BANKA KOMBETARE TREGTARE

ANNUAL REPORT 2013

CONTENTS

Cherishing its country's historical and cultural values, BKT undertook the restoration of the building occupied by its Korça branch, a venerable structure originally constructed in 1930's. The work on this project was completed in 2013.

OUR VISION CARRIES OUR EXPERIENCE FORWARD TO MANY TOMORROWS…

The roots of Banka Kombëtare Tregtare (BKT) reach back to 1925 and the official establishment of the Bank's Durres branch that year. BKT was formally created in 1993 from the merger of the Albanian Commercial Bank (ACB) and the National Bank of Albania (NBA). It was incorporated as a joint stock company in 1997.

Following its privatization in 2000, BKT embarked upon a period of strong growth and development. In 2006 the Bank was acquired by the Çalık Group, a Turkish conglomerate. With its capital structure greatly bolstered and its competitive advantages and dynamics much enhanced, BKT embarked upon a new round of successful and sustainable growth.

Albania's oldest commercial bank and the country's pioneering financial services provider, BKT has deep-rooted experience, in-depth local knowledge, a solid corporate culture, and a strongly innovative approach backed up by its vision. BKT is the only bank that has been constantly rated with the highest possible credit ratings in Albania.

Operating through a network of 84 branches (60 in Albania and 24 in Kosova), BKT commands an extensive country-wide presence that makes it the biggest Albanian bank in the region.

VISION, MISSION, VALUES

VISION 2015

"We will grow 20% on average and return 25% to our equity. That will bring our market share to 25% in all segments; our total assets to US$ 4 billion; and our equity to US$ 325 million. We will acquire at least one more banking licence in the region and be the number one bank in Albania."

MISSION

"BKT's mission is to provide people with peace of mind, convenience, and possibility in banking.

VISION

We know what you want and we make sure you get it. That simply makes us the first and the best bank.

WORK PRINCIPLES

Teamwork

Accountability

Quality

Efficiency

Open Communication

Customer Focus

VALUES

Integrity

Fairness

People First

Confidentiality

Transparency

Responsibility


BANKOMAT
24
BKT
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BKT IN NUMBERS

FINANCIAL HIGHLIGHTS

Key Indicators (US$ million)	2011	2012	2013	Change % (2012-2013)
Total Assets	1,865	2,337	2,676	14.5
Total Loans	778	854	886	1
Total Deposits	1,581	1,885	2,154	14.3
Equity	138	184	215	16.6
Net Profit	19	31	39	25.8

KEY RATIOS

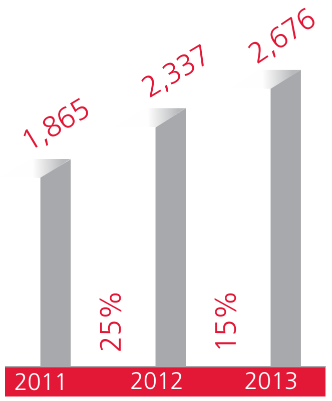
Performance Indicators (%)	2011	2012	2013
Capital Adequacy Ratio	12.93	14.30	14.60
Return on Average Assets	1.11	2.19	1.25
Return on Equity	16.43	33.39	16.64

SHAREHOLDING STRUCTURE

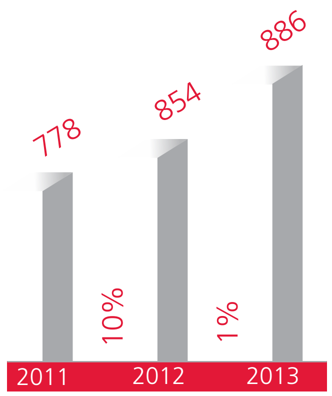
Çalık Finansal Hizmetler, a subsidiary of Turkey’s Çalık Holding, became the sole and full owner of BKT in 2009.

The Shareholding Structure as at 31 December 2012	Number of Shares	Total in US$	%
Çalık Finansal Hizmetler A.Ş.	8,097,166	100,000,000	100

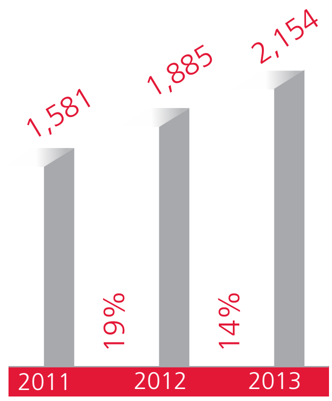
TOTAL ASSETS
(US$ MILLION)



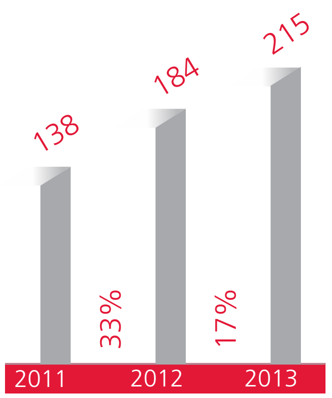
TOTAL LOANS
(US$ MILLION)



