a remarkable increase of 77.7% in 2010.

Net Profit (Euro million)

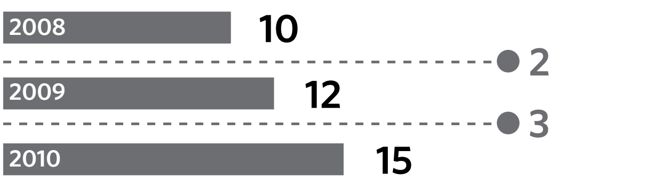
Euro 1.0 million



In 2010, BKT Kosovo registered a net profit of Euro 1.0 million.

Number of Branches

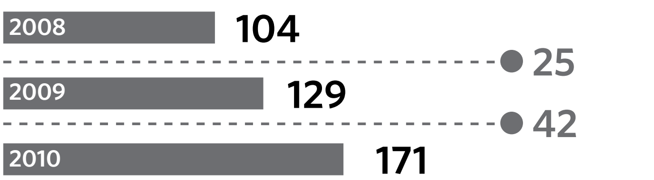
15



Total number of branches increased to 15 with 3 new branches opened in 2010

Number of Staff

171



BKT Kosovo’s total number of staff was 171 at year-end 2010, up 42 compared to 2009.

Evaluation of 2010 Activities

>>

BKT serves its retail customers with its broad product and service portfolio able to respond to the changing financial needs of individuals.

Retail Banking

In this frame, BKT is focused on getting the biggest share within the growth potential offered by retail banking business line. Its technological superiority and innovative approach solidly back BKT in its target of growing in retail banking.

2010 was the year of continued breakthrough initiatives undertaken by BKT in all the fields of retail banking. The most important development was the launch of electronic banking solutions by a special event, with the participation of the Prime Minister, Ministers, and the Governor of BoA.

The launch of BKT Electronic Banking Solutions organized on October 26th, 2010, in which nearly 500 guests participated, was the biggest event ever held in the history of Albania. Five new products were launched.

Prima Card- The first installment credit card program ever introduced in Albania. Equipped with the latest Chip & Pin technology, Prime Cards offer users 2-12 month installment options. In 2010, BKT has obtained the acquiring license from Visa, allowing its POS machines to process Visa cards as well as Master cards. Thus, the area of usage of Prima Card further expanded.

Prima Card- The first installment credit card program ever introduced in Albania.

L-R: Seyhan Pencaplıgil - CEO of BKT, Ahmet Çalık - Chairman of Çalık Holding and Sali Berisha - Albanian PM at the ceremony held for the launch of electronic banking products.

With the license acquired from Visa, the area of usage of Prima Card further expanded.

Internet Banking- Deemed as the most functional internet bank in Albania, BKT Internet Branch was further recognized in 2010 with the number of its users being quadrupled. Currently serving only individual customers, the BKT Internet Branch will open its corporate branch next year.

Top-up Payments- BKT was the first bank in Albania to implement the "Top-up payment" practice. This practice addresses mobile phone users and is jointly conducted with Eagle Mobile, a Group company, and has won wide acclaim in the market.

Mobile Banking- The easiest way for banking transactions was also launched in 2010. BKT's individual customers are now able to effect money transfer transactions, monitor their account and credit card balances through the latest technology mobile banking application.

ATMs- ATM's have been turned into an Exchange Office with enhanced functionalities. The customers are allowed to link their accounts in different currencies with their debit card and withdraw cash in Lek or Euro currency, according to their needs.

Increasing market share in retail banking

In 2010, BKT formulated its overall strategy for retail loans with a focus on increasing its mortgage loans in particular and on sustaining its share in the sector. As a result, the Bank's retail loans portfolio performed above the sector.

Based on year-end data, the volume of retail loans made available by BKT to its consumers rose US$ 35 million to US$ 179 million.

BKT Internet Branch: the most functional internet bank in Albania.

BKT ATMs now perform FX transactions and provide cash in Lek or Euro currency.

Based on year-end data, the volume of retail loans made available by BKT to its consumers rose US$ 35 million to US$ 179 million.

In 2010, BKT continued to be the bank preferred by an increasing number of retail customers for their savings and increased its market share in deposits owing to its customer-focused service strategies and broad product range.

When considered in terms of deposits, BKT is the 2nd largest bank in Albania and commands a 16.7% market share. In 2010, total deposits rose by 12% reaching US$ 1,310 million.

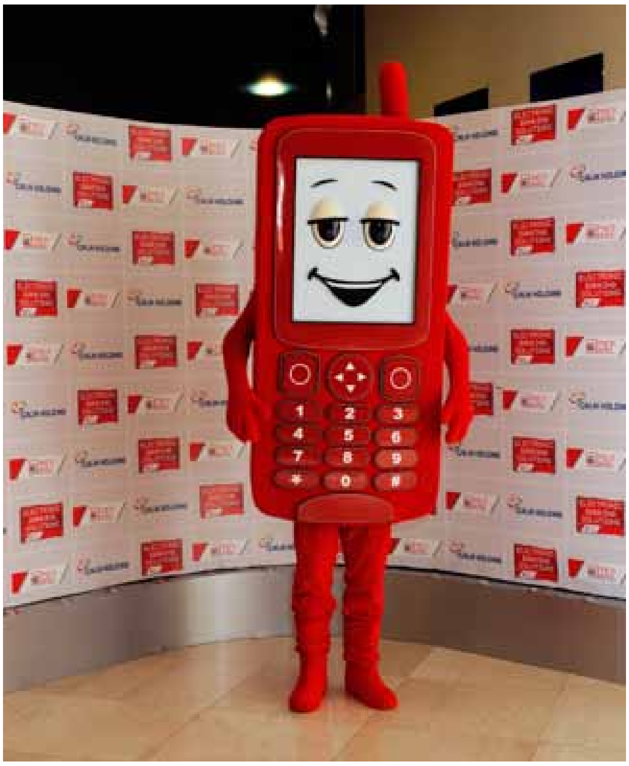
New products and applications offering better service to customers

In 2010, BKT carried out customized campaigns to encourage credit card usage. Installment promotions with zero interest, which are offered for special days like Mother's Day, Valentine's Day, New Year, etc, another first in the Albanian market, have proved highly popular among customers.

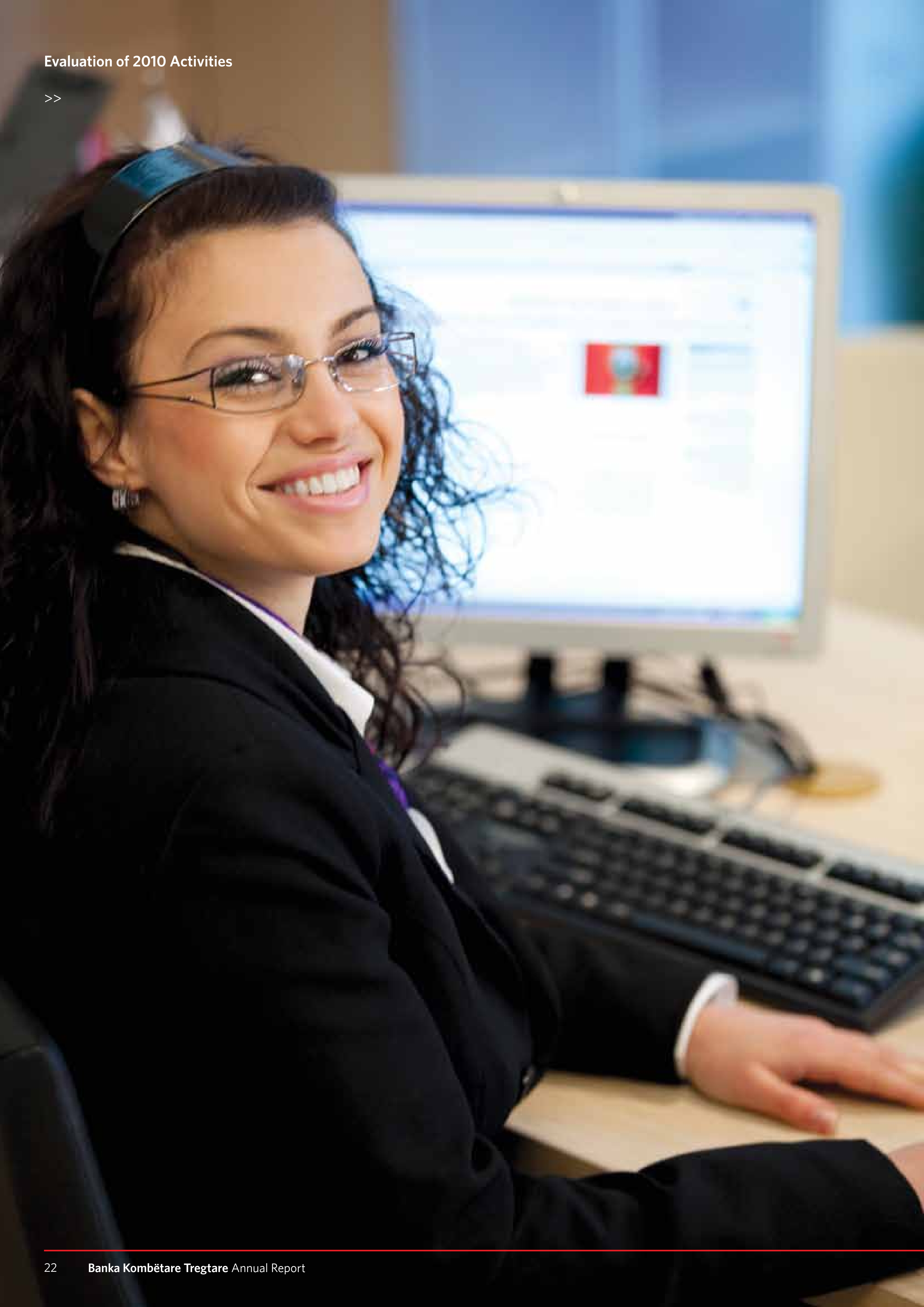
For money transfers, BKT signed an agreement with MoneyGram, a company which offers worldwide money transfer services and which works closely with specially chosen agents in more than 200.000 locations across 190 countries and territories. This agreement allows Albanian citizens living abroad to easily send money to BKT branches via MoneyGram.

