Banka Kombetare Tregtare Sh.a.

Consolidated financial statements

for the year ended 31 December 2011
(with independent auditor's report thereon)

Contents

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

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, 20 February 2012

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 2011, 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2011, 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

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Tirana, Albania

	Notes	31 December 2011	31 December 2010
Assets			
Cash and balances with Central Bank	7	190,597,582	177,385,066
Placement and balances with banks	8	114,409,670	113,703,073
Treasury bills	9	209,153,101	187,826,686
Investment securities available-for-sale	10	143,171,647	101,714,745
Investment securities held-to-maturity	11	288,885,306	275,915,418
Loans and advances to banks	12	98,888,938	68,810,445
Loans and advances to customers	13	778,063,334	551,045,870
Property and equipment	14	18,722,658	16,475,450
Intangible assets	15	1,699,447	1,610,738
Other assets	16	21,097,162	8,414,055
Total assets		**1,864,688,845**	**1,502,901,546**
Liabilities and shareholder's equity			
Liabilities			
Customer deposits	17	1,581,303,036	1,309,651,520
Due to banks and financial institutions	18	130,867,465	62,398,988
Due to third parties	19	3,018,872	2,151,892
Deferred tax liabilities	20	2,374,663	1,731,801
Accruals and other liabilities	21	8,960,296	8,297,498
Total liabilities		**1,726,524,332**	**1,384,231,699**
Shareholder's equity			
Share capital	22	100,000,000	84,622,200
Translation reserve	22	(2,748,295)	(34,349)
Fair value reserve	22	(7,222,165)	342,874
Retained earnings	22	48,134,973	33,739,122
Total shareholder's equity		**138,164,513**	**118,669,847**
Total liabilities and shareholder's equity		**1,864,688,845**	**1,502,901,546**

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 62.

The consolidated financial statements were authorised for release by the Board of Directors on 25 January 2012 and signed on its behalf by:

Seyhan Pencapligil
CEO and Board Member

Skender Emini
Head of Financial and IT Group

Consolidated statement of comprehensive income for the year ended 31 December 2011

(Amounts in USD)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Interest			
Interest income	23	123,535,207	104,360,345
Interest expense	24	(57,638,540)	(49,672,970)
Net interest margin		**65,896,667**	**54,687,375**
Non-interest income, net			
Fees and commissions, net	25	7,782,634	4,426,426
Foreign exchange (FX) revaluation gain, net	26	729,345	1,286,830
Profit from FX trading activities, net		691,213	1,843,633
Other expense, net	27	(374,303)	(297,222)
Total non-interest income, net		**8,828,889**	**7,259,667**
Operating expenses			
Personnel expenses	28	(14,709,307)	(12,335,056)
Administrative expenses	29	(18,447,698)	(15,749,247)
Depreciation and amortization	14,15	(4,542,526)	(4,280,684)
Total operating expenses		**(37,699,531)**	**(32,364,987)**
Impairment of loans	13	(4,082,609)	(1,643,974)
Profit before taxes		**32,943,416**	**27,938,081**
Income tax	30	(3,528,782)	(2,935,112)
Net profit for the year		**29,414,634**	**25,002,969**
Foreign currency translation differences		(2,713,946)	174,944
Net change in fair value reserves		(7,565,039)	286,200
Other comprehensive (loss) / income for the year, net of income tax		**(10,278,985)**	**461,144**
Total comprehensive income for the year		**19,135,649**	**25,464,113**

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 62.

Consolidated statement of changes in equity for the year ended 31 December 2011

(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**

Banka Kombetare Tregtare Sh.a.

Consolidated statement of changes in equity for the year ended 31 December 2011

(Amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2011	**84,622,200**	**-**	**(34,349)**	**342,874**	**33,739,122**	**118,669,847**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Creation of legal reserves	-	4,024,442	-	-	(4,024,442)	-
Increase in share capital	15,377,800	(4,112,047)	-	-	(11,265,753)	-
Adjustment for translation of legal reserve	-	87,605	-	-	(87,605)	-
Appropriation of 2010 year translation difference	-	-	-	-	(34,349)	(34,349)
Adjustment of retained earnings with 2011 year end exchange rate	-	-	-	-	393,366	393,366
Total contributions by and distributions to owners	15,377,800	-	-	-	(15,018,783)	359,017
Total comprehensive income/(loss) for the year						
Net profit for the year	-	-	-	-	29,414,634	29,414,634
Other comprehensive loss, net of income tax						
Net change in fair value reserve	-	-	-	(7,565,039)	-	(7,565,039)
Foreign currency translation differences	-	-	(2,713,946)	-	-	(2,713,946)
Total other comprehensive loss	-	-	(2,713,946)	(7,565,039)	-	(10,278,985)
Total comprehensive income/(loss) for the year	-	-	(2,713,946)	(7,565,039)	29,414,634	19,135,649
Balance as at 31 December 2011	**100,000,000**	**-**	**(2,748,295)**	**(7,222,165)**	**48,134,973**	**138,164,513**

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 62.

Consolidated statement of cash flows for the year ended 31 December 2011

(Amounts in USD)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities:			
Profit before taxes		32,943,416	27,938,081
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	24	57,638,540	49,672,970
Interest income	23	(123,535,207)	(104,360,345)
Depreciation and amortization	14, 15	4,542,526	4,280,684
Gain on sale of property and equipment		(23,418)	(21,314)
Gain on sale of treasury bills		(23,441)	(84,253)
Gain on sale of assets acquired through legal process		(49,500)	(22,644)
Gain on recovery of lost loans		(17,526)	(8,697)
Write-off of property and equipment		22,866	5,498
Write-off of small inventory		-	500
Loss on unrecoverable lost loans		129,352	185,425
Provision on other debtors		1,790,193	429,874
Movement in the fair value reserve		(8,053,243)	290,859
Impairment of loans	13	4,082,609	1,643,974
Cash flows from operating profits before changes in operating assets and liabilities		(30,552,833)	(20,049,387)
(Increase)/decrease in operating assets:			
Restricted balances with central banks		(27,959,068)	(12,612,177)
Placements and balances with banks		15,215,804	(22,038,456)
Loans and advances to banks		(34,081,501)	(26,626,774)
Loans and advances to customers		(265,452,387)	(94,767,017)
Other assets		(15,557,755)	(3,315,958)
		(327,834,907)	(159,360,382)
Increase/(decrease) in operating liabilities:			
Customer deposits		331,810,541	232,418,730
Due to third parties		999,828	1,732,586
Accruals and other liabilities		929,523	(560,073)
		333,739,892	233,591,243
Interest paid		(53,535,085)	(47,464,286)
Interest received		121,839,423	97,604,982
Income taxes paid		(2,714,334)	(1,743,779)
Net cash flows from operating activities		**40,942,156**	**102,578,391**
Cash flows from investing activities			
Purchases of investment securities		(70,566,219)	(148,555,172)
(Purchases)/settlement of treasury bills		(36,991,745)	34,243,000
Purchases of property and equipment		(7,692,970)	(3,150,165)
Proceeds from sale of property and equipment		25,888	44,672
Proceeds from sale of treasury bills		8,718,558	12,944,904
Net cash flows used in investing activities		(106,506,488)	(104,472,761)
Cash flows from financing activities			
Proceeds from/(repayment of) short term borrowings		74,848,004	(1,381,476)
Net cash from/(used in) financing activities		74,848,004	(1,381,476)
Net increase/(decrease) in cash and cash equivalents		**9,283,672**	**(3,275,846)**
Translation difference		(3,511,912)	(5,052,573)
Cash and cash equivalents at the beginning of the year	7	**141,352,804**	**149,681,223**
Cash and cash equivalents at the end of the year	7	**147,124,564**	**141,352,804**

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 62.