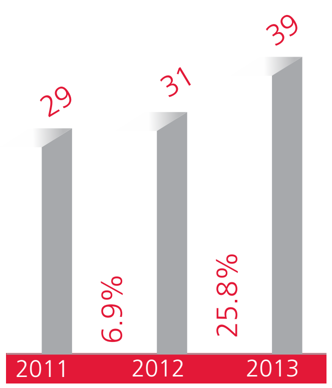
TOTAL DEPOSITS
(US$ MILLION)



EQUITY
(US$ MILLION)

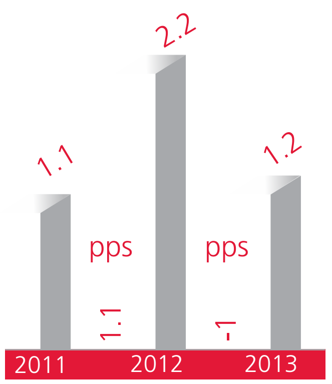


NET PROFIT
(US$ MILLION)

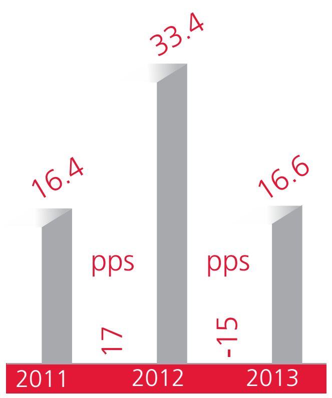


CAPITAL ADEQUACY RATIO
(%)

RETURN ON AVERAGE ASSETS
(%)



RETURN ON EQUITY
(%)



ÇALIK GROUP

Çalık grows through innovative business sense

Established by the initiatives taken by Ahmet Çalık, a member of Çalık family engaging in trade activities since 1930s, Çalık Holding today operates in sectors including energy, telecom, textile, construction, finance and mining.

One of the largest industrial enterprises in Turkey, Çalık Holding employs about 20,000 people in 17 countries. The Group conducts businesses in the Central Asia, Balkans, Middle East and Africa as one of the leading Turkish investors with around 7.5 billion USD annual consolidated asset size.

Achieving consistent growth both in Turkey and other countries of activity since the start of its history, the Group acquired Albtelecom, the Albanian fixed line operator and internet provider in 2007; Yeşilırmak Electricity Distribution Company -YEDAŞ, electricity distributer for 5 provinces in Turkey in 2010; Kosovo Electiricity Distribution Company in 2012; and ARAS EDAŞ, a company operating in 7 provinces in 2013.

Çalık Holding's Energy Group became one of the preferred companies in countries with rich energy reserves such as the Central Asia, Middle East and Africa, and sustained its business portfolio in 2013 thanks to its reliability in the global energy sector and its business mentality differentiating the Group from its competitors. Çalık Enerji positioned itself as the largest EPC Contractor in Georgia with the Gardabani project in 2013 and completed two power plants with a total capacity of 2000-MW in Iraq during the same year. The Company continued the construction of 3 power plants which started in Turkmenistan's Ahal, Lebap, Mari provinces in 2013 and signed a contract for 2 additional power plants in Ahal and Derweze. The Adacami HEPP Project in Rize was also completed in 2013.

Gap İnşaat undertook EPC contract of the "Türkmenbaşı International Sea Port" which is designed as a logistics hub for the route from Asia to Europe including 6 ports and one shipyard with a project value of 1.5 billion USD. Çalık Gayrimenkul, property development and urban renewal Company of Çalık Group, received the first prize for 'Tarlabaşı 360' in "Urban Renewal" category at the "European Property Awards 2013", the most prestigious real estate awards organization in Europe.

ÇALIK HOLDiNG

Recognized for its prestige, reliability and strong financial structure demonstrated by continuous activities across different geographies in the world, Çalık Holding collaborates with many global and powerful companies on an international level.

Delivering operations in line with growth strategies shaped by demonstrated success, Lidya Madencilik, a Çalık Holding Company operating in the mining sector, increased its share from 50 percent to 80 percent in its joint venture with Alacer Gold, Polimetal Madencilik. During the same year, the gold production in the Çöpler Gold Mine, owned by Anagold, an affiliate of Lidya Madencilik, exceeded 270,000 ounces by a 43 percent increase over the previous year.

Carrying out its projects with an innovative and sustainable approach, Aktif Bank established Aktif Bank Sukuk Varlık Kiralama A.Ş. in 2013 for the purpose of issuing lease certificates. Aktif Bank surpassed global giants and was given the first prize for its “Aktif Nokta” project in the “Physical Distribution Channels” category during the event held by the European Financial Management and Marketing Association (EFMA).

BKT, a Çalık Holding Company operating in Albania and Kosovo, was recognized for the third time in the last four years as “The Best Bank” by The Banker, one of the most prestigious magazines on international financial markets.

On the other hand, the Group sold Turkuvaz Media Group as part of its strategy to focus on main fields of business.

Recognized for its prestige, reliability and strong financial structure demonstrated by continuous activities across different geographies in the world, Çalık Holding collaborates with many global and powerful companies on an international level. The Group stands out as a leading and powerful player in its main sectors of focus, and continues to operate in all business fields aligned with its sustainable growth target, with its long-established corporate structure, rich company culture, highly qualified human resource as well as its pioneering initiatives, innovative approaches and accurate strategies.