BKT focused its attention on customer satisfaction raising practices in the field of deposit products. Within this framework, for the first time in Albania, customers have been given the chance to pay their phone bills, electricity bills and water bills through BKT branches as well as its Internet branch. Moreover, fixed periodical payments like rent, tuition fees, etc are automatically paid from the current account.

BKT was the first bank in Albania to implement the "Top-up payment" practice.



BKT's individual customers are now able to make transactions through the latest technology mobile banking application.



A structural change took place to offer personalized products aligned with the expectations and needs of clients, so as to enhance customer satisfaction and loyalty.

Corporate Banking

A new structure

As a result of a strategic decision, the Corporate and Commercial Banking Group which used to serve its customers under the same roof has been divided into two groups, Commercial Banking Group and Corporate Banking Group, in order to provide more productive and better services.

Since the separation which has become effective on November 1st, 2010, the Corporate Banking Group has been organized under two departments as Corporate Banking Department and Structured Finance Department.

Stable development in the loan portfolio

Focusing on developing long-term relationships with its existing and potential corporate clients and on providing creative financial solutions that fit to their needs, the Corporate Banking Group has registered very satisfactory results in 2010.

As of December 31, 2010, BKT Corporate loan portfolio resulted in a total of US$ 203.3 million displaying a real growth of 30.1%. The number of customers and corporate loan portfolio out of total BKT loans (cash & non cash) has also increased from 50.2% in 2009 to 56.2% in 2010.

BKT focuses on developing long-term relationships with its existing and potential corporate clients.

An active year in structured finance activities

In 2010, BKT kept a sustainable growth in terms of both outstanding and contract volumes of trade finance instruments:
- outstanding portfolio increased by 18%
- contract volume portfolio increased by 29%
- contract number increased by 35%

An important project undertaken by BKT in 2010 was the conclusion of trade finance credit line agreement with Islamic Trade Finance Corporation for an amount of Euro 3.8 million.

BKT is the 1st bank in Albania and in the region to have an agreement signed with ITFC in terms of Murabaha Financing. The agreement became effective in early November 2010.

Moreover, BKT continued the negotiations with EBRD to conclude an Energy Efficiency Project. The main purpose of this agreement stands in providing incentives together with expertise in the field of energy efficiency for the Albanian Businesses.

Other major projects carried out during 2010 and which will continue in 2011 are; KfW Credit Guarantee Facility, USAID Credit Guarantee Facility, AZHBR Project and SME Lending Program with METE.

BKT is focused on achieving growth in the structured finance segment. As was the case in 2010, the Bank will continue to allocate more funds to the growing needs of its customer also in coming years.

BKT is focused on achieving growth in the structured finance segment.


BKT
BANKOMAT 24

Corporate and commercial banking was divided into two in order to meet rising expectations, increase concentration and reduce workload.

Commercial Banking

Commercial Banking Group pressed ahead with operations in 2010.

Committed to offer more focused service to its commercial and SME customers operating all over the country, Commercial Banking department began to serve commercial and public enterprises in 2010 with its new organization.

Continuous support to the SMEs

At the heart of economic development process in Albania, small to medium-sized enterprises (SMEs) continued to receive uninterrupted support from BKT.

BKT offers banking products and services fulfilling the needs of SMEs from different sectors.

As well as some general efforts, there have also been special facilities provided through various mutual agreements.

The most important of these was the EUR 20 million loan provided from the EFSE (European Fund for South East Europe) to supply MSEs. The agreement was signed in November 2010. Thanks to its preferential interest rates and 7-year repayment maturity (with no repayments in the first 2 year), this loan is a first in Albania.

Another project, known as Italian SME, is a credit structuring provided by the Italian government to the Albanian government. Aimed at SMEs, this project is a long-term, low-interest incentive program offering very reasonable conditions.

BKT is the most active bank in Albania both in terms of the number and the total amount of loans it supplies.

The agreement for the EUR 20 million loan provided from the EFSE (European Fund for South East Europe) to be supplied to MSEs was signed in November 2010.

>>

Ongoing projects in collaboration with public sector: agro-business and municipal lending

Many constructive and competitive package offers have been produced for specific customers in public sector, such as lending to public entities, salary payments, public deposits etc.

BKT has been conducting two important projects in cooperation with the public sector since 2010. One of these projects concerns the issue of loans to the agricultural sector, which is largely subsidized by the Ministry of Agriculture. BKT was chosen as one of the two banks in Albania to operate in this area. A significant portion of commercial loans supplied by BKT are agricultural based loans.

In addition, there is a program jointly conducted with USAID, which concerns the finance of municipalities. As part of the guarantee facility signed with USAID, local administrations are financed by banks, with BKT being one of the most active in this area.

BKT will continue to play an important role in public finance by implementing new products and to collaborate with other organizations to increase effectiveness in the future.

Many constructive and competitive package offers have been produced for specific customers in public sector.

In the forthcoming years, BKT will continue to play an important role in public finance.

At BKT, treasury and financial institutions management process is conducted on the basis of constant evaluation of the developments in the national and international markets and employing effective risk management techniques.

Treasury & Financial Institutions

BKT Treasury & Financial Institutions unit continued to play an active role in international markets for the funding the Bank requires. Conducting forfeiting transactions since late 2009, BKT also participated in the syndication loans of large Turkish banks (big ticket names). With the first realized in October 2009, syndication loans gained momentum in 2010.

BKT visited a total of 20 banks in Germany and Austria in 2009, in which the Bank sought to enter firm cooperation with its correspondents. Likewise, a total of 100 bank visits were carried out in 9 different countries in 7 tours in 2010. BKT also conducted 2 visits to the Gulf Region, which is of particular interest for BKT, and an area no bank in Albania yet has a business relationship with.

In 2010 BKT took part in Albania's first Eurobond issue as a Lead Arranger and with an amount of Euro 15 million. Moreover, during 2010 BKT purchased the Eurobond issued by Montenegro from the primary market, and joined the syndication issued by the Russian VTB Bank in Austria.

Seeking to attract a maximum share of Albania's foreign trade transactions in the upcoming period, BKT has sought to emerge from its local identity and has taken firm steps towards being an international bank.

BKT seeks to attract a maximum share of Albania's foreign trade transactions in the upcoming period.

Corporate Social Responsibility

BKT is a committed and socially responsible corporate citizen that supports worthy community activities and encourages its team members to be actively involved in the community.

Having put to add value to cultural and social life in Albania among its priorities, BKT extends support to education, academic activities, cultural events and environmental protection.

In 2010, the primary concern of BKT in the area of social responsibility was education. In this framework it has sponsored the education programs and has stimulated the best students with annual scholarships. A special importance is given to the finance and economics students.

BKT is also a partner in developing the Master programs in the University of Tirana, and has sponsored in setting up of the university library.

BKT extends support to education, academic activities, cultural events and environmental protection.

>>

BKT employs the right person in the right job and gives utmost importance to ensure continuous development of its employees through training programs.

Human Resources

BKT employs people with high personal and professional qualifications and creates a strong team that has adopted the corporate culture of the Bank.

BKT considers its highly qualified and highly valued workforce as its greatest asset. Always seeking to maximize performance, BKT employs the right person in the right job and gives utmost importance to ensure continuous development of its employees through training programs.

In 2010, BKT continued its personnel training with each team member receiving 6.8 days of training in the form of in-house and external seminars and workshops.

Despite the increase in the network units, the increase in staff number has been kept to a minimum in 2010 while the ineffective Staff Support Program has been transformed into the Staff Retention Credit Program, which has been received much more favorably by the employees. BKT has also adopted SAP Human Resources module in 2010.

BKT is the main sponsor of a project which has held a significant place in its recruitment policy for the last 3 years.

Named as "The FASTIP Study Program" at Aleksander Moisiu Faculty of Integrated Studies in Durres University, this project introduces an innovative collaboration between the banking sector and the educational institutions. Pursuing this initiative, BKT is committing itself to the endowment of scholarships for Bank Management students during 2008-2011 academic years.

Through this project, students will be provided with internships that integrate academic knowledge with contemporary professional practice and employment opportunities upon graduation.

The program, in which 15 students were financed in the first year, 25 students in year two and 22 students in 2010, will produce its first graduates in 2011. Training the personnel which it will hire, BKT aims to recruit 100% of the graduates in this project.

BKT considers its highly qualified and highly valued workforce as its greatest asset.

In 2010, BKT continued its personnel training with each team member receiving 6.8 days of training.


BANKOMAT
MoneyGram
Transferta Parash

In the period ahead, BKT intends to make use of its corporate competencies, of its knowledge and experience, and of its professional team as its strongest competitive advantages as it continues to pursue growth and development in all business lines.

Outlook for 2011

In 2011, BKT plans for a balance sheet growth of 27%, so that the total assets will exceed US$ 1.9 billion. While the total deposits will increase proportionately by 26%, the planned increase in the total loans is much more aggressive, 45%.

The targeted net profit of US$ 36 million will correspond to a return on equity of 30% and will bring the shareholders' equity to US$ 155 million.

The total number of branches will be 80 by year-end with opening of seven more branches, four in Albania and three in Kosovo.

In 2011;

Retail Banking Group will sell more retail banking products and to this end, a Retail Sales Department will be established. The Group plans to reach a market share of 16% in retail loans and 10% in POS acquiring business, while doubling the number of credit cards to 20,000.

Corporate Banking Group will initiate the work to set up the National Committee of the ICC in Albania and targets to increase corporate lending by 39%.

Commercial Banking Group will continue to be an active player in public sector/government-related programs and targets to increase commercial lending by 47%.

Treasury and Financial Institutions Group will contribute to the Bank's profit by increasing average return on FX liquidity to 5% while also increasing the international recognition and credibility of the Bank.

Risk Management Group will continue to focus on NPL reduction, with a year-end target of 5%, which will be achieved by continuous recovery work.

Operations Group will focus on proper staffing of the new branches as well as upgraded agencies, while training of all staff will be intensified to 7 training days per employee. 2011 will be the first year of FASTIP students graduating, who will be employed appropriately. The Group will also finalize the adoption of a document management system and material management module of SAP.