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 in Kosovo (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 2011, the Bank created legal reserves of Lek 398,581 thousand (equivalent of USD 4,024,442), using part of the retained earnings from the year 2010.

Upon the Shareholder's Decision dated 17 August 2011, the Bank increased its paid-up capital by Lek 1,490,570 thousand (equivalent of USD 15,377,800), using the legal reserves of Lek 398,581 thousand (equivalent of USD 4,112,047) and part of the retained earnings of Lek 1,091,989 thousand (equivalent of USD 11,265,753). The capital increase was translated into USD using the exchange rate published by Bank of Albania as at 17 August 2011 (96.93 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 1,245,166. The shareholding structure as at 31 December 2011 and 31 December 2010 was as follows:

	31 December 2011			***31 December 2010***		
	No. of shares	**Total in USD**	**%**	**No. of shares**	**Total in USD**	**%**
Calik Finansal Hizmetler A.S.	8,097,166	100,000,000.10	100	6,852,000	84,622,200	100

The headquarters of BKT is located in Tirana. The network of the Bank in Albania includes 54 branches and 3 custom agencies. Eighteen branches are located in Tirana, and the other branches are located in Durres, Elbasan, Vlora, Shkodra, Fier, Pogradec, Korca, Bilisht, Gjirokastra, Delvina, Saranda, Orikum, Berat, Kucova, Lushnja, Librazhd, Peqin, Rrogozhina, Shkozet, Kavaja, Vora, Kamza, Fushe Kruja, Lac, Lezha, Rreshen, Kukes, Peshkopi, Bushat and Koplik, followed by custom agencies in Kakavija, Durres Seaport and Rinas Airport. In 2011, the Bank opened one branch in Vlora, and closed one branch in Tirana.

The network in Kosovo includes 23 units. Five units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti and Lipjan, Hani i Elezit, Dheu i Bardhe and Prishtina Airport. In 2011, the Bank opened eight units in Kosovo.

The Bank had 1,059 (2010: 922) employees as at 31 December 2011, out of which 254 (2010: 171) are employees of 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, investment property, which is 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 consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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

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 (including comparatives) are translated at the closing rate at the date of that reporting date.
- income and expenses (including comparatives) are translated at exchange rates at the dates of the transactions.
- equity items other than the net profit for the period 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.

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.

3. Significant accounting policies (continued)

(f) Income tax expense (continued)

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.

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.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(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.

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.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. 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.

(h) Cash and cash equivalents

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

(i) Derivatives held for risk management purposes

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

3. Significant accounting policies (continued)

(j) 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 3(g),(vi).

(k) Investment securities

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

(i) Held-to-maturity

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

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

(ii) Available-for-sale

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

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in profit or loss.

(l) Property and equipment

(i) Recognition and measurement

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

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

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

3. Significant accounting policies (continued)

(l) Property and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

(m) Intangible assets

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

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

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

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

(n) Assets acquired through legal process

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

(i) Noncurrent assets held for sale

Noncurrent assets held for sale are expected to be recovered primarily through sale rather than through continuing use. 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 and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3. Significant accounting policies (continued)

(n) Assets acquired through legal process (continued)

(ii) Investment property

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

(o) Impairment of non-financial assets

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

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

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

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

(p) 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.

(q) 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)

(q) 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.

(r) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Bank created a fully employer sponsored pension plan fund-Staff Support Program (See Note 21, “Reserve fund for retiring employees”) during 2002. The amount charged to this fund (SSP) was decided at the beginning of the year as 5% of yearly budgeted personnel salary expenses. During the year, the amount accrued was charged to profit or loss and to the fund on a monthly basis.

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

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

(iii) Short-term benefits

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

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

(s) 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)

(t) 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 2011, 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 2015; to be applied prospectively). 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 assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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

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

- Amendments to IFRS 9 and IFRS 7: Mandatory effective date and transitional disclosures. These Amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 *Financial Instruments*. The amended IFRS 7 require to disclose more details about the effect of the initial application of IFRS 9 when an entity does not restate comparative information in accordance with the amended requirements of IFRS 9.

If an entity adopts IFRS 9 on or after 1 January 2013, then it will no longer be required to restate comparative information for periods prior to the date of initial application. If an entity early adopts IFRS 9 in 2012, then it has a choice either to restate comparative information or to provide the enhanced disclosures as required by the amended IFRS 7. If an entity early adopts IFRS 9 prior to 2012, then neither restatement of comparative information nor provision of the enhanced disclosures under the amended IFRS 7 are required.

It is expected that the amendments, when initially applied, will have an impact on the financial statements, since the classification and the measurement of the Bank’s financial assets are expected to change and its effect will be required to be disclosed in the Bank’s financial statements.

4. Use of estimates and judgements

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

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

Allowances for credit losses

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

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

Held-to maturity investments

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

Determining fair values

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

Critical accounting judgements in applying the Bank's accounting policies

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

Valuation of financial instruments

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

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

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

4. Use of estimates and judgements (continued)

Valuation of financial instruments (continued)

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

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

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

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

4. Use of estimates and judgements (continued)

Fair values

The table below sets out the carrying amounts and fair values of the financial assets and liabilities and 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 2011	Note	Carrying Amount	Fair Value		
			Level 1	Level 2	Total
Placement and balances with banks	8	114,409,670	-	114,409,670	114,409,670
Treasury bills	9	209,153,101	-	209,210,240	209,210,240
Investment securities available-for-sale	10	143,171,647	71,203,748	71,967,899	143,171,647
Investment securities held-to-maturity	11	288,885,306	-	287,228,190	287,228,190
Loans and advances to banks	12	98,888,938	-	98,888,938	98,888,938
Loans and advances to customers	13	778,063,334	-	778,063,334	778,063,334
Total financial assets		**1,632,571,996**	**71,203,748**	**1,559,768,271**	**1,630,972,019**
Customer deposits	17	1,581,303,036	-	1,581,303,036	1,581,303,036
Due to banks and financial institutions	18	130,867,465	-	130,867,465	130,867,465
Total financial liabilities		**1,712,170,501**	**-**	**1,712,170,501**	**1,712,170,501**

31 December 2010	Note	Carrying Amount	Level 1	Level 2	Total
Placement and balances with banks	8	113,703,073	-	113,703,073	113,703,073
Treasury bills	9	187,826,686	-	188,104,036	188,104,036
Investment securities available-for-sale	10	101,714,745	85,936,698	15,778,047	101,714,745
Investment securities held-to-maturity	11	275,915,418	-	277,321,670	277,321,670
Loans and advances to banks	12	68,810,445	-	68,810,445	68,810,445
Loans and advances to customers	13	551,045,870	-	551,045,870	551,045,870
Total financial assets		**1,299,016,237**	**85,936,698**	**1,214,763,141**	**1,300,699,839**
Customer deposits	17	1,309,651,520	-	1,309,651,520	1,309,651,520
Due to banks and financial institutions	18	62,398,988	-	62,398,988	62,398,988
Total financial liabilities		**1,372,050,508**	**-**	**1,372,050,508**	**1,372,050,508**

The fair value of foreign exchange contracts approximates their carrying amount, which is disclosed in Notes 16 and 21.