MILESTONES

Albania's oldest commercial bank and the country's pioneering financial services provider, BKT has deep-rooted experience, in-depth local knowledge, a solid corporate culture, and a strongly innovative approach backed up by its vision.

1925

The inauguration of the Bank's Durrës headquarters on 30 November 1925.

1993

Following the merging of the Albanian Commercial Bank (ACB) and the National Bank of Albania (NBA), BKT assumes its present name.

1997

BKT is established as a Joint Stock Company in July 1997, with assets reaching ALL 2.7 billion.

2000

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

2001

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

2006

60% of the BKT shares are transferred to Çalık-Şeker Konsorsiyum Yatırım A.Ş.

BKT is awarded as "The Bank of the Year in Albania" by The Banker magazine.

2007

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

2009

BKT becomes a 100% subsidiary of the Çalık Group following the acquisition of the remaining shares by Çalık Finansal Hizmetler.

BKT is evaluated as "The Best Bank in South East Europe for 2009".

2010

BKT celebrates the 10th anniversary of privatization.

BKT celebrates the 85th anniversary of its Durrës Branch's establishment.

BKT is awarded as "The Bank of the Year in Albania" by The Banker magazine.

2011

BKT becomes the first Albanian bank to extend credit internationally.

BKT is awarded by The Banker as "The Bank of the Year" for Albania in 2011.

EMEA Finance also cites BKT as "The Best Bank for 2010 in Albania".

BKT signs a line trade financing agreement with the Islamic Trade Finance Corporation (ITFC). Under this agreement, the Bank carries out the first ever murabaha transaction in Albania.

IN 2013, BKT IS AWARDED BY EUROMONEY MAGAZINE AS "THE BEST BANK IN ALBANIA".

2012

BKT is awarded by Euromoney magazine as "The Best Bank in Albania".

EMEA Finance names BKT "Best Bank for 2011 in Albania".

BKT is the recipient of the "2011 Straight-Through-Processing (STP) Excellence Award" from Wells Fargo.

JCR Eurasia Rating reaffirms AAA(Alb) to BKT for the fourth time in a row.

JCR Eurasia Rating assigns an "AA(Alb)/Merit" corporate governance rating to BKT.

BKT launches three new products, the BKT AGRO Loans, specially designed to meet the agricultural sector's financing needs.

An agreement is signed with the Green for Growth Fund for a EUR 15 million subordinated loan that is to be used for financing energy industry projects.

The Albanian branch of the International Chamber of Commerce (ICC) is set up and became operational with BKT's CEO being elected its Chairman.

A shareholder agreement to establish a leasing company that will operate according to Islamic principles is signed with the Islamic Corporation for the Development of the Private Sector and BKT.

2013

BKT is awarded by Euromoney magazine as "The Best Bank in Albania".

The Banker evaluates BKT as "The Best Bank for 2013 In Albania".

EMEA Finance names BKT "Best Bank for 2012 in Albania".

EMEA Finance elects BKT's CEO as "CEO of 2013 in Southeast Europe".

BKT is the recipient of the "2012 Straight-Through-Processing (STP) Excellence Award" from Wells Fargo.

JCR Eurasia Rating reaffirms AAA(Alb) to BKT for the fifth time in a row.

JCR Eurasia Rating assigns an "AA(Alb)/Merit" corporate governance rating to BKT.

BKT launches a new product, Cheque Collateralized Loans, the first and only in the market.

BKT launches Green Loan for Businesses and Individuals, a loan product specially designed for energy-efficiency.

BKT participated in a syndicated loan with a loan limit of EUR7 million part of the total EUR106 million loan package, in which IFC is the leader bank.

BOARD OF DIRECTORS

Mehmet Usta,
Chairman

Mehmet Ertuğrul Gürler,
Vice Chairman

İsmail Hakkı Ergener,
Board Member

İzzet Serhat Demir,
Board Member

Seyhan Pencablıgil,
CEO & Board Member

SENIOR MANAGEMENT

Seyhan Pencablıgil
CEO & Board Member

Abdurrahman Balkız
Operations Group Head

Aydın Argın
Corporate and Commercial Banking Group Head

Kaan Pekin
Treasury & Financial Institutions Group Head

Skënder Emini
Finance & IT Group Head

Ndue Maluta
Risk Management Group Head

Fatih Karlı
Retail Banking Group Head

Natasha Ahmetaj
Network Division Head

İbrahim Yaşar
Internal Audit Group Head

CHAIRMAN'S MESSAGE

ALBANIA'S MOST DEEPLY ROOTED BANK ALSO THE MOST INNOVATIVE BANK AND THE BANK OF "FIRSTS"

Setting itself apart as the only bank in its sector to have raised its profitability and market share every year, BKT has continued to grow robustly under all economic circumstances.

Despite the economic challenges in neighboring countries, Albania has differentiated itself with its internal dynamics. Although economic crisis in Italy and Greece, both home to large Albanian populations of immigrants, has had a significant impact on remittance flows to Albania, the Albanian economy has succeeded in maintaining positive rates of growth.