Financial Control, Planning and Reporting Division will continue to exercise due control, while providing timely and accurate information to relevant parties. The Division will also focus on automation of the annual budgeting process and finer measurement of branch profitability.

Network Division will re-locate three branches to Albtelecom buildings to create Group-wise savings. Main Branch will be the only corporate branch and almost all agencies will be upgraded to branch status, both in terms of functionality and staffing.

In 2011, Retail Banking Group will sell more retail banking products.

In 2010, the total number of branches will be 80 by year-end with opening of seven more branches, four in Albania and three in Kosovo.

Banka Kombetare Tregtare Sh.a

Consolidated financial statements for the year ended 31 December 2010
(with independent auditor's report thereon)

Banka Kombetare Tregtare Sh.a

Contents	Page

KPMG Albania Sh.p.k
"Dëshmorët e Kombit" Blvd
Twin Towers Buildings
Building 1, 13th floor
Tirana, Albania
NIPT J91619001D

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

Independent Auditors' Report

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

Tirana, 9 February 2011

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 2010, 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 Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

KPMG

Basis for Qualified Opinion

As described in Note 3 (b) to the consolidated financial statements, 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 2010 within net profit in the consolidated statement of comprehensive income. This treatment is not in accordance with IAS 21, 'The Effects of Changes in Foreign Exchange Rates'. This is the result of a decision taken by management before the start of the preceding financial year and caused us to qualify our audit opinion on the consolidated financial statements relating to that year. Share capital should have been treated as a non-monetary item and carried at the exchange rate at the date of transaction. Accordingly, if share capital had been treated as a non-monetary item, the net profit for the year would have been increased by USD 6,212,180 in 2010 and USD 4,832,998 in 2009, the retained earnings would have been increased and the translation reserve reduced by USD 2,334,950 at 31 December 2010 and the retained earnings would have been reduced and the translation reserve increased by USD 5,475,088 at 31 December 2009. This would not have effected total shareholder's 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 2010, 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 Buildings
Building 1, 13th floor
Tirana, Albania

Banka Kombetare Tregtare Sh.a

Consolidated statement of financial position as at 31 December 2010
(Amounts in USD)

	Notes	31 December 2010	31 December 2009
Assets			
Cash and balances with Central Bank	7	177,385,066	142,263,329
Placement and balances with banks	8	113,703,073	132,642,747
Treasury bills	9	187,826,686	255,640,833
Investment securities available-for-sale	10	101,714,745	49,520,063
Investment securities held-to-maturity	11	275,915,418	194,965,671
Loans and advances to banks	12	68,810,445	45,487,888
Loans and advances to customers	13	551,045,870	494,271,286
Property and equipment	14	16,475,450	19,371,484
Intangible assets	15	1,610,738	1,518,375
Non - current assets held for sale	16	5,206,635	1,297,477
Other assets	17	3,207,420	3,062,500
Total assets		**1,502,901,546**	**1,340,041,653**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	18	1,309,651,520	1,167,146,858
Due to banks and financial institutions	19	62,398,988	69,175,055
Due to third parties	20	2,151,892	456,415
Deferred tax liabilities	21	1,731,801	736,954
Accruals and other liabilities	22	8,297,498	7,855,717
Total liabilities		**1,384,231,699**	**1,245,370,999**
Shareholders' equity			
Share capital	23	84,622,200	78,299,000
Translation reserve	23	(34,349)	(209,293)
Fair value reserve	23	342,874	56,674
Retained earnings	23	33,739,122	16,524,273
Total shareholders' equity		**118,669,847**	**94,670,654**
Total liabilities and shareholders' equity		**1,502,901,546**	**1,340,041,653**

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 61.

The consolidated financial statements were authorised for release by the Board of Directors on 25 January 2011 and signed on its behalf by:

Seyhan Pencapligil
CEO and Board Member

Skender Emini
Head of Financial Control

Banka Kombetare Tregtare Sh.a

Consolidated statement of comprehensive income for the year ended 31 December 2010
(Amounts in USD)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Interest			
Interest income	24	104,360,345	84,214,614
Interest expense	25	(49,672,970)	(46,397,055)
Net interest margin		**54,687,375**	**37,817,559**
Non-interest income, net			
Fees and commissions, net	26	4,426,426	4,233,457
Foreign exchange (FX) revaluation gain, net	27	1,286,830	3,004,781
Profit from FX trading activities, net		1,843,633	2,110,796
Other income/(expense), net	28	(297,222)	(143,777)
Total non-interest income, net		**7,259,667**	**9,205,257**
Operating expenses			
Personnel expenses	29	(12,335,056)	(11,906,608)
Administrative expenses	30	(15,749,247)	(13,389,296)
Depreciation and amortization	14,15	(4,280,684)	(4,095,583)
Total operating expenses		**(32,364,987)**	**(29,391,487)**
Impairment of loans	13	(1,643,974)	(3,068,156)
Profit before taxes		**27,938,081**	**14,563,173**
Income tax	31	(2,935,112)	(1,519,588)
Net profit for the year		**25,002,969**	**13,043,585**
Foreign currency translation differences		174,944	620,662
Net change in fair value reserves		286,200	255,557
Other comprehensive income for the year, net of income tax		**461,144**	**876,219**
Total comprehensive income for the year		**25,464,113**	**13,919,804**

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 61.

Banka Kombetare Tregtare Sh.a

Consolidated statement of changes in equity for the year ended 31 December 2010
(Amounts in USD)

	Share capital	Translation reserve	Fair value reserves	Retained earnings	Total
Balance at 1 January 2009	**63,400,000**	**(829,955)**	**(198,883)**	**21,483,347**	**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)
Total comprehensive income for the year					
Net profit for the year	-	-	-	13,043,585	13,043,585
Other comprehensive income, net of income tax					
Net change in fair value reserves	-	-	255,557	-	255,557
Foreign currency translation difference	-	620,662	-	-	620,662
Total other comprehensive income	-	620,662	255,557	-	876,219
Total comprehensive income for the year	-	620,662	255,557	13,043,585	13,919,804
Balance at 31 December 2009	**78,299,000**	**(209,293)**	**56,674**	**16,524,273**	**94,670,654**

Banka Kombetare Tregtare Sh.a

Consolidated statement of changes in equity for the year ended 31 December 2010
(Amounts in USD)

	Share capital	Translation reserve	Fair value reserves	Retained earnings	Total
Balance at 1 January 2010	**78,299,000**	**(209,293)**	**56,674**	**16,524,273**	**94,670,654**
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners					
Increase in share capital	6,323,200	-	-	(6,323,200)	-
Appropriation of 2009 year translation difference	-	-	-	(209,293)	(209,293)
Adjustment of retained earnings with 2010 year end exchange rate	-	-	-	(1,255,627)	(1,255,627)
Total contributions by and distributions to owners	6,323,200	-	-	(7,788,120)	(1,464,920)
Total comprehensive income for the year					
Net profit for the year	-	-	-	25,002,969	25,002,969
Other comprehensive income, net of income tax					
Net change in fair value reserves	-	-	286,200	-	286,200
Foreign currency translation differences	-	174,944	-	-	174,944
Total other comprehensive income	-	174,944	286,200	-	461,144
Total comprehensive income for the year	-	174,944	286,200	25,002,969	25,464,113
Balance at 31 December 2010	**84,622,200**	**(34,349)**	**342,874**	**33,739,122**	**118,669,847**

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 61.

Banka Kombetare Tregtare Sh.a

Consolidated statement of cash flows for the year ended 31 December 2010
(Amounts in USD)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities:			
Profit before taxes		27,938,081	14,563,173
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	25	49,672,970	46,397,055
Interest income	24	(104,360,345)	(84,214,614)
Depreciation and amortization	14, 15	4,280,684	4,095,583
Gain on sale of property and equipment		(21,314)	(3,411)
Gain on sale of treasury bills		(84,253)	(37,210)
Gain on recovery of lost loans		(31,340)	(18,307)
Write-off of property and equipment		5,498	1,942
Write-off of small inventory		500	-
Loss on unrecoverable lost loans		185,425	211,270
Provision on other debtors		429,874	-
Movement in the fair value reserve		290,859	(241,349)
Deferred tax asset/liability	21	1,053,591	588,760
Impairment of loans	13	1,643,974	3,068,156
Cash flows from operating profits before changes in operating assets and liabilities		(18,995,796)	(15,588,952)
(Increase)/decrease in operating assets:			
Restricted balances with central banks		(12,612,177)	(12,436,479)
Placements and balances with banks		(96,211,993)	107,538,248
Loans and advances to banks		(26,626,774)	(45,748,750)
Loans and advances to customers		(94,767,017)	(142,453,180)
Other assets		(4,579,816)	(718,934)
		(234,797,777)	(93,819,095)
Increase/(decrease) in operating liabilities:			
Customer deposits		232,418,730	205,493,218
Due to third parties		1,732,586	(549,799)
Accruals and other liabilities		(350,066)	1,836,548
		233,801,250	206,779,967
Interest paid		(47,464,286)	(44,425,045)
Interest received		97,604,982	80,751,507
Income taxes paid		(1,743,779)	(1,560,648)
Net cash flows from operating activities		28,404,594	132,137,734
Cash flows from investing activities			
Purchases from investment securities		(148,555,173)	(69,185,677)
Settlement/(purchases) of treasury bills		108,416,537	(60,664,591)
Purchases of property and equipment		(3,150,165)	(6,747,489)
Proceeds from sale of property and equipment		44,672	1,944
Proceeds from sale of treasury bills		12,944,904	16,887,727
Net cash flows used in investing activities		(30,299,225)	(119,708,086)
Cash flows from financing activities			
(Repayment of)/ proceeds from short term borrowings		(1,381,476)	49,787,950
Net cash (used in)/from financing activities		(1,381,476)	49,787,950
Net (decrease)/increase in cash and cash equivalents		**(3,276,107)**	**62,217,598**
Translation difference		(5,052,312)	(6,360,244)
Cash and cash equivalents at the beginning of the year	7	**149,681,223**	**93,823,869**
Cash and cash equivalents at the end of the year	7	**141,352,804**	**149,681,223**

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 61.