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 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
Treasury bills and other eligible bills	209,153,101	187,826,686
Due from other banks	213,298,608	182,513,518
Loans and advances to customers (net)	778,063,334	551,045,870
Investment securities - available for sale	143,171,647	101,714,745
Investment securities - held to maturity	288,885,306	275,915,418
Financial guarantees	58,924,699	21,083,914
Standby letters of credit	3,536,807	6,992,020
Commitments to extend credit	39,460,685	30,704,665
Maximum exposures to credit risk	**1,734,494,187**	**1,357,796,836**

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

In 2010, the Bank 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 2011	**Retail**	**Corporate**	**Advances**	**Total**
Neither past due nor impaired	165,438,301	453,215,767	2,133,045	620,787,113
Past due and individually tested but not impaired	47,683,427	104,507,559	47,918	152,238,904
Individually impaired	9,099,522	8,395,490	2,692,711	20,187,723
Total Loans, Gross (Note 13)	**222,221,250**	**566,118,816**	**4,873,674**	**793,213,740**
Allowance for impairment	(5,696,566)	(6,819,056)	(2,634,784)	(15,150,406)
Total Loans, Net of impairment	**216,524,684**	**559,299,760**	**2,238,890**	**778,063,334**

	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 and individually tested but not impaired	34,583,520	78,076,301	17,347	112,677,168
Individually impaired	9,433,726	6,220,194	2,572,915	18,226,835
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**

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 2011**	**31 December 2010**
A – Good	33,373,509	3,849,357
B – Acceptable	427,194,317	293,494,511
C – Close Monitoring	82,488,158	52,492,209
D – Unacceptable	19,269,617	21,642,890
(Note 13)	**562,325,601**	**371,478,967**
Accrued interest	5,815,772	6,125,362
Less: unamortized deferred fee income	(2,022,557)	(1,135,491)
Total	**566,118,816**	**376,468,838**

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

	Loans and advances to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
31 December 2011	1,622,719	23,312,407	136,418	25,071,544
31 December 2010	701,253	18,333,581	141,353	19,176,187

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 2011	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	12,017,263	37,816,346	712,594	50,546,203
Past due 32-60 days	7,037,730	6,335,829	356,239	13,729,798
Past due 61-90 days	5,766,606	7,168,258	208,441	13,143,305
Past due 91-180 days	3,310,821	7,569,019	198,185	11,078,025
Past due 181 days- 365 days	3,824,761	3,398,118	111,005	7,333,884
Past due 1-2 years	3,076,627	14,383,213	112,074	17,571,914
Past due over 2 years	2,201,673	6,744,916	41,113	8,987,702
Total	**37,235,481**	**83,415,699**	**1,739,651**	**122,390,831**

	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**

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 2011	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial Property	642,404,007	967,216,087	1,609,620,094
Financial assets	13,634,479	172,161,074	185,795,553
Other	40,414,059	193,463,865	233,877,924
Total	**696,452,545**	**1,332,841,026**	**2,029,293,571**

	Loans and advances to customers		
31 December 2010	**Retail**	**Corporate**	**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**

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

31 December 2011	**Treasury Bills**	**Due from other banks**	**Available for sale portfolio**	**Held to maturity portfolio**	**Total**
Good	209,153,101	213,298,608	143,171,647	288,885,306	854,508,662
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**209,153,101**	**213,298,608**	**143,171,647**	**288,885,306**	**854,508,662**

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**

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	**31 December 2011**	**31 December 2010**
Government bonds and treasury bills	9,10,11		
Rated A2		14,028,153	14,711,110
Rated Baa3 to Baa1		-	18,146,194
Rated Ba3 to Ba1		17,680,033	14,277,190
Rated B1		487,625,455	423,446,040
Corporate bonds	10,11		
Rated Baa1		-	17,848,389
Rated Ba3 to Ba2		18,054,088	13,144,154
Rated B3		12,893,836	12,768,893
Not rated		10,708,324	-
Bank bonds	10,11		
Rated Baa3		7,657,796	-
Rated Ba2 to Ba1		23,169,450	10,779,511
Rated Ba3		43,371,628	37,303,501
Rated B1		6,021,291	3,031,867
Total		**641,210,054**	**565,456,849**

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 as at 31 December 2011 and 2010 is shown below:

	Note	**Loans and advances to customers**		**Loans and advances to banks**		**Investment debt securities**	
		2011	**2010**	**2011**	**2010**	**2011**	**2010**
Carrying amount	9-11,12,13	778,063,334	551,045,870	98,888,938	68,810,445	641,210,054	565,456,849
Concentration by sector							
Corporate		557,931,318	371,022,237	-	-	41,656,248	43,761,436
Government		1,368,442	816,887	-	-	519,333,641	470,580,534
Banks		-	-	98,888,938	68,810,445	80,220,165	51,114,879
Retail		218,763,574	179,206,746	-	-	-	-
Total		**778,063,334**	**551,045,870**	**98,888,938**	**68,810,445**	**641,210,054**	**565,456,849**

Concentration by location	Note	**Loans and advances to customers**		**Loans and advances to banks**		**Investment debt securities**	
		2011	**2010**	**2011**	**2010**	**2011**	**2010**
Albania		503,515,496	389,644,225	-	-	487,625,455	423,446,040
Kosovo		143,954,491	90,873,488	-	-	-	-
Europe		92,190,175	70,528,157	98,888,938	56,935,264	149,142,814	142,010,809
Asia		-	-	-	11,875,181	4,441,785	-
Middle East and Africa		38,403,172	-	-	-	-	-
Total	9-11,12,13	**778,063,334**	**551,045,870**	**98,888,938**	**68,810,445**	**641,210,054**	**565,456,849**

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 2011. 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 2011, the Bank's assets, liabilities and shareholder's 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	190,597,582	-	-	-	-	190,597,582
Placement and balances with banks	104,940,957	2,802,676	6,666,037	-	-	114,409,670
Treasury bills	31,028,723	48,112,281	130,012,097	-	-	209,153,101
Investment securities available-for-sale	2,839,578	6,770,903	26,040,438	96,931,360	10,589,368	143,171,647
Investment securities held-to-maturity	9,441,825	34,629,788	100,817,304	143,996,389	-	288,885,306
Loans and advances to banks	466,845	17,021,039	67,117,271	14,283,783	-	98,888,938
Loans and advances to customers	39,266,021	30,103,798	214,216,196	350,905,367	143,571,952	778,063,334
Property and equipment	-	-	-	6,322,642	12,400,016	18,722,658
Intangible assets	-	-	-	1,699,447	-	1,699,447
Other assets	4,630,248	-	16,466,914	-	-	21,097,162
Total assets	**383,211,779**	**139,440,485**	**561,336,257**	**614,138,988**	**166,561,336**	**1,864,688,845**
Liabilities and shareholder's equity						
Customer deposits	468,302,683	250,592,475	781,650,186	73,527,786	7,229,906	1,581,303,036
Due to banks and financial institutions	94,631,236	10,398,402		20,670,262	5,167,565	130,867,465
Due to third parties	3,018,872	-	-	-	-	3,018,872
Deferred tax liabilities	-	-	-	2,374,663	-	2,374,663
Accruals and other liabilities	7,681,890	-	-	-	1,278,406	8,960,296
Shareholder's equity	-	-	-	-	138,164,513	138,164,513
Total liabilities and shareholder's equity	**573,634,681**	**260,990,877**	**781,650,186**	**96,572,711**	**151,840,390**	**1,864,688,845**
Net Position	**(190,422,902)**	**(121,550,392)**	**(220,313,929)**	**517,566,277**	**14,720,946**	**-**
Cumulative Net Position	**(190,422,902)**	**(311,973,294)**	**(532,287,223)**	**(14,720,946)**	**-**	**-**