According to the World Bank's 2013 Investment Report, Albania ranks in 1st place in terms of direct foreign investments drawn, demonstrating an even better performance than economic powers in Southeastern Europe.

Although Turkey does not account for the largest share of the construction business and of the direct investment made in Albania, its share in both has increased more than that of any other country in recent years. Turkey's direct investments in Albania exceeded US$ 1 billion in the first half of 2013, accounting for more than 10% of Albania's direct investment stock.

After the change in government brought about by the 2013 Albanian elections, the new ruling party declared that Turkey, in addition to Italy and Greece, would be a strategic partner due to the contributions of Turkish investors, which have provided such significant capital inflows and increased employment in Albania in the prevailing environment of global crisis.

It is in this rather difficult year that we made into the Albania's most deeply rooted bank also the most innovative bank and the bank of "firsts", raising our market share to 22%. BKT is currently one of Albania's two largest banks with US$ 2.7 billion of total assets and US$ 2.2 billion of deposits. Serving its customers through a total of 84 branches (60 in Albania and 24 in Kosovo), our bank's successful performance is also recognized by international credit rating agencies – BKT remains the highest rated bank in Albania.

In 2013, BKT was again granted the coveted "Albania's Best Bank" award, handed by the three most prestigious international financial publishers – "The Banker", "Euromoney" and "EMEA Finance". Furthermore, our bank's CEO, Seyhan Pencablıgil, was selected as the "CEO of the Year in Southeast Europe" in a reflection of BKT's success in the region. To be given the "Albania's Best Bank" award for a third time in 4 years underlines BKT's significant role and strong capacity in the Albanian banking system as a bank that is the market leader in terms of quality, management and innovative service understanding despite the challenging conditions in the Albanian economy.

Our Bank maintained its corporate governance rating of AA(Alb)/Merit for 2013, which was awarded by JCR, as the first and only institution in Albania to receive such a high rating.

During 2013, in line with our sustainability approach, we approved additional HPP projects and we launched a new loan product "GREEN LOANS" in cooperation with GGF, expanding our renewable energy portfolio.

Within the framework of our CSR policy, we support continuous social and cultural development through our projects, thus investing in the future of the country. We also contribute some events in terms of raising awareness of the importance of the environment and green.

Setting itself apart as the only bank in its sector to have raised its profitability and market share every year, BKT has continued to grow robustly under all economic circumstances. One of our strongest driving forces is our conviction that the Albanian people deserve more and a better quality of everything, including banking.

I would like to take this opportunity to extend my sincerest gratitude to our professional team that has taken BKT a step further, to our primary shareholder for its support, and to our customers who have always believed in our energy and capabilities.

Mehmet Usta
Chairman

CEO MESSAGE

STEADY GROWTH AND PROFITABILITY, EVEN IN TIMES OF DISTRESS

The high profit and profitability also meant that BKT had the largest net profit in the banking system, exceeding the combined net profits of the next two banks.

2013 was the most difficult year in Albania since the global financial crisis took effect in 2007. On top of the general economic slowdown that has paralyzed the region, Albania had the parliamentary elections that resulted in a new government. The pre-electoral uncertainty continued with the post-electoral changes in the administration, and the economy ground to a halt. The economic slowdown was reflected in the figures of the banking system, which grew its total assets by less than four per cent, while the loan book shrank by two per cent. The system's non-performing loans hit an all-time high of 25 per cent.

On the positive side, the elections and the government change went smoothly, and the new government agreed with the IMF, World Bank and EU for long-term financing, the effects of which will be felt in 2014.

BKT had a very successful year, especially when viewed against this background.

We grew our total assets by 15 per cent in 2013 and our net profit was US$39.3 million, corresponding to an increase of 27 per cent from a year before. The shareholders' equity reached US$215 million, which represents a return on equity of 17 per cent. Admittedly, this is lower than our long-term average, but compares very well against our competitors.

The high profit and profitability also meant that BKT had the largest net profit in the banking system, exceeding the combined net profits of the next two banks. Furthermore, we had the lowest non-performing loan ratio in our peer group, with roughly a third of that of the system.

Our steady growth and profitability, even in times of distress, has been recognized by various international awards, and reflected in our market shares that increased in all segments. We now have some 22 per cent of the banking system, ever closer to our 2015 target of 25 per cent.

We expect a gradual recovery in the Albanian economy in 2014, from which BKT is perfectly situated to profit. We have abundant liquidity and capital that will engine the country's economic growth fuelled by its international borrowing. As such, we are planning a balance sheet total in excess of US$3 billion in 2014, and a comprehensive income of US$50 million. That corresponds to a return on equity of 23 per cent and remains achievable, albeit aggressive, thanks to the professional guidance provided by the Board of Directors and the hard work and dedication shown by our staff members, to whom I am grateful.