1. General

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

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

BKT was established in its present legal form on 30 December 1992, although its first branch was opened on 30 November 1925. BKT is subject to Law no. 8269 "On the Bank of Albania" dated December 1997 and Law no. 9662 "On Banks on the Republic of Albania", dated 18 December 2006.

Upon the Shareholder's Decision dated 31 March 2010, the Bank increased its paid-up capital by USD 6,323,200 (equivalent of Lek 653,249,792), using part of the retained earnings from the year 2009. The capital increase was translated into USD using the exchange rate published by Bank of Albania as at 31 March 2010 (103.31 Lek per USD).

Following this increase, the shareholding structure remained the same as did the nominal value of shares at USD 12.35, while the number of shares increased by 512,000. The shareholding structure as at 31 December 2010 and 31 December 2009 was as follows:

	31 December 2010			*31 December 2009*		
	No. of shares	**Total in USD**	**%**	**No. of shares**	**Total in USD**	**%**
Calik Finansal Hizmetler A.S.	6,852,000	84,622,200	100	6,340,000	78,299,000	100

The headquarters of BKT is located in Tirana. Currently in Albania, the Bank has a network of 27 branches, 27 agencies and 3 custom agencies. Eleven 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, Fushe Kruja and Kavaja. Similarly, most of the agencies are in Tirana (eight of them), whereas the others are located in Kamza, Vora, Elbasan, Bilisht, Delvina, Lac, Rreshen, Shkoder, Bushat, Koplik, Librazhd, Peqin, Rrogozhina, Shkozet, Durres (two agencies), Orikum, Kucove and Fier, followed by custom agencies in Kakavija, Durres Seaport and Rinas Airport. During 2010, the Bank opened four new agencies in Albania, while one custom agency was closed and two branches were merged.

BKT also holds a branch in Kosovo having a network of 12 units in 2009, while during 2010 three further units were opened, expanding to a total of 15 units. Five are located in Prishtina, whereas the others are in Prizren, Peja, Ferizaj, Podujeva, Gjilan, Drenas, Rahovec, Gjakova, Lipjan and Vushtrri.

The Bank had 922 (2009:854) employees as at 31 December 2010, out of which 171 (2009:129) 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.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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 profit or loss together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

(ii) Foreign operations

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

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

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

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

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(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.

(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.

3. Significant accounting policies (continued)

(f) Income tax expense (continued)

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.

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.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(iii) Derecognition (continued)

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

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

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

(iv) Offsetting

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

(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 and leasehold improvements	20 years
• Motor vehicles and other equipment	5 years
• Office equipment	5 years
• Computers and electronic equipment	4 years

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

(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 created a fully employer sponsored pension plan fund-Staff Support Program (See Note 22, "Reserve fund for retiring employees") during 2002. The amount charged to this fund (SSP) 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 profit or loss and to the fund on a monthly basis.

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 until the accumulated fund for the employee is consumed.

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

(iii) Short-term benefits

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

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

(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 2010, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated 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. The Bank has not yet decided on the date that it will initially apply the new Standard.

4. Use of estimates and judgements

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

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

Allowances for credit losses

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

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

Held-to maturity investments

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

Determining fair values

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

Critical accounting judgements in applying the Bank's accounting policies

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

Valuation of financial instruments

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

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

• Level 1: Quoted market price in an active market for an identical instrument.

4. Use of estimates and judgements (continued)

Valuation of financial instruments (continued)

- 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

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

31 December 2010	Note	Carrying Amount			Fair Value		
		Level 1	Level 2	Total	Level 1	Level 2	Total
Placement and balances with banks	8	-	113,703,073	113,703,073	-	113,703,073	113,703,073
Treasury bills	9	-	187,826,686	187,826,686	-	188,104,036	188,104,036
Investment securities available-for-sale	10	85,936,698	15,778,047	101,714,745	85,936,698	15,778,047	101,714,745
Investment securities held-to-maturity	11	-	275,915,418	275,915,418	-	277,321,670	277,321,670
Loans and advances to banks	12	-	68,810,445	68,810,445	-	68,810,445	68,810,445
Loans and advances to customers	13	-	551,045,870	551,045,870	-	551,045,870	551,045,870
Total financial assets		**85,936,698**	**1,213,079,539**	**1,299,016,237**	**85,936,698**	**1,214,763,141**	**1,300,699,839**
Customer deposits	18	-	1,309,651,520	1,309,651,520	-	1,309,651,520	1,309,651,520
Due to banks and financial institutions	19	-	62,398,988	62,398,988	-	62,398,988	62,398,988
Total financial liabilities		**-**	**1,372,050,508**	**1,372,050,508**	**-**	**1,372,050,508**	**1,372,050,508**

31 December 2009	Note	Level 1	Level 2	Total	Level 1	Level 2	Total
Placement and balances with banks	8	-	132,642,747	132,642,747	-	132,642,747	132,642,747
Treasury bills	9	-	255,640,833	255,640,833	-	255,893,441	255,893,441
Investment securities available-for-sale	10	47,439,776	2,080,287	49,520,063	47,439,776	2,080,287	49,520,063
Investment securities held-to-maturity	11	-	194,965,671	194,965,671	-	195,087,755	195,087,755
Loans and advances to banks	12	-	45,487,888	45,487,888	-	45,487,888	45,487,888
Loans and advances to customers	13	-	494,271,286	494,271,286	-	494,271,286	494,271,286
Total financial assets		**47,439,776**	**1,125,088,712**	**1,172,528,488**	**47,439,776**	**1,125,463,404**	**1,172,903,180**
Customer deposits	18	-	1,167,146,858	1,167,146,858	-	1,167,146,858	1,167,146,858
Due to banks	19	-	69,175,055	69,175,055	-	69,175,055	69,175,055
Total financial liabilities		**-**	**1,236,321,913**	**1,236,321,913**	**-**	**1,236,321,913**	**1,236,321,913**

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 risks.

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.

(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.

5. Financial risk management (continued)

(b) Credit Risk (continued)

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 2010 and 2009 are as follows:

	31 December 2010	31 December 2009
Treasury bills and other eligible bills	187,826,686	255,640,833
Due from other banks	182,513,518	178,130,635
Loans and advances to customers (net)	551,045,870	494,271,286
Investment securities - available for sale	101,714,745	49,520,063
Investment securities - held to maturity	275,915,418	194,965,671
Financial guarantees	21,083,914	21,634,109
Standby letters of credit	6,992,020	4,323,930
Commitments to extend credit	30,704,665	23,744,714
Maximum exposures to credit risk	**1,357,796,836**	**1,222,231,241**

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

From May 2010, the Bank has developed "Commercial & Corporate Credit Rating Methodology" in compliance with BASEL II requirements and has incorporated 9 grades (from AAA to C), qualitative and quantitative analysis, financial ratios and trend analysis for two consecutive years in order to conserve and improve the risk analysis. These grades will be applied for all the credit analyses, year by year and a pool on the credit grades will be created. However, the grading, its trend and transition, which will enable a better judgment and decision-making, are not yet finalised.

5. Financial risk management (continued)

(b) Credit Risk (continued)

Past due but not impaired loans

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

Loans with renegotiated terms

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

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

Allowances for impairment

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

Write-off policy

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

	Loans and advances to customers			
31 December 2010	**Retail**	**Corporate**	**Advances**	**Total**
Neither past due nor impaired	136,272,166	292,172,343	3,403,722	431,848,231
Past due but not impaired	3,316,947	15,830,599	17,347	19,164,893
Individually impaired	40,700,299	68,465,896	2,572,915	111,739,110
Total Loans, Gross (Note 13)	**180,289,412**	**376,468,838**	**5,993,984**	**562,752,234**
Allowance for impairment	(4,553,231)	(4,629,714)	(2,523,419)	(11,706,364)
Total Loans, Net of impairment	**175,736,181**	**371,839,124**	**3,470,565**	**551,045,870**

	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**

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 2010	31 December 2009
A – Good	3,849,357	23,489,059
B – Acceptable	293,494,511	280,148,911
C – Close Monitoring	52,492,209	29,288,840
D – Unacceptable	21,642,890	16,828,881
(Note 13)	**371,478,967**	**349,755,691**
Accrued interest	6,125,362	4,003,653
Less: unamortized deferred fee income	(1,135,491)	(1,089,435)
Total	**376,468,838**	**352,669,909**

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 2010	701,253	18,333,581	141,353	19,176,187
31 December 2009	473,188	9,513,024	-	9,986,212

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 2010	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	11,130,329	21,001,353	389,247	32,520,929
Past due 32-60 days	3,372,554	4,035,210	296,679	7,704,443
Past due 61-90 days	3,719,625	3,756,951	320,984	7,797,560
Past due 91-180 days	3,196,617	24,278,483	196,380	27,671,480
Past due 181 days- 365 days	3,742,507	2,299,316	74,930	6,116,753
Past due 1-2 years	2,406,835	3,951,799	83,526	6,442,160
Past due over 2 years	1,287,893	6,346,600	24,542	7,659,035
Total	**28,856,360**	**65,669,712**	**1,386,288**	**95,912,360**

	Loans and advances to customers			
31 December 2009	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	8,361,839	3,452,186	753,165	12,567,190
Past due 32-60 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**

5. Financial risk management (continued)

(b) Credit Risk (continued)

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

	Loans and advances to customers			
31 December 2010	**Retail**	**Corporate**	**Advances**	**Total Loans**
Residential, commercial or industrial Property	514,869,439	789,023,289	-	1,303,892,728
Financial assets	7,101,789	93,329,874	-	100,431,663
Other	31,904,257	98,185,168	-	130,089,425
Total	**553,875,485**	**980,538,331**	**-**	**1,534,413,816**

	Loans and advances to customers			
31 December 2009	**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**

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

31 December 2010	**Treasury Bills**	**Due from other banks**	**Available for sale portfolio**	**Held to maturity portfolio**	**Total**
Good	187,826,686	182,513,518	101,714,745	275,915,418	747,970,367
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**187,826,686**	**182,513,518**	**101,714,745**	**275,915,418**	**747,970,367**

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**

5. Financial risk management (continued)

(b) Credit Risk (continued)