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 2010, the Bank's assets, liabilities and shareholder's 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 customers	-	20,133,160	30,092,312	18,584,973	-	68,810,445
Loans and advances to banks	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
Other assets	3,207,420	-	5,206,635	-	-	8,414,055
Total assets	**330,888,966**	**91,367,373**	**336,302,543**	**606,090,463**	**138,252,201**	**1,502,901,546**
Liabilities and shareholder's 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
Shareholder's equity	-	-	-	-	118,669,847	118,669,847
Total liabilities and shareholder's 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)**	**-**	**-**

5. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

One of the key ratios used by the Bank for managing liquidity risk, which is required by Bank of Albania (BoA) at the same time, is the ratio of total liquid assets to total short-term liabilities on a daily basis. Based on the regulation No.71 dated 14.10.2009 "Liquidity risk management policy" amended with decision No. 75 dated 26.10.2011 this ratio should be at a minimum of 25% (2010: 20%).

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

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

	31 December 2011	***31 December 2010***
Liquid Assets/Short Term Liabilities Ratio	26.88%	23.74%

(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 shareholder's equity by currency as at 31 December 2011 and 2010 in accordance with the Bank of Albania foreign currency disclosure requirements:

31 December 2011	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets					
Cash and balances with Central Bank	93,853,370	13,912,028	81,853,587	978,597	190,597,582
Placements and balances with banks	281,478	32,482,342	63,382,287	18,263,563	114,409,670
Treasury bills	209,153,101	-	-	-	209,153,101
Investment securities available-for-sale	64,601,819	22,904,528	44,956,976	10,708,324	143,171,647
Investment securities held-to-maturity	201,557,701	35,810,810	51,516,795	-	288,885,306
Loans and advances to banks	-	17,020,420	81,868,518	-	98,888,938
Loans and advances to customers	282,584,454	124,924,049	368,481,301	2,073,530	778,063,334
Property and equipment	12,780,696	-	5,941,962	-	18,722,658
Intangible assets	1,699,447	-	-	-	1,699,447
Other assets	8,912,441	957,382	3,391,049	7,836,290	21,097,162
Total assets	**875,424,507**	**248,011,559**	**701,392,475**	**39,860,304**	**1,864,688,845**
Foreign exchange contracts	**644,411**	**6,790,269**	**23,802,171**	**16,379,265**	**47,616,116**
Liabilities and shareholder's equity					
Customer deposits	770,613,092	118,726,911	673,297,825	18,665,208	1,581,303,036
Due to banks and financial institutions	91,003,910	1,024,597	34,212,738	4,626,220	130,867,465
Due to third parties	3,018,872	-	-	-	3,018,872
Deferred tax liabilities	2,374,663	-	-	-	2,374,663
Accruals and other liabilities	2,983,335	3,871,393	1,773,338	332,230	8,960,296
Shareholder's equity	38,164,513	100,000,000	-	-	138,164,513
Total liabilities and shareholder's equity	**908,158,385**	**223,622,901**	**709,283,901**	**23,623,658**	**1,864,688,845**
Foreign exchange contracts	**4,652,176**	**3,668,024**	**18,472,374**	**20,823,542**	**47,616,116**
Net position (GAP)	(36,741,643)	27,510,903	(2,561,629)	11,792,369	-
Cumulative net position	(36,741,643)	(9,230,740)	(11,792,369)	-	-
Total assets / Total liabilities and equity	95.96%	112.19%	99.65%	126.53%	100.00%
GAP / FX denominated assets		0.11	(0.004)	0.2097	-
Sensitivity analysis					
Lek depreciates by 10%		2,515,958	(773,054)	1,072,034	2,814,938
Lek depreciates by 5%		1,317,883	(404,933)	561,541	1,474,491
Lek appreciates by 5%		(1,456,607)	447,557	(620,651)	(1,629,701)
Lek appreciates by 10%		(3,075,060)	944,843	(1,310,263)	(3,440,480)

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 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
Other assets	6,325,741	407,759	1,680,139	416	8,414,055
Total assets	**728,262,445**	**193,491,589**	**561,321,019**	**19,826,493**	**1,502,901,546**
Foreign exchange contracts	1,688,341	6,590,103	533,731	2,616,642	11,428,817
Liabilities and shareholder's 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
Shareholder's equity	34,047,647	84,622,200	-	-	118,669,847
Total liabilities and shareholder's equity	**764,688,314**	**176,826,704**	**544,923,567**	**16,462,961**	**1,502,901,546**
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	95.40%	111.57%	102.58%	101.56%	100.00%
GAP / FX denominated assets and equity		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)

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 2011 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	3.33%	N/A	N/A
Placement and balances with banks	5.00%	0.24%	0.76%
Treasury bills	7.30%	N/A	N/A
Investment securities	8.86%	6.31%	7.51%
Loans and advances to banks	N/A	4.72%	2.80%
Loans and advances to customers	9.97%	6.95%	8.93%
Liabilities			
Customer deposits	4.84%	1.92%	2.53%
Due to banks and financial institutions	4.90%	0.60%	3.31%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2010 were 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	N/A	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%

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 2011 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	190,597,582	-	-	-	-	190,597,582
Placement and balances with banks	104,940,957	2,802,676	6,666,037	-	-	114,409,670
Treasury bills	31,028,723	48,112,281	130,012,097	-	-	209,153,101
Investment securities available-for-sale	2,680,739	18,629,489	47,038,986	63,737,694	11,084,739	143,171,647
Investment securities held-to-maturity	8,951,878	63,549,723	171,299,986	45,083,719	-	288,885,306
Loans and advances to banks	36,545,216	41,566,975	20,776,747	-	-	98,888,938
Loans and advances to customers	461,102,494	25,268,253	211,596,409	71,531,239	8,564,939	778,063,334
Total	**835,847,589**	**199,929,397**	**587,390,262**	**180,352,652**	**19,649,678**	**1,823,169,578**
Liabilities						
Customer deposits	468,302,683	250,592,475	781,650,186	73,527,786	7,229,906	1,581,303,036
Due to banks and financial institutions	94,631,236	36,236,229	-	-	-	130,867,465
Total	**562,933,919**	**286,828,704**	**781,650,186**	**73,527,786**	**7,229,906**	**1,712,170,501**

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 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	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)

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 2011	*31 December 2010*
Interest rate increases by 2%	989,125	(1,256,161)
Interest rate increases by 1.5%	741,844	(942,120)
Interest rate increases by 1%	494,562	(628,080)
Interest rate decreases by 1%	(494,562)	628,080
Interest rate decreases by 1.5%	(741,844)	942,120
Interest rate decreases by 2%	(989,125)	1,256,161

(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 shareholder's 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 12.93% as at 31 December 2011.