Seyhan Pencablıgil
CEO & Board Member

2013 AWARDS AND RATINGS

Awards

- BKT was cited for the second year in a row as the "Best Bank In Albania" for 2013 by Euromoney magazine.
- EMEA Finance named BKT "Best Bank for 2012 in Albania". This is the third year in a row that the Bank has been so recognized.
- EMEA Finance awarded Mr. Seyhan Pencabligil, BKT's CEO, as "The CEO of 2012 for Southeast Europe".
- The Banker magazine reaffirms BKT as "The Best Bank In Albania" for 2013.
- BKT was the recipient of the "2012 Straight-Through-Processing (STP) Excellence Award" from Wells Fargo, one of the biggest banks in the US.

Ratings

- In 2013, JCR Eurasia Rating reaffirmed, for the fifth time, BKT's long-term national AAA (Alb) credit rating and "stable" outlook, which denotes the highest investment grade. JCR-ER also reconfirmed BKT's long-term international local currency rating "BB+".
- On the basis of its evaluation of BKT's established corporate governance practices, in 2013 JCR-ER assigned for the second time an "AA(Alb)/Merit" rating to the Bank for its overall compliance with the Albanian Corporate Governance Code and with regulations set by the Albanian Finance Ministry. This is the first such rating ever granted to an Albanian company.

The CEO of 2012 for Southeast Europe by
EMEA FINANCE

The Best Bank in Albania by
THE BANKER

The Best Bank in Albania by
EUROMONEY

The Best Bank in Albania by
EMEA FINANCE

EMEA Finance Awards Ceremony – June 2013

Euromoney Awards Ceremony – July 2013

The Banker Awards Ceremony – November 2013

BKT KOSOVA

BKT Kosova exhibited stable growth throughout 2013. The bank continued to introduce new products and services, and expand its range of offerings to customers by investing in channels which better meet and exceed customer needs.

In 2013, the bank's total assets grew by 14.6% YoY to reach EUR 220 million while its deposits increased by 11% YoY to EUR 196 Million. Total loans amounted to EUR 96 million, with a net profit of EUR 67,000.

Banka Kombetare Tregtare has been recognized in the Kosovar market for its achievements including its innovative products, exemplary individuals, sustainability initiatives and charitable contributions to society.The Bank is determined to further strengthen its identity through sound business practices, social responsibility and strong corporate governance, as well as sustaining its leading position in introducing new products and differentiation in terms of customer satisfaction.

During the year, BKT Kosova also signed a contract with the European Fund Southeast Europe (EFSE) to use a credit limit of EUR10 Million. Through this agreement, BKT will extend further support to the SME and Agro businesses, which will consequently have a significant impact on the rapid development of the Kosovan economy.

BKT Kosova is driven by a strong awareness of corporate and social responsibility, based on a principle "contributing to society". During 2013 the Bank directly or indirectly continued to contribute and support education, sport, arts and culture in Kosovo, as well as various social activities.

The bank is fully dedicated to cultivating the right culture and having in place a sustainable business model that will create long term shareholder value. The main objectives of BKT Kosova are to develop the bank's human resources through ongoing staff training, as well as coaching and development activities that will enable long term growth and career development. The main commitments of BKT Kosova will be to respond to regulation, maintain long-term relationships with clients, provide a wide range of competitive products and a higher standard of services.

The number of employees reached 274 in 2013.

Abdurrahman Balkız
Country Manager

Cenk Arıöz
Deputy Country Manager

Hakan Özat
Audit Group Head

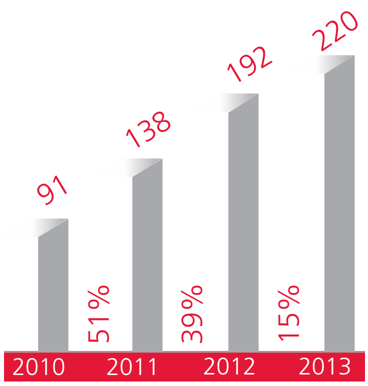
Mete Aytekin
Retail Banking Group Head

Rudin Lleshaj
Operations Group Head

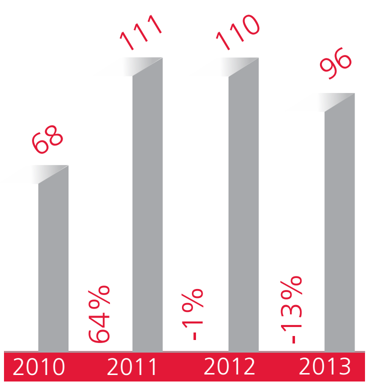
Albion Mulaku
Corporate & Commercial Banking Group Head

BKT KOSOVA IN NUMBERS

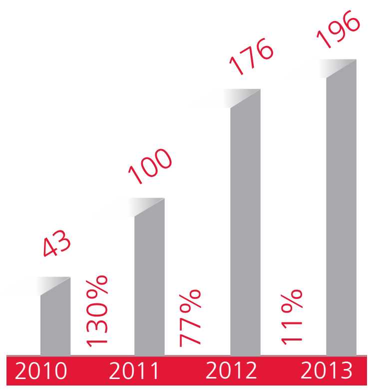
TOTAL ASSETS
(EUR MILLION)