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

Moody's Ratings or equivalent	Note	**2010**	**2009**
Government bonds and treasury bills	9,10,11		
Rated A2 to Aa1		14,711,110	20,400,518
Rated Baa3 to Baa1		18,146,194	5,488,838
Rated Ba3 to Ba2		14,277,190	12,656,266
Rated B1		423,446,040	417,708,061
Corporate bonds	10,11		
Rated Baa1		17,848,389	3,250,524
Rated Ba3		13,144,154	6,746,513
Rated B3 to B2		12,768,893	6,870,204
Bank bonds	10,11		
Rated Ba2 to Ba1		10,779,511	6,173,300
Rated Ba3		37,303,501	7,436,049
Rated B2 to B1		3,031,867	13,396,294
Total		**565,456,849**	**500,126,567**

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances and investment securities at the reporting date is shown below:

	Note	Loans and advances to customers		Loans and advances to banks		Investment debt securities	
		2010	**2009**	**2010**	**2009**	**2010**	**2009**
Carrying amount	9-11,12,13	551,045,870	494,271,286	68,810,445	45,487,888	565,456,849	500,126,567
Concentration by sector							
Corporate		371,022,237	333,970,700	-	-	43,761,436	16,867,240
Government		816,887	15,839,265	-	-	470,580,534	456,253,683
Banks		-	-	68,810,445	45,487,888	51,114,879	27,005,644
Retail		179,206,746	144,461,321	-	-	-	-
Total		**551,045,870**	**494,271,286**	**68,810,445**	**45,487,888**	**565,456,849**	**500,126,567**

Concentration by location	Note	Loans and advances to customers		Loans and advances to banks		Investment debt securities	
		2010	**2009**	**2010**	**2009**	**2010**	**2009**
Albania		389,644,225	382,829,120	-	-	423,446,040	417,708,061
Kosovo		90,873,488	55,350,287	-	-	-	-
Europe		70,528,157	56,091,879	56,935,264	45,487,888	142,010,809	70,756,368
Asia		-	-	11,875,181	-	-	6,173,300
Middle East and Africa		-	-	-	-	-	5,488,838
Total	9-11,12,13	**551,045,870**	**494,271,286**	**68,810,445**	**45,487,888**	**565,456,849**	**500,126,567**

5. Financial risk management (continued)

(c) Liquidity risk

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

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

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

The LRM approach of the Bank results in positive liquidity gaps for all time buckets up to one year as at 31 December 2010. This resulted mainly because of the following three 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 2010, 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	177,385,066	-	-	-	-	177,385,066
Placement and balances with banks	81,946,194	3,029,595	28,727,284	-	-	113,703,073
Treasury bills	22,705,175	33,260,413	131,861,098	-	-	187,826,686
Investment securities available-for-sale	-	-	-	89,785,335	11,929,410	101,714,745
Investment securities held-to-maturity	14,325,457	522,938	23,541,099	237,525,924	-	275,915,418
Loans and advances to banks	-	20,133,160	30,092,312	18,584,973	-	68,810,445
Loans and advances to customers	31,319,654	34,421,267	116,874,115	252,691,257	115,739,577	551,045,870
Property and equipment	-	-	-	5,892,236	10,583,214	16,475,450
Intangible assets	-	-	-	1,610,738	-	1,610,738
Non-current assets held for sale	-	-	5,206,635	-	-	5,206,635
Other assets	3,207,420	-	-	-	-	3,207,420
Total assets	**330,888,966**	**91,367,373**	**336,302,543**	**606,090,463**	**138,252,201**	**1,502,901,546**
Liabilities and shareholders' equity						
Customer deposits	426,645,696	236,590,906	589,579,731	55,655,773	1,179,414	1,309,651,520
Due to banks and financial institutions	38,637,903	5,003,878	76,630	11,208,346	7,472,231	62,398,988
Due to third parties	2,151,892	-	-	-	-	2,151,892
Deferred tax liabilities	-	-	-	1,731,801	-	1,731,801
Accruals and other liabilities	6,300,403	-	429,874	-	1,567,221	8,297,498
Shareholders' equity	-	-	-	-	118,669,847	118,669,847
Total liabilities and shareholders' equity	**473,735,894**	**241,594,784**	**590,086,235**	**68,595,920**	**128,888,713**	**1,502,901,546**
Net Position	**(142,846,928)**	**(150,227,411)**	**(253,783,692)**	**537,494,543**	**9,363,488**	**-**
Cumulative Net Position	**(142,846,928)**	**(293,074,339)**	**(546,858,031)**	**(9,363,488)**	**-**	**-**

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)

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 customers	-	-	45,487,888	-	-	45,487,888
Loans and advances to banks	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)**	**-**	**-**

5. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

One of the key ratios used by the Bank for managing liquidity risk, which is required by Bank of Albania (BoA) at the same time, is the ratio of liquid assets to short-term liabilities on a weekly basis. Based on the regulation No.71 dated 14.10.2009 "Liquidity risk management policy" this ratio should be at a minimum of 20%. As per this regulation, article 19 point 4, liquid assets are considered: cash balance, current accounts with BoA, including mandatory reserve up to half of its usage limit; T-bills and securities according to their remaining maturity and ability to turn into liquidity. Short-term liabilities are considered all Liabilities with remaining maturity up to one year.

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

	31 December 2010	*31 December 2009*
Liquid Assets/Short Term Liabilities Ratio	23.74%	26.42%

(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 2010 and 2009 in accordance with the Bank of Albania foreign currency disclosure requirements:

31 December 2010	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets					
Cash and balances with Central Bank	96,785,816	11,355,428	68,653,967	589,855	177,385,066
Placements and balances with banks	11,064	35,475,966	74,604,862	3,611,181	113,703,073
Treasury bills	183,744,215	-	4,082,471	-	187,826,686
Investment securities available-for-sale	15,778,047	20,589,560	52,837,361	12,509,777	101,714,745
Investment securities held-to-maturity	205,915,490	30,387,953	39,611,975	-	275,915,418
Loans and advances to banks	-	16,414,423	52,396,022	-	68,810,445
Loans and advances to customers	204,837,848	78,860,500	264,232,258	3,115,264	551,045,870
Property and equipment	13,253,486	-	3,221,964	-	16,475,450
Intangible assets	1,610,738	-	-	-	1,610,738
Non-current assets held for sale	4,674,698	-	531,937	-	5,206,635
Other assets	1,651,043	407,759	1,148,202	416	3,207,420
Total assets	**728,262,445**	**193,491,589**	**561,321,019**	**19,826,493**	**1,502,901,546**
Spot foreign exchange contracts	1,688,341	6,590,103	533,731	2,616,642	11,428,817
Liabilities and shareholders' equity					
Customer deposits	702,867,224	83,203,298	507,176,143	16,404,855	1,309,651,520
Due to banks and financial institutions	21,292,078	4,499,760	36,607,150	-	62,398,988
Due to third parties	2,151,892	-	-	-	2,151,892
Deferred tax liabilities	1,731,801	-	-	-	1,731,801
Accruals and other liabilities	2,597,672	4,501,446	1,140,274	58,106	8,297,498
Shareholders' equity	34,047,647	84,622,200	-	-	118,669,847
Total liabilities and shareholders' equity	**764,688,314**	**176,826,704**	**544,923,567**	**16,462,961**	**1,502,901,546**
Spot foreign exchange contracts	476,789	2,501,333	2,815,429	5,635,266	11,428,817
Net position (GAP)	**(35,214,317)**	**20,753,655**	**14,115,754**	**344,908**	**-**
Cumulative net position	(35,214,317)	(14,460,662)	(344,908)	-	
Total assets / Total liabilities and equity	95.40%	111.57%	102.58%	101.56%	100.00%
GAP / FX denominated assets		0.10	0.025	0.0154	-
Sensitivity analysis					
Lek depreciates by 10%		1,886,696	990,345	31,355	2,908,396
Lek depreciates by 5%		988,269	518,752	16,424	1,523,445
Lek appreciates by 5%		(1,092,298)	(573,357)	(18,153)	(1,683,808)
Lek appreciates by 10%		(2,305,962)	(1,210,421)	(38,323)	(3,554,706)

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 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	96.22%	109.00%	103.13%	100.05%	100.00%
GAP / FX denominated assets and equity		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)

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 2010 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	3.50%	0.10%	0.70%
Placement and balances with banks	N/A	2.86%	1.06%
Treasury bills	8.03%	N/A	5.66%
Investment securities	9.47%	6.92%	7.23%
Loans and advances to banks	-	5.03%	2.83%
Loans and advances to customers	11.70%	8.95%	9.07%
Liabilities			
Customer deposits	5.06%	1.52%	2.62%
Due to banks and financial institutions	5.19%	0.55%	1.92%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2009 were 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%

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 2010 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	177,385,066	-	-	-	-	177,385,066
Placement and balances with banks	81,946,194	3,029,595	28,727,284	-	-	113,703,073
Treasury bills	22,705,175	33,260,413	131,861,098	-	-	187,826,686
Investment securities available-for-sale	-	-	15,778,047	74,007,288	11,929,410	101,714,745
Investment securities held-to-maturity	14,325,457	37,059,931	115,421,520	109,108,510	-	275,915,418
Loans and advances to banks	-	20,133,160	30,092,312	18,584,973	-	68,810,445
Loans and advances to customers	435,246,461	8,495,854	55,779,144	39,013,643	12,510,768	551,045,870
Total	**731,608,353**	**101,978,953**	**377,659,405**	**240,714,414**	**24,440,178**	**1,476,401,303**
Liabilities						
Customer deposits	426,645,696	236,590,906	589,579,731	55,655,773	1,179,414	1,309,651,520
Due to banks and financial institutions	38,637,904	5,003,878	18,757,206	-	-	62,398,988
Total	**465,283,600**	**241,594,784**	**608,336,937**	**55,655,773**	**1,179,414**	**1,372,050,508**

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 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	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 2010	31 December 2009
Interest rate increases by 2%	1,454,580	983,793
Interest rate increases by 1.5%	1,090,935	737,845
Interest rate increases by 1%	727,290	491,896
Interest rate decreases by 1%	(727,290)	(491,896)
Interest rate decreases by 1.5%	(1,090,935)	(737,845)
Interest rate decreases by 2%	(1,454,580)	(983,793)

(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%, while the Bank has maintained this ratio at 13.1% as at 31 December 2010.