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

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

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

6. Segmental reporting

As at 31 December 2011, the Bank's geographical segments are as follows:

	Albania	Kosovo	Consolidated
Assets			
Cash and balances with Central Bank	174,349,181	16,248,401	190,597,582
Placement and balances with banks	114,284,503	125,167	114,409,670
Treasury bills	209,153,101	-	209,153,101
Investment securities available-for-sale	143,171,647	-	143,171,647
Investment securities held-to-maturity	278,013,396	10,871,910	288,885,306
Loans and advances to banks	98,888,938	-	98,888,938
Loans and advances to customers	634,108,843	143,954,491	778,063,334
Property and equipment	12,780,681	5,941,977	18,722,658
Intangible assets	1,699,447	-	1,699,447
Other assets	50,356,422	(29,259,260)*	21,097,162
Total assets	**1,716,806,159**	**147,882,686**	**1,864,688,845**
Liabilities and shareholder's equity			
Liabilities			
Customer deposits	1,452,659,123	128,643,913	1,581,303,036
Due to banks and financial institutions	123,275,451	7,592,014	130,867,465
Due to third parties	3,018,872	-	3,018,872
Deferred tax liabilities	2,374,663	-	2,374,663
Accruals and other liabilities	8,838,970	121,326	8,960,296
Total liabilities	**1,590,167,079**	**136,357,253**	**1,726,524,332**
Shareholder's equity			
Share capital			100,000,000
Translation reserve			(2,748,295)
Fair value reserve			(7,222,165)
Retained earnings			48,134,973
Total shareholder's equity			**138,164,513**
Total liabilities and shareholder's equity			**1,864,688,845**

***** Included within the USD 29,259,260 credit for Kosovo 'Other assets' is an amount of USD 30,041,917, which represents intra-group balances between the Head Office and Branches in Albania and Kosovo Branch as at 31 December 2011, and has been eliminated on consolidation.

6. Segmental reporting (continued)

For the year ended 31 December 2011, the Bank's geographical segments are as follows:

	Albania	**Kosovo**	**Consolidated**
Interest			
Interest income	108,739,561	14,795,646	123,535,207
Interest expense	(52,979,556)	(4,658,984)*	(57,638,540)
Net interest margin	**55,760,005**	**10,136,662**	**65,896,667**
Non-interest income, net			
Fees and commissions, net	6,612,900	1,169,734	7,782,634
Foreign exchange revaluation gain, net	729,325	20	729,345
Profit from FX trading activities, net	695,968	(4,755)	691,213
Other income, net	(374,443)	140	(374,303)
Total non-interest income, net	**7,663,750**	**1,165,139**	**8,828,889**
Operating expenses			
Personnel	(11,731,855)	(2,977,452)	(14,709,307)
Administrative	(14,710,405)	(3,737,293)	(18,447,698)
Depreciation and amortization	(3,521,135)	(1,021,391)	(4,542,526)
Total operating expenses	**(29,963,395)**	**(7,736,136)**	**(37,699,531)**
Impairment of loans	(2,567,782)	(1,514,827)	(4,082,609)
Profit before taxes	**30,892,578**	**2,050,838**	**32,943,416**
Income tax	(3,528,782)	-	(3,528,782)
Net profit for the year	**27,363,796**	**2,050,838**	**29,414,634**

***** Included within the USD 4,658,984 for Kosovo 'Interest expense' is an amount of USD 1,507,933, which represents the interest paid from Kosovo Branch for borrowings from Head Office and Branches in Albania during 2011, and has been eliminated on consolidation.

6. Segmental reporting (continued)

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
Other assets	57,691,476	(49,277,421)*	8,414,055
Total assets	**1,431,099,629**	**71,801,917**	**1,502,901,546**
Liabilities and shareholder's 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**
Shareholder's equity			
Share capital			84,622,200
Translation reserve			(34,349)
Fair value reserve			342,874
Retained earnings			33,739,122
Total shareholder's equity			**118,669,847**
Total liabilities and shareholder's 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 (expense)/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**

7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2011 and 2010 are detailed as follows:

	31 December 2011	31 December 2010
Cash on hand	29,650,064	27,622,365
Deposits with the Central Bank of Kosovo	11,758,873	12,347,908
Bank of Albania		
Current account	13,964,440	22,308,665
Statutory reserve	135,184,827	115,049,860
Accrued interest	39,378	56,268
	149,188,645	137,414,793
	190,597,582	**177,385,066**

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 2011 and 2010 are presented as follows:

	31 December 2011	31 December 2010
Cash and balances with Central Bank	190,597,582	177,385,066
Statutory reserve in Albania	(135,184,827)	(115,049,860)
Statutory reserve in Kosovo	(12,076,601)	(4,252,500)
Current accounts with banks	10,531,016	2,516,910
Accrued interest with banks	62,664	593,412
Placements with maturities of 3 months or less	93,194,730	80,159,776
	147,124,564	**141,352,804**

8. Placements and balances with banks

Placements and balances with banks as at 31 December 2011 and 31 December 2010 consisted as follows:

	31 December 2011	31 December 2010
Placements	101,824,901	109,580,786
Cash collateral held by financial institutions	1,991,089	1,011,965
Current accounts	10,531,016	2,516,910
Accrued interest	62,664	593,412
	114,409,670	**113,703,073**

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

Cash collateral represents mostly collateral held by financial institutions in relation with some margin trading accounts or by the correspondent banks against letters of credit issued to the Bank's clients and cash deposits, which secure risks that are related to the credit cards activity of the Bank.

9. Treasury bills

Treasury bills denominated in Lek earn interest at rates ranging from 6.78% p.a. to 8.74% p.a. (2010: from 6.70% p.a. to 9.93% p.a.) on a compound basis and are all denominated in Lek.

Treasury bills portfolio is composed as follows:

	31 December 2011	31 December 2010
Treasury bills available-for-sale	169,380,237	94,658,443
Treasury bills held-to-maturity	39,772,864	93,168,243
	209,153,101	**187,826,686**

Treasury bills available-for-sale

Treasury bills available-for-sale by original maturity as at 31 December 2011 and 31 December 2010 are presented as follows:

	31 December 2011			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair Value
6 months	109,736	2,052	327	112,115
12 months	163,018,020	5,603,703	646,399	169,268,122
	163,127,756	**5,605,755**	**646,726**	**169,380,237**

	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**

Treasury bills held-to-maturity

Treasury bills held-to-maturity by original maturity as at 31 December 2011 and 31 December 2010 are presented as follows:

	31 December 2011			**31 December 2010**		
	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	37,406,651	2,366,213	39,772,864	82,767,990	2,854,522	85,622,512
	37,406,651	**2,366,213**	**39,772,864**	**90,170,525**	**2,997,718**	**93,168,243**

10. Investment securities available-for-sale

Investment securities available-for-sale as at 31 December 2011 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
Lek Denominated Bonds	63,214,618	(131)	1,296,439	90,893	64,601,819
USD Denominated Bonds	22,881,000	(61,028)	527,857	(443,301)	22,904,528
EUR Denominated Bonds	46,293,430	(150,004)	1,650,535	(2,836,984)	44,956,977
TRY Denominated Equities	21,636,577	-	-	(10,928,254)	10,708,323
	154,025,625	**(211,163)**	**3,474,831**	**(14,117,646)**	**143,171,647**

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**

11. Investment securities held-to-maturity

Investment securities held-to-maturity as at 31 December 2011 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek Denominated Bonds	197,295,103	12,679	4,249,919	201,557,701
USD Denominated Bonds	35,377,230	(13,123)	446,703	35,810,810
EUR Denominated Bonds	50,750,413	(221,248)	987,630	51,516,795
	283,422,746	**(221,692)**	**5,684,252**	**288,885,306**