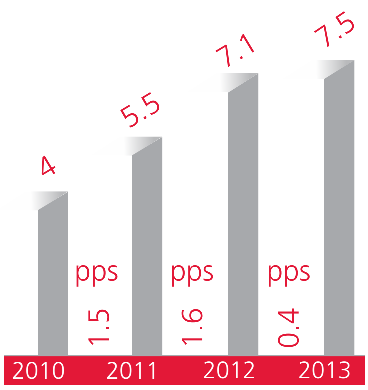
TOTAL LOANS
(EUR MILLION)



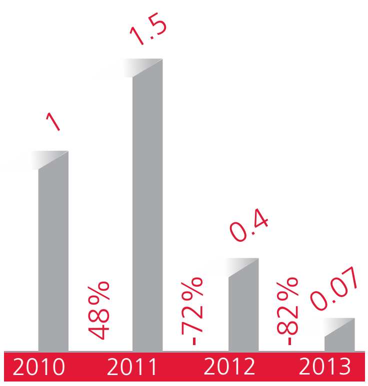
TOTAL DEPOSITS
(EUR MILLION)



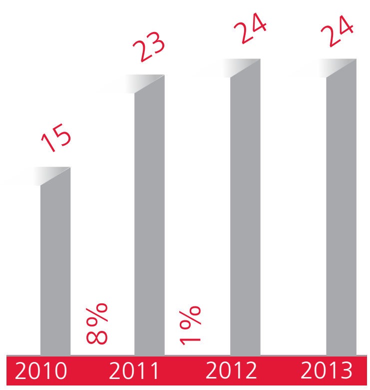
MARKET SHARE IN
TOTAL ASSETS (%)



NET PROFIT
(EUR MILLION)



NUMBER OF BRANCHES



In 2013, the bank's total assets grew by 14.6% YoY to reach EUR 220 million while its deposits increased by 11% YoY to EUR 196 Million. Total loans amounted to EUR 96 million, with a net profit of EUR 67,000.

BKT'S MARKET SHARE IN RETAIL BANKING INCREASED BY 2.7 PERCENTAGE POINTS TO 18% AND REACHED THE LEADER POSITION.

EVALUATION OF 2013 ACTIVITIES

RETAIL BANKING

Maintaining BKT's market leader position in the sector in 2013

Despite a fairly stagnant market environment in 2013, BKT continued to expand its retail loan base, which reached US$253 million with 18% growth over the previous year. In the retail loan segment, BKT's market share increased by 2.7 percentage points to 18% and reached leader position in the first half of the year in Albania. According to consolidated figures including Kosovo, BKT has 21.1% market share and strong leadership position.

The main driver of the growth in retail loans was the aggressive approach, which was supported by new products in Mortgage loans. In 2013, market share of Mortgage loans was 21% (53.5% in only ALL market)

The generation of mortgage Loans, on which a 5% interest rate was charged in the first year and T-Bill + interest margin and 0% interest applied in the last 5 years, provided a competitive advantage in the market. Overdraft loan volumes increased by 23% in parallel to 20% increase in salary payments in 2013 on the back of the increase in customer penetration through cross selling.

Consumer loans also grew with the help of more dynamic marketing and new products. Within the scope of consumer loans, the following products were offered to the market in 2013;

- Credit provided to pensioners who receive their pensions through BKT, on condition that they do not change their bank,
- A Green loan, which provides a 20% interest discount for a certain level of energy savings,
- Top credit to credible mortgage customers based on the same collateral.

CONSUMER LOANS GREW WITH THE HELP OF MORE DYNAMIC MARKETING AND NEW PRODUCTS.

Prima Card is the country's only credit card offering instalments and a loyalty program.

Prima Card again the leader with new features

Prima Card, the country's only installment credit card program in 2013, is the most preferred card flourishing with Prima Extra that gains bonuses and Prima Falas (Free), which provides a lottery offering free shopping to one winner every day.

The number of BKT's credit cards in circulation increased by 61% in 2013 to exceed 23,000 and the volume of credit card transactions grew by 41%. Growth in installment shopping, on the other hand, increased 110%. BKT maintains its market leader position in terms of the credit cards number, number and volume of transactions, with market shares of 35%, 35% and 24% respectively.

A 20.38% share in the number of POS transactions

Work that will enhance efficiency in merchant partner operations was carried out and inactive devices were replaced and effective marketing studies were maintained. BKT reached 1,597 POS terminals, marking 18% growth in 2013. The company increased its market share in terms of number and volume of POS transactions to 20.38% and 13.93% (from 8.48%), respectively.

Merchandising campaign: Pay by Prima Card and get a Coca Cola bottle.

GOOD FOR YOU
GOOD FOR ALBANIA

GREEN LOAN

FOR INDIVIDUALS

You save 20% energy
We waive 20% interest rate

EVALUATION OF 2013 ACTIVITIES

A 33% market share in utility payments

In the utility bill payment business, BKT's boasts the most comprehensive systems in the market that embraces the country's major utility companies. While the total number of utility payment was 31.000 in 2013, payment transaction market share was almost 1/3 of the market.

We have increased channel power in ADCH

BKT gives an increasing degree of importance to channel integration with regard to the presentation of product/services to customers pursuing easy accessibility and pace. Significant steps were taken in 2013 to improve ADCHs in line with this purpose.