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 2010, the Bank's geographical segments are as follows:

	Albania	Kosovo	Consolidated
Assets			
Cash and balances with Central Bank	161,682,056	15,703,010	177,385,066
Placement and balances with banks	113,495,267	207,806	113,703,073
Treasury bills	187,826,686	-	187,826,686
Investment securities available-for-sale	101,714,745	-	101,714,745
Investment securities held-to-maturity	264,618,251	11,297,167	275,915,418
Loans and advances to banks	68,810,445	-	68,810,445
Loans and advances to customers	460,396,495	90,649,375	551,045,870
Property and equipment	13,253,470	3,221,980	16,475,450
Intangible assets	1,610,738	-	1,610,738
Non - current assets held for sale	5,206,635	-	5,206,635
Other assets	52,484,841	(49,277,421)*	3,207,420
Total assets	**1,431,099,629**	**71,801,917**	**1,502,901,546**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	1,251,907,242	57,744,278	1,309,651,520
Due to banks and financial institutions	58,394,940	4,004,048	62,398,988
Due to third parties	2,151,892	-	2,151,892
Deferred tax liabilities	1,731,801	-	1,731,801
Accruals and other liabilities	8,189,784	107,714	8,297,498
Total liabilities	**1,322,375,659**	**61,856,040**	**1,384,231,699**
Shareholders' equity			
Share capital			84,622,200
Translation reserve			(34,349)
Fair value reserve			342,874
Retained earnings			33,739,122
Total shareholders' equity			**118,669,847**
Total liabilities and shareholders' equity			**1,502,901,546**

* Included within the USD 49,277,421 credit for Kosovo 'Other assets' is an amount of USD 49,615,237, which represents intra-group balances between the Head Office and Branches in Albania and Kosovo Branch as at 31 December 2010, and has been eliminated on consolidation.

6. Segmental reporting (continued)

For the year ended 31 December 2010, the Bank's geographical segments are as follows:

	Albania	**Kosovo**	**Consolidated**
Interest			
Interest income	96,773,840	7,586,505	104,360,345
Interest expense	(47,766,790)	(1,906,180)	(49,672,970)
Net interest margin	**49,007,050**	**5,680,325**	**54,687,375**
Non-interest income, net			
Fees and commissions, net	3,718,263	708,163	4,426,426
Foreign exchange revaluation gain, net	1,286,809	21	1,286,830
Profit from FX trading activities, net	1,843,633	-	1,843,633
Other income, net	(297,222)	-	(297,222)
Total non-interest income, net	**6,551,483**	**708,184**	**7,259,667**
Operating expenses			
Personnel	(10,742,278)	(1,592,778)	(12,335,056)
Administrative	(14,083,555)	(1,665,692)	(15,749,247)
Depreciation and amortization	(3,518,514)	(762,170)	(4,280,684)
Total operating expenses	**(28,344,347)**	**(4,020,640)**	**(32,364,987)**
Impairment of loans	(590,474)	(1,053,500)	(1,643,974)
Profit before taxes	**26,623,712**	**1,314,369**	**27,938,081**
Income tax	(2,935,112)	-	(2,935,112)
Net profit for the year	**23,688,600**	**1,314,369**	**25,002,969**

6. Segmental reporting (continued)

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			16,524,273
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)

For the year ended 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, net	3,004,744	37	3,004,781
Profit from FX trading activities, net	2,110,796	-	2,110,796
Other (expense)/income, 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**

7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2010 and 2009 are detailed as follows:

	31 December 2010	31 December 2009
Cash on hand	27,622,365	32,005,341
Deposits with the Central Bank of Kosovo	12,347,908	8,322,177
Bank of Albania		
Current account	22,308,665	20,597
Statutory reserve	115,049,860	101,860,647
Accrued interest	56,268	54,567
	137,414,793	101,935,811
	177,385,066	**142,263,329**

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.

Cash and cash equivalents as at 31 December 2010 and 2009 are presented as follows:

	31 December 2010	31 December 2009
Cash and balances with Central Bank	177,385,066	142,263,329
Statutory reserve	(119,302,360)	(106,690,183)
Current accounts with banks	2,516,910	3,367,088
Accrued interest with banks	593,412	325,500
Placements with maturities of 3 months or less	80,159,776	110,415,489
	141,352,804	**149,681,223**

8. Placements and balances with banks

Placements and balances with banks as at 31 December 2010 and 31 December 2009 consisted as follows:

	31 December 2010	31 December 2009
Placements	109,580,786	125,477,813
Cash collateral held by financial institutions	1,011,965	3,472,346
Current accounts	2,516,910	3,367,088
Accrued interest	593,412	325,500
	113,703,073	**132,642,747**

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 denominated in Lek earn interest at rates ranging from 6.70% p.a. to 9.93% p.a. (2009: from 7.21% p.a. to 10.09% p.a.) on a compound basis and are all denominated in Lek, except for two EUR denominated, 9-month Treasury bills of the Albanian Government with a face value equivalent to USD 4.1 million at yields ranging from 5.62% p.a. to 5.71% p.a. As at 31 December 2009, the Bank did not hold treasury bills in EUR.

Treasury bills portfolio is composed as follows:

	31 December 2010	31 December 2009
Treasury bills available-for-sale	94,658,443	167,783,303
Treasury bills held-to-maturity	93,168,243	87,857,530
	187,826,686	**255,640,833**

Treasury bills available-for-sale

Treasury bills available-for-sale by original maturity as at 31 December 2010 and 31 December 2009 are presented as follows:

	31 December 2010			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair value
6 months	118,017	1,290	431	119,738
12 months	89,744,545	4,243,659	550,501	94,538,705
	89,862,562	**4,244,949**	**550,932**	**94,658,443**

	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**

Treasury bills held-to-maturity

Treasury bills held-to-maturity by original maturity as at 31 December 2010 and 31 December 2009 are presented as follows:

	31 December 2010			**31 December 2009**		
	Purchase Value	Amortized discount	Amortized cost	Purchase Value	Amortized discount	Amortized cost
6 months	3,435,389	27,871	3,463,260	-	-	-
9 months	3,967,146	115,325	4,082,471	-	-	-
12 months	82,767,990	2,854,522	85,622,512	84,775,810	3,081,720	87,857,530
	90,170,525	**2,997,718**	**93,168,243**	**84,775,810**	**3,081,720**	**87,857,530**

10. Investment securities available-for-sale

Investment securities available-for-sale as at 31 December 2010 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair value
Lek Denominated Bonds	15,384,615	-	225,506	167,926	15,778,047
USD Denominated Bonds	19,850,000	(46,651)	421,510	364,701	20,589,560
EUR Denominated Bonds	51,416,954	632,540	1,715,030	(927,163)	52,837,361
GBP Denominated Bonds	11,643,750	549,006	130,142	186,879	12,509,777
	98,295,319	**1,134,895**	**2,492,188**	**(207,657)**	**101,714,745**

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
Lek Denominated Bonds	2,087,465	-	12,364	(19,542)	2,080,287
USD Denominated Bonds	35,500,000	207,321	545,171	(201,285)	36,051,207
EUR Denominated Bonds	7,199,666	592,594	385,445	(39,660)	8,138,045
GBP Denominated Bonds	3,228,056	3,904	36,080	(17,516)	3,250,524
	48,015,187	**803,819**	**979,060**	**(278,003)**	**49,520,063**

11. Investment securities held-to-maturity

Investment securities held-to-maturity as at 31 December 2010 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek Denominated Bonds	201,126,110	-	4,789,381	205,915,491
USD Denominated Bonds	30,086,417	(54,162)	355,697	30,387,952
EUR Denominated Bonds	39,768,240	(1,298,946)	1,142,681	39,611,975
	270,980,767	**(1,353,108)**	**6,287,759**	**275,915,418**

As at 31 December 2010, an Irish Bond denominated in EUR and amounting to USD 11.3 million (2009: USD 12.3 million) is 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.

11. Investment securities held-to-maturity (continued)

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

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

12. Loans and advances to banks

The Bank has purchased the syndicated loans of some non-resident banks as at 31 December 2010, with ratings as follows:

Moody's or equivalent	31 December 2010	31 December 2009
Rated Baa3	6,709,792	-
Rated Ba2	25,335,959	9,343,313
Rated Ba3	32,225,452	7,236,004
Rated B1	4,539,242	28,908,571
	68,810,445	**45,487,888**

13. Loans and advances to customers

Loans and advances to customers consisted of the following:

	31 December 2010	31 December 2009
Loans and advances to customers, gross	557,887,662	502,412,220
Accrued interest	7,721,956	5,317,311
Less allowances for impairment on loans and advances	(11,706,364)	(10,923,741)
Less unamortized deferred fee income	(2,857,384)	(2,534,504)
	551,045,870	**494,271,286**

Movements in the allowance for impairment on loans and advances:

	2010	2009
At 1 January	10,923,741	8,591,888
Impairment charge for the year	1,643,974	3,068,156
Translation difference	(861,351)	(736,303)
At the end of the year	**11,706,364**	**10,923,741**

As at 31 December 2010, the Bank's loans in arrears by more than 90 days totalled USD 47,889,429 (2009: USD 25,635,956).