As at 31 December 2011, an Irish Bond denominated in EUR and amounting to USD 10.9 million (2010: USD 11.3 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 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**

12. Loans and advances to banks

The Bank has purchased the syndicated loans of some non-resident banks as at 31 December 2011, with ratings as follows:

Moody's or equivalent	31 December 2011	31 December 2010
Rated Baa3	29,966,834	6,709,792
Rated Ba2	14,569,395	25,335,959
Rated Ba3	49,301,311	32,225,452
Rated B1	5,051,398	4,539,242
	98,888,938	**68,810,445**

13. Loans and advances to customers

Loans and advances to customers consisted of the following:

	31 December 2011	31 December 2010
Loans and advances to customers, gross	789,716,542	557,887,662
Accrued interest	7,570,711	7,721,956
Less allowances for impairment on loans and advances	(15,150,406)	(11,706,364)
Less unamortized deferred fee income	(4,073,513)	(2,857,384)
	778,063,334	**551,045,870**

Movements in the allowance for impairment on loans and advances:

	2011	2010
At 1 January	11,706,364	10,923,741
Impairment charge for the year	4,082,609	1,643,974
Translation difference	(638,567)	(861,351)
At the end of the year	**15,150,406**	**11,706,364**

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

Loans in Lek	0.50% to 21.79%
Loans in Euro	0.50% to 22.00%
Loans in USD	1.73% to 13.00%
Loans in CHF	4.72% to 5.52%

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

13. Loans and advances to customers (continued)

The classification of business loans by industry is as follows:

	31 December 2011		31 December 2010	
	USD	**%**	**USD**	**%**
Wholesale Trade	126,626,413	23%	86,683,400	23%
Construction	77,796,299	14%	64,718,374	17%
Mining and Quarrying	47,141,018	8%	711,404	-
Electricity, Gas and Water Supply	42,908,076	8%	344,738	-
Manufacturing of Other Non-metallic Products	40,045,812	7%	14,737,963	4%
Retail Trade	35,569,117	6%	33,846,496	9%
Manufacture of Food Products, Beverages	23,312,787	4%	16,382,375	4%
Manufacture of Textile and Textile Products	21,473,937	4%	30,287,255	8%
Real Estate, Renting and Business Activity	20,957,945	4%	1,850,574	1%
Hotels and Restaurants	19,864,410	4%	19,157,757	5%
Other Community, Social and Personal Activities	18,285,440	3%	10,573,780	3%
Education	16,406,427	3%	9,576,536	3%
Manufacturing of Basic Metals and Fabricated Metal Products	12,568,684	2%	14,553,213	4%
Financial Intermediation	10,417,038	2%	6,770,345	2%
Personal Needs	10,277,746	2%	10,215,597	3%
Health and Social Work	8,570,714	1%	9,525,959	2%
Manufacture of Wood and Wood Products	6,300,911	1%	5,682,307	1%
Manufacture of Rubber and Plastic Products	5,951,643	1%	6,556,573	2%
Other Sectors	17,851,184	3%	29,304,321	9%
	562,325,601	**100%**	**371,478,967**	**100%**

The classification of retail loans by type is as follows:

	31 December 2011		31 December 2010	
	USD	**%**	**USD**	**%**
Home purchase	140,320,256	62%	110,461,800	59%
Home improvement	26,046,804	11%	25,147,525	13%
Super Loan	14,709,270	6%	10,540,529	6%
Shop purchase	13,736,291	6%	11,501,411	6%
Home reconstruction	10,491,489	5%	11,079,885	6%
Overdraft and credit cards	7,663,754	3%	5,335,460	3%
Home advances	4,823,668	2%	5,938,280	3%
Technical equipment	1,017,344	1%	1,013,130	1%
Car purchase	707,783	1%	439,851	1%
Other types	7,874,282	3%	4,950,824	2%
	227,390,941	**100%**	**186,408,695**	**100%**

14. Property and equipment

Property and equipment as at 31 December 2011 and 2010 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 2010	**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**
Additions	3,039,086	547,910	2,543,380	200,655	**6,331,031**
Disposals / transfers	-	(20,188)	(216,020)	-	**(236,208)**
Translation difference	(560,595)	(142,360)	(353,607)	(42,989)	**(1,099,551)**
At 31 December 2011	**19,562,914**	**4,745,477**	**12,773,406**	**1,472,138**	**38,553,935**
Accumulated depreciation					
At 1 January 2010	**(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)**
Charge for the year	(946,228)	(658,864)	(1,958,092)	(190,662)	**(3,753,846)**
Disposals / write offs	-	13,796	198,131	-	**211,927**
Translation difference	271,888	128,751	353,386	39,830	**793,855**
At 31 December 2011	**(7,175,549)**	**(3,348,831)**	**(8,302,696)**	**(1,004,201)**	**(19,831,277)**
Net book value					
At 1 January 2010	**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**
At 31 December 2011	**12,387,365**	**1,396,646**	**4,470,710**	**467,937**	**18,722,658**

As at 31 December 2011 the gross value of the assets which were fully depreciated was USD 8,040,881 (2010: USD 6,504,382).

15. Intangible assets

Intangible assets as at 31 December 2011 and 2010 are composed as follows:

	Software
Gross value	
At 1 January 2010	**4,085,252**
Additions	854,211
Translation difference	(321,713)
At 31 December 2010	**4,617,750**
Additions	881,776
Translation difference	(152,007)
At 31 December 2011	**5,347,519**
Accumulated depreciation	
At 1 January 2010	**(2,566,877)**
Charge for the year	(643,014)
Translation difference	202,879
At 31 December 2010	**(3,007,012)**
Charge for the year	(788,680)
Translation difference	147,620
At 31 December 2011	**(3,648,072)**
Net book value	
At 1 January 2010	**1,518,375**
At 31 December 2010	**1,610,738**
At 31 December 2011	**1,699,447**

Software represents mainly the upgraded Bank's operating and accounting system, and the license and software for providing internet and mobile banking services. In 2011, the Bank purchased new modules and started the implementation of software upgrade, which is expected to finish in June 2012.

16. Other assets

Other assets, net as at 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
Assets acquired through legal process	8,630,760	5,206,635
Cheques receivable	7,836,154	-
Administration costs receivable from borrowers	1,563,898	1,609,475
Prepaid expenses	1,039,670	793,150
Cheques for collection and payments in transit	846,720	407,095
Advances to suppliers	886,303	125,694
Spot transactions revaluation gain	189,301	195,744
Other debtors	104,356	76,262
	21,097,162	**8,414,055**

Assets acquired through legal process represent the collateral values of some unrecoverable loans, 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.

Cheques receivable represents cheques that will be settled from May to September in 2012.