The number of active retail customer surpassed 4,187 increasing by 35.41% in 2013 in the Internet Branch, which is accepted as the most functional internet branch of the market. The number of online retail banking subscribers increased by 37% to reach 17,853, with its market share rising to 18%.

A number of innovations were introduced and the type of transactions in this channel increased in 2013, raising the number of active customers. BKT was the first bank to become an intermediary in e-state payments. In addition, e-customs payments can be performed through this channel and digital TV subscriptions can be activated through the cards. BKT also brought innovation in e-commerce in 2013; BKT is currently the only bank to provide bonus and installment facilities through virtual POS systems.

BKT was the first and only bank to apply the "3D Secure" system that increases the security of credit and debit cards in online transactions.

In line with the increased number of corporations included in the top-up payments service in 2013, which are performed over the internet, the number of transactions continued to increase.

BKT, which is ranked 2nd in the sector in terms of its ATM network, expanded its network of ATMs by 3.5% to 89 by the end of 2013. The number and volume of transactions performed in BKT's ATMs increased by 16% and 14.5%, respectively. The Bank currently commands a 17% market share in ATM transactions.

The share of SMSs in ADCH usage has also increased. The number and volume of SMS consumer loans grew by 150% and 15%, respectively.

BKT WAS THE FIRST AND ONLY BANK TO APPLY THE "3D SECURE" SYSTEM.

DESPITE THE REAL DIFFICULTIES AND CONSTRAINS ENCOUNTERED IN THE MARKET, BKT HAS REMAINED THE UNIQUE BANK BRINGING INNOVATION IN PRODUCTS AND SERVICES.

EVALUATION OF 2013 ACTIVITIES

CORPORATE AND COMMERCIAL BANKING

Continued growth despite a difficult conjuncture

Despite the real difficulties and constrains encountered in the market, BKT has remained astute in financing viable and feasible projects in the private sector, corporate customers, HPP projects and SME's in accordance with our lending policies.

The corporate portfolio grew by 3.29% in 2013 to US$365.1 million, with a target realization of 92.97%.

The Commercial Portfolio realized its target at 83.90%. Commercial loan volumes reached US$176.2 million while the public loans have a target realization of 102.9%, an outstanding of US$66.1 million and an overall increase of %2.88.

BKT's market share in corporate-commercial loans was 14.5%, ranking our bank third in the sector .

Focused on reducing the foreign exchange risk in our lending operations and in line with our orientation to loans denominated in the local domestic currency, the weight of the LEK loans in the corporate and commercial loan portfolio, increased from 39.9% in December 2012 to around 43.5% as of the end of 2013.

The flexibility in terms and conditions, synchronization between CC banking groups as well as the cross selling emphasis, has been translated into a 44% and 48% respective increase in the number of Operational Corporate & Commercial customers; 25% and 82% respective increase in the number of private and public companies paying salaries through BKT; and 23% increase in the usage of POS-s as compared to the previous year.

BKT maintained its second ranking in 2013 with a 22% of the market share in terms of non- cash loans, preserving the same position as the previous year but with a portfolio volume exceeding more than twice the nearest competitor.

An array of distinctive new products and services

- The volume of the overdraft facilities offered to corporate and commercial customers increased by 399% to reach a total of US$18.7 million.

- Within the context of Check Collateralized Loan, an innovative product, exclusive of BKT in the Albanian banking sector which discounts postdated checks and breaks new ground in the country, a total of 13 loans, totaling US$2.3 million, were provided.

Informative workshop regarding the cheque usage alternatives.

- The number of companies registered in Business E-banking increased by 257% when compared to December 2012, to reach a total of 888 registered customers, realizing a total of 39,701 transactions throughout the year.

A focus on Project Finance

Funds provided by the Bank's resources and international corporations are channeled into the energy sector and HPP investments through projects for the use of renewable energy resources through the recently restructured Project and Structured Finance Department.

GGF, which finances renewable energy projects, comes to the forefront as one of the most important cooperation in this field.

Additional HPP projects were approved during 2013, bringing the renewable energy portfolio to a total of US$28 million.

The first HPP project to be placed under the GGF RE portfolio scheme fulfilling the eligibility criteria of a proper conducted investment corresponds to a loan of EUR8.4 million.

BKT's first syndication loan

BKT participated in a syndicated loan with a loan limit of EUR7 million part of the total EUR106 million loan package, in which IFC is the leader bank. The funding package will be used to finance the attainment and rehabilitation of four hydroelectric power plants.

New Loan Guarantee Agreement with Municipality of Tirana.

DESPITE THE REAL DIFFICULTIES AND CONSTRAINS ENCOUNTERED IN THE MARKET, BKT HAS REMAINED THE UNIQUE BANK BRINGING INNOVATION IN PRODUCTS AND SERVICES.

BKT MANAGEMENT IN A CLIENT VISIT IN KOSOVA.

EVALUATION OF 2013 ACTIVITIES

A new green product

A new loan product "GREEN LOANS FOR BUSSINES" (GGF) was launched within the framework of the agreement signed by BKT with GGF, with a subordinated Loan of EUR10 million. The Bank has extended loans of EUR830,000 to eleven firms within this context.