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

Loans in Lek	0.50% to 22.00%
Loans in Euro	1.64% to 22.00%
Loans in USD	3.00% to 13.00%
Loans in CHF	4.52% to 5.84%

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

13. Loans and advances to customers (continued)

The classification of corporate loans by industry is as follows:

	31 December 2010		31 December 2009	
	USD	**%**	**USD**	**%**
Wholesale Trade	86,683,400	23%	63,422,051	18%
Construction	64,718,374	17%	47,324,985	13%
Retail Trade	33,846,496	9%	27,869,564	8%
Manufacture of Textile and Textile Products	30,287,255	8%	29,197,853	8%
Hotels and Restaurants	19,157,757	5%	18,846,807	5%
Manufacture of Food Products, Beverages	16,382,375	4%	16,932,317	5%
Manufacturing of Other Non-metallic Products	14,737,963	4%	15,303,510	4%
Manufacturing of Basic Metals and Fabricated Metal Products	14,553,213	4%	29,877,785	9%
Other Community, Social and Personal Activities	10,573,780	3%	30,939,076	9%
Personal Needs	10,215,597	3%	8,414,108	2%
Manufacture of Machinery and Equipment	9,613,025	3%	-	-
Education	9,576,536	3%	3,552,489	1%
Health and Social Work	9,525,959	2%	7,955,535	2%
Financial Intermediation	6,770,345	2%	7,356,718	2%
Manufacture of Rubber and Plastic Products	6,556,573	2%	7,990,887	2%
Manufacture of Wood and Wood Products	5,682,307	1%	6,423,558	2%
Transport, Storage and Communication	3,776,110	1%	2,428,319	1%
Real Estate, Renting and Business Activity	1,850,574	1%	2,317,131	1%
Manufacture of Pulp, Paper and Paper Products	1,483,588	1%	1,663,093	1%
Other Sectors	15,487,740	4%	21,939,905	7%
	371,478,967	**100%**	**349,755,691**	**100%**

The classification of retail loans by type is as follows:

	31 December 2010		31 December 2009	
	USD	**%**	**USD**	**%**
Home purchase	110,461,800	59%	84,701,578	55%
Home improvement	25,147,525	13%	22,998,213	15%
Shop purchase	11,501,411	6%	9,981,830	7%
Home reconstruction	11,079,885	6%	11,409,058	7%
Super Loan	10,540,529	6%	8,714,315	6%
Home advances	5,938,280	3%	6,614,599	4%
Overdraft and credit cards	5,335,460	3%	3,858,200	2%
Technical equipment	1,013,130	1%	1,022,851	1%
Car purchase	439,851	1%	806,146	1%
Other types	4,950,824	2%	2,549,739	2%
	186,408,695	**100%**	**152,656,529**	**100%**

Banka Kombetare Tregtare Sh.a

Notes to the Consolidated Financial Statements for the year ended 31 December 2010
(amounts in USD, unless otherwise stated)

14. Property and equipment

Property and equipment as at 31 December 2010 and 2009 are composed as follows:

	Land, buildings and leasehold improvements	Vehicles and other equipment	Computers and electronic equipment	Office equipment	Total
Gross value					
At 1 January 2009	**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**
Additions	497,519	387,051	1,328,631	69,928	**2,283,129**
Disposals / transfers	-	(120,782)	(2,048,528)	(39,613)	**(2,208,923)**
Translation difference	(1,408,729)	(344,874)	(975,858)	(108,253)	**(2,837,714)**
At 31 December 2010	**17,084,423**	**4,360,115**	**10,799,653**	**1,314,472**	**33,558,663**
Accumulated depreciation					
At 1 January 2009	**(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)**
Charge for the year	(931,836)	(633,707)	(1,892,343)	(179,784)	**(3,637,670)**
Disposals / write offs	-	103,489	2,021,806	38,988	**2,164,283**
Translation difference	478,827	197,405	603,776	60,853	**1,340,861**
At 31 December 2010	**(6,501,209)**	**(2,832,514)**	**(6,896,121)**	**(853,369)**	**(17,083,213)**
Net book value					
At 1 January 2009	**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**
At 31 December 2010	**10,583,214**	**1,527,601**	**3,903,532**	**461,103**	**16,475,450**

As at 31 December 2010 the gross value of the assets which were fully depreciated was USD 6,504,382 (2009: USD 7,307,818).

15. Intangible assets

Intangible assets as at 31 December 2010 and 2009 are composed as follows:

	Software
Gross value	
At 1 January 2009	**3,408,206**
Additions	958,070
Translation difference	(281,024)
At 31 December 2009	**4,085,252**
Additions	854,211
Translation difference	(321,713)
At 31 December 2010	**4,617,750**
Accumulated depreciation	
At 1 January 2009	**(2,205,808)**
Charge for the year	(548,285)
Translation difference	187,216
At 31 December 2009	**(2,566,877)**
Charge for the year	(643,014)
Translation difference	202,879
At 31 December 2010	**(3,007,012)**
Net book value	
At 1 January 2009	**1,202,398**
At 31 December 2009	**1,518,375**
At 31 December 2010	**1,610,738**

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 2010. 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 comprises the collateral values of some unrecoverable loans totalling to USD 5,206,635 (2009: USD 1,297,477), 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 2010 and 2009 are as follows:

	31 December 2010	31 December 2009
Cheques for collection and payments in transit	407,095	218,587
Inventory	-	636
Spot transactions revaluation gain	195,744	212,477
Other debtors, net	2,604,581	2,630,800
	3,207,420	**3,062,500**

"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" as at 31 December 2009 represented some stationary, supplies and printed-paper, which were deployed in use during 2010.

"Other debtors" are composed of three main items. The first item of USD 1,685,737 (2009: USD 1,293,867) consists mostly of USD 1,609,475 (2009: USD 1,235,157) of credit disbursement and administration costs paid by the Bank, but charged and repayable by the borrowers. The other two items represent advance payments to suppliers of USD 125,694 (2009: USD 137,372) and prepaid expenses of USD 793,150 (2009: USD 567,939), while there was a prepaid income tax of USD 634,276 in 2009.

18. Customer deposits

Customer deposits as at 31 December 2010 and 2009 are composed as follows:

	31 December 2010	31 December 2009
Current accounts:		
Individuals	64,418,208	58,983,855
Private enterprises	94,958,433	95,777,461
State owned entities	26,905,675	34,097,782
	186,282,316	**188,859,098**
Deposits:		
Individuals	1,028,570,285	883,367,078
Private enterprises	51,286,369	40,815,611
State owned entities	27,713,567	40,986,047
	1,107,570,221	**965,168,736**
Other customer accounts:		
Individuals	5,460,759	3,099,749
Private enterprises	9,308,376	9,129,505
State owned entities	1,029,848	889,770
	15,798,983	**13,119,024**
	1,309,651,520	**1,167,146,858**

18. Customer deposits (continued)

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

	31 December 2010			31 December 2009		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	**109,472,653**	**76,809,663**	**186,282,316**	**110,832,536**	**78,026,562**	**188,859,098**
Deposits						
On demand	373,817	16,526,769	**16,900,586**	34,411	9,065,182	**9,099,593**
One month	33,770,105	43,161,058	**76,931,163**	28,909,346	38,851,617	**67,760,963**
Three months	65,456,546	75,826,984	**141,283,530**	70,381,878	60,729,086	**131,110,964**
Six months	100,098,258	91,203,509	**191,301,767**	98,508,001	72,445,336	**170,953,337**
Twelve months	328,981,743	252,977,572	**581,959,315**	287,910,872	212,243,895	**500,154,767**
Two years and over	43,709,933	34,792,809	**78,502,742**	41,068,249	24,876,557	**65,944,806**
Accrued interest on deposits	15,074,575	5,616,543	**20,691,118**	14,772,328	5,371,978	**20,144,306**
Total deposits	**587,464,977**	**520,105,244**	**1,107,570,221**	**541,585,085**	**423,583,651**	**965,168,736**
Other customer accounts	**5,929,593**	**9,869,390**	**15,798,983**	**5,882,898**	**7,236,126**	**13,119,024**
Total customer deposits	**702,867,223**	**606,784,297**	**1,309,651,520**	**658,300,519**	**508,846,339**	**1,167,146,858**

Other customer accounts are composed as follows:

	31 December 2010			31 December 2009		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Deposit guarantees for letters of credit	-	14,075	**14,075**	-	1,451,634	**1,451,634**
Escrow accounts	4,263,829	7,516,932	**11,780,761**	5,092,480	4,334,831	**9,427,311**
Bank drafts	-	7,779	**7,779**	-	7,780	**7,780**
Payment orders to be executed	55,436	176,945	**232,381**	44,418	187,354	**231,772**
Other	1,610,328	2,153,659	**3,763,987**	746,000	1,254,527	**2,000,527**
	5,929,593	**9,869,390**	**15,798,983**	**5,882,898**	**7,236,126**	**13,119,024**

"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 and financial institutions

Due to banks as at 31 December 2010 and 2009 consisted as follows:

	31 December 2010	31 December 2009
Treasury bills sold under Repo agreements with Central Bank	21,291,365	63,206,277
Deposits from banks	22,049,379	4,319,803
Current accounts of non resident banks	231,155	1,598,351
Current accounts of resident banks	69,882	50,624
Borrowing from financial institutions	18,757,207	-
	62,398,988	**69,175,055**

Deposits from banks as at 31 December 2010 represent some short-term borrowings obtained either from resident or non-resident banks, detailed as follows:

Bank	Currency	Principal	Accrued interest	Total	Maturity Date
Union Bank	EUR	3,068,952	44	3,068,996	04 January 2011
Intesa Sanpaolo Albania	EUR	4,002,981	55	4,003,036	06 January 2011
NLB Prishtina	EUR	4,002,981	1,068	4,004,049	20 January 2011
Vakifbank Int. Austria	EUR	6,671,634	1,418	6,673,052	13 January 2011
Credit Bank of Albania	USD	400,000	127	400,127	13 January 2011
Alpha Bank – Albania	USD	3,900,000	119	3,900,119	06 January 2011
Total	**USD**	**22,046,548**	**2,831**	**22,049,379**	

Borrowing from financial institutions represents the amount of EUR 14 million outstanding as at 31 December 2010, obtained from European Fund for Southeast Europe (EFSE), under the Framework Agreement signed on 20 September 2010 for granting loans to SME customers of the bank.

20. Due to third parties

The Bank acts as an agent for the tax authorities, either in the collection of taxes or in performing advance payments for the budget. In return, the Bank charges a commission to the taxpayers for the service rendered. The credit balance as at 31 December 2010, of USD 2,151,892 (2009: USD 456,415) 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 2010	31 December 2009
Balance at 1 January	(736,954)	(167,338)
Income statement benefit/(expense)	(1,053,591)	(588,760)
Exchange differences	58,744	19,144
Balance at the end of the year	**(1,731,801)**	**(736,954)**

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

	31 December 2010	31 December 2009
Deferred income on fees on loans	285,738	253,450
Decelerated depreciation	271,923	235,449
Allowance for loan impairment	(2,203,402)	(1,225,853)
Fair value reserve for AFS securities	(86,060)	-
	(1,731,801)	**(736,954)**

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

However, the impact of these changes in the legislation, on the consolidated financial statements of the Bank, are 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 2010 and 2009 is presented as follows:

	31 December 2010	31 December 2009
Creditors	1,855,685	1,844,891
Transi taccount	270,312	205,850
Reserve fund for retiring employees	1,567,221	1,753,698
Due to tax authorities	582,930	201,926
Social insurance	132,829	122,775
Accrued expenses and deferred income	2,736,656	2,415,930
Other	1,151,865	1,310,647
	8,297,498	**7,855,717**

"Due to tax authorities" includes income tax payable of USD 142,794. As at 31 December 2009, the prepaid income tax was USD 634,276 (see Note 17).