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

17. Customer deposits

Customer deposits as at 31 December 2011 and 2010 are composed as follows:

	31 December 2011	31 December 2010
Current accounts:		
Individuals	71,260,794	64,418,208
Private enterprises	101,960,463	94,958,433
State owned entities	22,182,589	26,905,675
	195,403,846	**186,282,316**
Deposits:		
Individuals	1,242,297,039	1,028,570,285
Private enterprises	94,178,122	51,286,369
State owned entities	31,120,522	27,713,567
	1,367,595,683	**1,107,570,221**
Other customer accounts:		
Individuals	1,707,354	5,460,759
Private enterprises	15,720,103	9,308,376
State owned entities	876,050	1,029,848
	18,303,507	**15,798,983**
	1,581,303,036	**1,309,651,520**

17. Customer deposits (continued)

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

	31 December 2011			31 December 2010		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	**99,042,936**	**96,360,910**	**195,403,846**	**109,472,653**	**76,809,663**	**186,282,316**
Deposits						
On demand	55,494	27,403,571	**27,459,065**	373,817	16,526,769	**16,900,586**
Up to 39 days	32,137,819	47,905,841	**80,043,660**	33,770,105	43,161,058	**76,931,163**
40-99 days	63,659,097	75,429,407	**139,088,504**	65,456,546	75,826,984	**141,283,530**
100-189 days	102,996,609	106,429,968	**209,426,577**	100,098,258	91,203,509	**191,301,767**
190- 370 days	398,613,039	391,102,303	**789,715,342**	328,981,743	252,977,572	**581,959,315**
Two years and over	52,315,352	46,067,560	**98,382,912**	43,709,933	34,792,809	**78,502,742**
Accrued interest on deposits	16,550,673	6,928,950	**23,479,623**	15,074,575	5,616,543	**20,691,118**
Total deposits	**666,328,083**	**701,267,600**	**1,367,595,683**	**587,464,977**	**520,105,244**	**1,107,570,221**
Other customer accounts	**5,242,073**	**13,061,434**	**18,303,507**	**5,929,593**	**9,869,390**	**15,798,983**
Total customer deposits	**770,613,092**	**810,689,944**	**1,581,303,036**	**702,867,223**	**606,784,297**	**1,309,651,520**

Other customer accounts are composed as follows:

	31 December 2011			31 December 2010		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Deposit guarantees for letters of credit	-	48,124	**48,124**	-	14,075	**14,075**
Escrow accounts	3,262,013	9,855,162	**13,117,175**	4,263,829	7,516,932	**11,780,761**
Bank drafts	-	1,921	**1,921**	-	7,779	**7,779**
Payment orders to be executed	38,955	234,750	**273,705**	55,436	176,945	**232,381**
Other	1,941,105	2,921,477	**4,862,582**	1,610,328	2,153,659	**3,763,987**
	5,242,073	**13,061,434**	**18,303,507**	**5,929,593**	**9,869,390**	**15,798,983**

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

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

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

18. Due to banks and financial institutions

Due to banks as at 31 December 2011 and 2010 consisted as follows:

	31 December 2011	31 December 2010
Treasury bills sold under Repo agreements with Central Bank	88,212,468	21,291,365
Deposits from banks	15,822,504	22,049,379
Current accounts of non resident banks	656,249	231,155
Current accounts of resident banks	67,523	69,882
Borrowing from financial institutions	26,108,721	18,757,207
	130,867,465	**62,398,988**

Deposits from banks as at 31 December 2011 represent some short-term borrowings obtained either from resident or non-resident banks, detailed as follows:

Bank	Currency	Principal	Accrued interest	Total	Maturity Date
Credins Bank	ALL	2,789,660	1,091	2,790,751	05 January 2012
Credit Bank of Albania	USD	905,083	167	905,250	23 January 2012
NLB Prishtina	EUR	645,946	161	646,107	13 January 2012
NLB Prishtina	EUR	3,875,674	465	3,876,139	30 January 2012
Banka Ekonomike SH.A.	EUR	2,971,350	6,686	2,978,036	05 January 2012
Nurol Investment Bank	TRY	4,623,331	2,890	4,626,221	06 January 2012
Total	**USD**	**15,811,044**	**11,460**	**15,822,504**	

Borrowing from financial institutions represents the seven-year loan amount of EUR 20 million outstanding as at 31 December 2011 (2010: EUR 14 million), 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.

19. 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 2011, of USD 3,018,872 (2010: USD 2,151,892) represents the net outstanding amount of payments and collections made by the Bank to and from third parties, on behalf of tax authorities.

20. Deferred tax liabilities

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

	31 December 2011	31 December 2010
Liability at 1 January	(1,731,801)	(736,954)
Expense	(746,149)	(1,053,591)
Exchange differences	103,287	58,744
Liability at the end of the year	**(2,374,663)**	**(1,731,801)**

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

	31 December 2011	31 December 2010
Deferred income on fees on loans	407,351	285,738
Decelerated depreciation	320,147	271,923
Allowance for loan impairment	(2,321,367)	(2,203,402)
Fair value reserve for AFS securities	(780,794)	(86,060)
	(2,374,663)	**(1,731,801)**

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

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

21. Accruals and other liabilities

	31 December 2011	31 December 2010
Creditors	1,846,121	1,855,685
Reserve fund for retiring employees	1,278,406	1,567,221
Bonus payable	1,121,307	1,373,750
Deposit insurance payable	950,882	788,900
Payables to constructors for home loans	922,326	1,026,764
Transit account	915,834	270,312
Due to tax authorities	815,284	582,930
Accrued expenses	733,011	579,852
Social insurance	151,285	132,829
Cash guarantees from suppliers	61,206	62,631
Spot transactions revaluation loss	164,634	56,624
	8,960,296	**8,297,498**

Due to tax authorities includes income tax payable of USD 200,434 (2010: USD 142,794).

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.

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 s.ii.)

Bonus payable represents the accrued yearly performance bonus for the bank’s staff and management, which is expected to be paid within the first quarter of 2012.

Deposit insurance payable relates to the last quarter of 2011 and is payable based on the Law no. 8873 “On the Insurance of Deposits” dated 29 March 2002, which provides insurance coverage to individual depositors against bank failures.

22. Shareholder's equity

Share Capital

At 31 December 2011 the authorised share capital comprised 8,097,166 ordinary shares (2010: 6,852,000). 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, if declared. All shares rank equally with regard to the Bank's residual assets.

Reserves

Legal reserve

As described in Note 1, based on the Shareholder's Decision dated 31 March 2011, the Bank created legal reserves of Lek 398,581 thousand (equivalent of USD 4,024,442). The total legal reserve was used to increase the share capital on 17 August 2011.

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 2011, includes the cumulative non distributed earnings. As described in Note 1, the Bank has used part of its retained earnings amounting to Lek 1,091,989 thousand or USD 11,265,753 to increase its share capital on 17 August 2011.

23. Interest income

Interest income is composed as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Placements with banks and balances with Central Bank	7,352,357	5,303,052
Treasury bills and investment securities	52,172,170	46,718,115
Loans and advances to customers	64,010,680	52,339,178
	123,535,207	**104,360,345**

Interest income can be further detailed as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Available-for-sale financial assets	19,317,214	16,895,015
Held-to-maturity investments	40,207,313	35,126,152
Loans and receivables	64,010,680	52,339,178
	123,535,207	**104,360,345**

Interest income on individually impaired loans for the year ended 31 December 2011 was USD 384,115 (2010: USD 417,874).

24. Interest expense

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

	Year ended 31 December 2011	Year ended 31 December 2010
Due to banks and financial institutions	4,003,633	2,611,155
Customer deposits	53,634,907	47,061,815
	57,638,540	**49,672,970**

25. Fees and commissions, net

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

	Year ended 31 December 2011	Year ended 31 December 2010
Fee and commission income		
Payment services to clients	3,086,230	2,278,301
Inter bank transactions	1,984,245	1,051,327
Lending activity	1,191,863	969,718
Customer accounts' maintenance	799,320	659,205
Electronic banking transactions	799,271	480,186
Cash transactions with clients	247,529	273,073
Other fees and commissions	105,992	73,870
	8,214,450	*5,785,680*
Fee and commission expense		
Inter bank transactions	(257,087)	(198,764)
Customer accounts' maintenance	(93,117)	(93,411)
Payment services to clients	(47,368)	(28,470)
Transactions with clients	(34,244)	(1,038,609)
	(431,816)	*(1,359,254)*
Fees and commissions, net	**7,782,634**	**4,426,426**

26. 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 2011 is USD 4,587,301 (2010: USD 6,212,180).