"Creditors" represent mainly 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. The investment in this fund has been stopped by the Bank on 30 September 2010. (See to Note 3, paragraph q.ii.)

"Accrued expenses" includes USD 788,900 (2009: USD 477,587) of deposit insurance premium due for the last quarter of 2010 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 1,373,750 (2009: USD 984,566), represents the accrued amounts of yearly performance bonus for the bank's staff and management, planned to be paid within the 1st quarter of 2011.

"Other" consists of four items. The first item of USD 1,026,764 (2009: USD 1,120,153) 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 62,631 (2009: USD 81,994), spot transactions revaluation loss of USD 56,624 (2009: USD 80,078) and payments in transit of USD 5,846 (2009: USD 28,422).

23. Shareholders' equity

Share Capital

At 31 December 2010 the authorised share capital comprised 6,852,000 ordinary shares (2009: 6,340,000). The shares have a par value of USD 12.35. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends from time to time, if declared. All shares rank equally with regard to the Bank's residual assets.

Reserves

Translation reserve

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

Fair value reserve

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

Retained earnings

Retained earnings as at 31 December 2010, includes the cumulative non distributed earnings from the profit of the years 2009 and 2010. As described in Note 1, the Bank has used its statutory retained earnings amounting to Lek 653,249,792 or USD 6,323,200 to increase its share capital on 31 March 2010.

24. Interest income

Interest income is composed as follows:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Placements with banks and balances with Central Bank	5,303,052	5,619,110
Treasury bills and investment securities	46,718,115	36,259,073
Loans and advances to customers	52,339,178	42,336,431
	104,360,345	**84,214,614**

Interest income can be further analysed as follows:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Available-for-sale financial assets	16,895,015	10,208,542
Held-to-maturity investments	35,126,152	31,669,641
Loans and receivables	52,339,178	42,336,431
	104,360,345	**84,214,614**

Interest income on individually impaired loans for the year ended 31 December 2010 was USD 417,874 (2009: USD 663,819).

25. Interest expense

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

	Year ended 31 December 2010	Year ended 31 December 2009
Due to banks and financial institutions	2,611,155	2,728,051
Customer deposits	47,061,815	43,669,004
	49,672,970	**46,397,055**

26. Fees and commissions, net

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

	Year ended 31 December 2010	Year ended 31 December 2009
Fee and commission income		
Payment services to clients	2,278,301	2,050,984
Inter bank transactions	1,051,327	589,576
Lending activity	969,718	1,072,049
Customer accounts' maintenance	659,205	623,826
Card transactions	480,186	314,503
Cash transactions with clients	273,073	251,024
Other fees and commissions	73,870	56,444
	5,785,680	*4,958,406*
Fee and commission expense		
Transactions with clients	(1,038,609)	(332,578)
Inter bank transactions	(198,764)	(256,095)
Customer accounts' maintenance	(93,411)	(99,621)
Payment services to clients	(28,470)	(36,655)
	(1,359,254)	*(724,949)*
Fees and commissions, net	**4,426,426**	**4,233,457**

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 2010 is USD 6,212,180 (2009: USD 4,832,998).

28. Other income / (expense), net

Other income and expenses are composed as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Other income		
Gain on sale of fixed assets	21,314	3,411
Gain on recovery of lost loans	31,340	18,307
Reversal of staff pension fund	393,962	-
Sundry	122,891	83,707
	569,507	*105,425*
Other expense		
Loss on sale or write off of fixed assets	(5,498)	(1,942)
Loss on unrecoverable lost loans	(185,425)	(211,270)
Loss on write off of small inventory	(500)	-
Provision of other debtors	(429,874)	-
Sundry	(245,432)	(35,990)
	(866,729)	*(249,202)*
Other income / (expense), net	**(297,222)**	**(143,777)**

29. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Salaries	9,534,787	8,983,227
Performance bonus	1,071,208	1,137,898
Social insurance	916,747	987,807
Training	306,232	214,360
Reserve fund for retiring employees	257,771	415,643
Life insurance	26,153	10,024
Other	222,158	157,649
	12,335,056	**11,906,608**

30. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Marketing expenses	3,576,440	3,173,101
Deposit insurance expense	3,163,527	1,930,116
Telephone, electricity and IT expenses	2,185,056	2,241,235
Lease payments	1,746,996	1,723,535
Repairs and maintenance	1,225,489	941,379
Credit/debit cards expenses	875,735	724,096
Security and insurance expenses	796,709	837,934
Transportation and business related travel	608,996	624,493
Office stationery and supplies	404,444	422,881
Other external services (including external audit fees)	378,781	411,894
Representation expenses	199,786	148,020
Taxes other than tax on profits	172,232	113,266
Sundry	415,056	97,346
	15,749,247	**13,389,296**

31. Income tax

Income tax is comprised of:

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax	1,881,521	930,828
Deferred tax expense (note 21)	1,053,591	588,760
	2,935,112	**1,519,588**

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 2010	Year ended 31 December 2009
Profit before taxes	**27,938,081**	**14,563,173**
Computed tax using applicable tax rate	2,793,808	1,456,317
Non tax deductible expenses	163,967	140,423
Foreign exchange difference	(22,663)	(77,152)
Income tax	**2,935,112**	**1,519,588**
Effective tax rate	**10.50%**	**10.43%**

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.

32. Related party transactions (continued)

Identity of related parties

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank's sole shareholder is Calik Finansal Hizmetler, which is owned by Calik Holding at 76% and Aktifbank at 24% as at 31 December 2010. ALBtelecom Sh.a. and Eagle Mobile Sh.a. are controlled by Calik Holding.

Transactions with shareholders

The Bank had only one deposit placed with and two available-for-sale corporate bonds purchased from its shareholders outstanding as at 31 December 2010, which contractual details are as follows:

Related party	Principal	Interest rate	Accrued interest	Value date	Maturity date
Aktifbank	7,000,000	3.50%	168,097	29 April 2010	26 April 2011

	Nominal Value	Coupon rate	Fair value	Maturity date	Fitch Bond Rating
Calik Holding	1,350,000	8.5%	1,299,225	March 2012	B-

In addition, at 31 December 2010, the Bank held current accounts with Aktifbank with a total balance of 602,853 USD. The interest income recognized in 2010 from the placement with Aktifbank is USD 289,810, while from the Eurobonds of Calik Holding is USD 90,683.

The Bank has signed an agreement with Aktifbank related with different consultancy services for lending to companies based in Turkey, under which the Bank should pay some service commission to Aktifbank. The outstanding accrued liability of the Bank for these commissions as at 31 December 2010 was USD 171,967, while the total amount recognized in commission expenses during 2010 is USD 1,031,213. With regards to the same contract, Aktifbank has offered a guarantee of 10% on the outstanding amount, equivalent to USD 1,667,709. As at 31 December 2010, the Bank has issued Letters of Guarantee and Letters of Credit of USD 1,751,252 to ALBtelecom Sh.a. and has earned related commission income of USD 9,330 in 2010.

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

	31 December 2010	Net movements	31 December 2009
ALBtelecom Sh.a.	5,288,739	2,768,890	2,519,849
Eagle Mobile Sh.a.	2,587,800	(3,375,348)	5,963,148
Total	**7,876,539**	**(606,458)**	**8,482,997**

Net movements include the total deposits, withdrawals, interest and related fees between these entities and the Bank. The interest expense recognized in 2010 for the accounts of these entities is USD 139,993, while the account maintenance commission income earned in 2010 is USD 761.

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 2010	Year ended 31 December 2009
Directors	110,000	62,216
Executive officers	2,155,063	1,903,313
	2,265,063	**1,965,529**

33. Contingencies and commitments

Guarantees and letters of credit

	31 December 2010	31 December 2009
Guarantees in favour of customers	21,083,914	21,634,109
Guarantees received from credit institutions	2,198,269	1,591,569
Letters of credit issued to customers	6,992,020	4,323,930

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 2010	31 December 2009
Undrawn credit commitments	30,704,665	23,744,714
Outstanding cheques of non-resident banks	394,082	315,142
Spot foreign currency contract	11,428,817	12,145,547
Collaterals for loan portfolio	1,534,413,816	1,218,746,043

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 2010.

Lease commitments

Such commitments for the years ended 31 December 2010 and 2009 are composed as follows:

	31 December 2010	31 December 2009
Not later than 1 year	1,853,473	1,741,167
Later than 1 year and not later than 5 years	6,647,060	6,264,853
Later than 5 years	3,484,811	4,161,564
Total	**11,985,344**	**12,167,584**

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2010 with a maximum duration of ten years.

The Bank had 68 rented buildings/spaces as at 31 December 2010, in which are included the rented space dedicated to offsite disaster recovery and the 15 buildings rented for units of Kosovo Branch.

The Bank may cancel these leases upon giving three months notice. Therefore, at 31 December 2010, the maximum non-cancellable commitment payable not later than one year is USD 463,368 (2009: USD 435,292).

34. Subsequent events

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

Produced by Tayburn Kurumsal
Tel: (90 212) 227 04 36 Fax: (90 212) 227 88 57
www.tayburnkurumsal.com

BANKA KOMBETARE TREGTARE

Head Office

Bulevardi "Zhan d'Ark", Tiranë, Shqipëri
Tel: 355/4/ 2 250 955 Fax: 355/4/ 2 250 956
Reuters: NCAT
SWIFT Code: NCBAALTX
E-mail: info@bkt.com.al

Administrative Office - Kosovo

Rr. Kosta Novakovic, Nr.9, Qyteza Pejton, Prishtine Kosove
Tel: +381(0)3822911 Fax: +381(0)28222906

www.bkt.com.al