27. Other expense, net

Other income and expenses are composed as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Other income		
Gain on recovery of lost loans	17,526	31,340
Gain on sale of property and equipment	23,418	21,314
Income from operating lease	35,255	-
Gain on sale of assets acquired through legal process	49,500	-
Reversal of staff pension fund	288,087	393,962
Net income from financial instruments measured at fair value	1,134,651	-
Sundry	62,645	122,891
	1,611,082	*569,507*
Other expense		
Loss on sale or write off of fixed assets	(22,866)	(5,498)
Loss on unrecoverable lost loans	(129,352)	(185,425)
Loss on write off of small inventory	-	(500)
Provision of other debtors	(1,790,193)	(429,874)
Sundry	(42,974)	(245,432)
	(1,985,385)	*(866,729)*
Other expense, net	**(374,303)**	**(297,222)**

28. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Salaries	11,698,149	9,534,787
Social insurance	1,093,595	916,747
Performance bonus	1,030,985	1,071,208
Training	566,943	306,232
Reserve fund for retiring employees	-	257,771
Life insurance	42,656	26,153
Other	276,979	222,158
	14,709,307	**12,335,056**

29. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Deposit insurance expense	4,091,978	3,163,527
Marketing expenses	2,909,837	3,576,440
Telephone, electricity and IT expenses	2,399,139	2,185,056
Lease payments	2,201,552	1,746,996
Repairs and maintenance	1,838,635	1,225,489
Credit/debit cards expenses	1,078,321	875,735
Security and insurance expenses	1,032,946	796,709
Transportation and business related travel	865,116	608,996
Office stationery and supplies	529,002	404,444
Other external services (including external audit fees)	390,541	378,781
Taxes other than tax on profits	283,480	172,232
Representation expenses	232,240	199,786
Sundry	594,911	415,056
	18,447,698	**15,749,247**

30. Income tax

Income tax is comprised of:

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax	2,782,633	1,881,521
Deferred tax expense (note 20)	746,149	1,053,591
	3,528,782	**2,935,112**

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 2011	Year ended 31 December 2010
Profit before taxes	**32,943,416**	**27,938,081**
Computed tax using applicable tax rate of 10%	3,294,342	2,793,808
Non tax deductible expenses	174,466	163,967
Foreign exchange difference	59,974	(22,663)
Income tax	**3,528,782**	**2,935,112**
Effective tax rate	**10.71%**	**10.51%**

31. Related party transactions

Identity of related parties

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank’s sole shareholder is Calik Finansal Hizmetler, which is owned by Calik Holding at 100% as at 31 December 2011. ALBtelecom Sh.a., Eagle Mobile Sh.a., Aktifbank and GAP Pazarlama FZE are controlled by Calik Holding.

31. Related party transactions (continued)

Balances and transactions with related parties

	31 December 2011	31 December 2010
Assets		
Placement and balances with banks:		
Current accounts with Aktifbank	131,977	602,853
Placements with Aktifbank	-	7,168,097
Investment securities available-for-sale:		
Calik Holding	-	1,299,225
Loans and advances to customers:		
GAP Pazarlama FZE	17,996,167	-
Total assets	**18,128,144**	**9,070,175**
Liabilities		
Customer deposits:		
ALBtelecom Sh.a.	759,729	5,288,739
Eagle Mobile Sh.a.	165,832	2,587,800
Other liabilities:		
Payables to Aktifbank	2,751	171,967
Total liabilities	**928,312**	**8,048,506**
Statement of comprehensive income		
Interest income from:		
Aktifbank	61,250	289,810
Calik Holding	54,864	90,683
GAP Pazarlama FZE	764,000	-
Interest expenses for:		
ALBtelecom Sh.a. and Eagle Mobile Sh.a.	(123,761)	(139,993)
Fees and commissions:		
Commissions charged by Aktifbank	(34,084)	(1,031,213)
Commissions from LC-s and LG-s of ALBtelecom Sh.a.	39,434	9,330
Account maintenance fees from ALBtelecom Sh.a. and Eagle Mobile Sh.a.	623	761
Net	**762,326**	**(780,622)**

The deposit with Aktifbank earned interest of 3.5% p.a. and matured on 26 April 2011. At 31 December 2010, the available-for-sale corporate bonds, which were purchased from Calik Holding, had a coupon rate of 8.5%. These bonds were sold on 25 March 2011.

GAP Pazarlama FZE is an international company operating as a wholesale trader and is owned by the Bank’s ultimate shareholder. The loan granted to this company has an original maturity of three years and earns interest of 6.0% p.a.

The Bank has signed an agreement with Aktifbank for consultancy services in relation to lending to companies based in Turkey, under which the Bank paid service commission to Aktifbank. In addition, Aktifbank has offered a guarantee of 10% on the outstanding loans granted to these companies, which at 31 December 2011 is USD 150,721 (31 December 2010: USD 1,667,709).

As at 31 December 2011, the Bank has issued Letters of Guarantee and Letters of Credit of USD 1,725,027 (31 December 2010: USD 1,751,252) to ALBtelecom Sh.a. and has received two guarantees from Aktifbank totalling to USD 345,193 as at 31 December 2011.

31. Related party transactions (continued)

Balances and 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 2011	Year ended 31 December 2010
Directors	106,668	110,000
Executive officers	2,516,922	2,155,063
	2,623,590	**2,265,063**

As at 31 December 2011, the total deposits of directors held with the Bank were USD 1,183,712 (31 December 2010: USD 567,750), while there are no outstanding loans granted to directors (31 December 2010: USD 3,278).

32. Contingencies and commitments

Guarantees and letters of credit

	31 December 2011	31 December 2010
Guarantees in favour of customers	58,924,699	21,083,914
Guarantees received from credit institutions	1,833,620	2,198,269
Letters of credit issued to customers	3,536,807	6,992,020

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 2011	31 December 2010
Undrawn credit commitments	39,460,685	30,704,665
Outstanding cheques of non-resident banks	727,346	394,082
Spot foreign currency contract	47,616,116	11,428,817
Collaterals for loan portfolio	2,029,293,571	1,534,413,816

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 2011.

Lease commitments

Such commitments for the years ended 31 December 2011 and 2010 are composed as follows:

	31 December 2011	31 December 2010
Not later than 1 year	2,124,272	1,853,473
Later than 1 year and not later than 5 years	7,831,062	6,647,060
Later than 5 years	3,581,116	3,484,811
Total	**13,536,450**	**11,985,344**

32. Contingencies and commitments (continued)

Lease commitments (continued)

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2011 with a maximum duration of ten years.

The Bank had 76 rented buildings as at 31 December 2011, in which are included the rented space dedicated to offsite disaster recovery and the 24 buildings rented for units of Kosovo Branch.

The Bank may cancel these leases upon giving three months notice. Therefore, at 31 December 2011, the maximum non-cancellable commitment payable not later than one year is USD 531,068 (2010: USD 463,368).

33. Subsequent events

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