SMEs are always our focus

BKT considers supporting SMEs as one of its strategic goals with the cheap resourcing and financing opportunities from abroad.

The Italian SME Loan Program continued in 2013. BKT is the leader in this program with 42 customers (49%) of the 83 customers participating in the program, and EUR7.3 million of disbursements (39.9% of the total EUR18,313,955).

The EFSE Program Loans continued successfully in 2013. A total of EUR20 million was approved by EFSE (the European Fund for Southeast Europe) to BKT in September of 2010. The fund was rotated, reaching total loan disbursement at EUR25 million. As of the end of 2013, the average maturity of the EUR25 million in loans extended to 461 SMEs, was 40 months.

Reaching high volumes in cooperation with Public Corporations

BKT was selected as the partner bank by the Tirana Municipality, and a Loan Guarantee Agreement was signed between BKT and the Tirana Municipality, through which the Bank intends to increase its contribution to the economic development of the City as well as introduce more customers to the Bank. Within this framework, BKT launched two new Loan products with highly preferential interest rates (a fixed 5% rate and a 5.5% rate for LEK denominated loans) and low collateral requirement criteria, where the Municipality will guarantee between 10% and 50 % of the loan amount. So far, 7 cases have been approved under this program with a total of US$115,000 in loans.

BKT was selected as one of three partner banks in the MIDF program (Municipal Infrastructure Development Fund – jointly financed from EBRD & KFW) for the provision of financial services including risk sharing with the MIDF in relation to municipal infrastructure investment projects.

BKT, which provides loans to public corporations and realizes a high volume of transactions with them, also aims to enhance relations with public corporations in the fields of salary payments and public deposits. A total of 555 public corporations channel salary payments through BKT, and accordingly 31 % of total public wages pass through BKT.

Support for agriculture with the BKT AGRO Loan

The agricultural sector has been BKT's focus this year through

- The BKT Agro Loan designed in three segments as the Agro Special Loan, the Agro Support Loan and the Agro Loan.
- Collaboration with the USAID Program within the Guarantee Scheme
- Various sessions and workshops organized with the agribusinesses in different regions.

Through the guarantee program in place with the USAID, a 50% guarantee is provided to agricultural loans for a total loan portfolio up to US$7.5 million In 2013, 36 customers were financed with US$ 968,000 of loans.

E-Sigurimet Project: an Avant-garde project

E-Sigurimet Project was another important project successfully carried out during 2013. The project consists of selling online insurance policies through the BKT interface system and also offering Overdraft limits to Insurance agents, backed by the 50% cash cover of the Insurance Company. BKT, collaborating with all 9 insurance companies operating in the country, holds the exclusivity of the TPL, Green carton & cross border policy sale and, since the beginning of November 2013, the compulsory insurance also is sold only through banking system, and these transaction are performed only in BKT.

A total of 553 active agents realized 198,279 transactions between November 2012 and December 2013 (at least one transaction per month for each agent) with a volume of more than US$20.34 million.

e-Payment service inauguration ceremony.

BKT'S NPL RATIO STANDS AT A SINGLE-DIGIT PERCENTAGE - THE LOWEST LEVEL AMONG BANKS.

EVALUATION OF 2013 ACTIVITIES

TREASURY & FINANCIAL INSTITUTIONS

2013 was a difficult year for the Albanian economy and banking sector against the backdrop of a limited recovery in Eurozone countries and increased level of uncertainty due to general parliamentary elections in Albania. The Treasury's competence in the use of instruments in money and capital markets was reflected in its high level of liquidity, its ability to provide sound protection against the meltdown in profit margins and the important role it played in achieving the Bank's targets.

BKT stands out with its active position in Eurobonds and forfeiting transactions including syndicated loans. BKT remains one of country's key market makers in the money and foreign exchange markets. Moreover, BKT became number one bank in local t-bills and t-notes holdings with market shares of 23.7% and 30.5% respectively.

The Bank has widened its customer base with relations based on trust, which also enhance loyalty. As a result, its market share in deposits has reached 21.4%.

BKT, which holds an esteemed position in the international arena, establishes strong relationships with both corresponding banks and international finance corporations. Correspondence visits were carried out to 125 banks in a number of different regions during the year. The number of banks offering limits for BKT reached to 223. BKT, which is rapidly capturing a rising share of the country's foreign trade, has added pace to rise in foreign trade transactions.

After getting EUR 10 million of the 7-year EUR 15 million subordinated loan by the end of 2012, obtained from the Green for Growth Fund for use in the field of energy, we expect to use the remaining EUR5 million by the end of March 2014.

The number of members in the Albanian branch of the International Chamber of Commerce (ICC) increased from 4 to 19 after the work undertaken following its foundation in the leadership of BKT, which sees this as an important initiative for the country. The member base has been widened through the participation of technology, telecommunication, energy, law firms and banks.

A leasing company, whose majority shareholders are the Islamic Corporations for the Development of Private Sector (ICD) and BKT, initiated operations and usuary transactions.

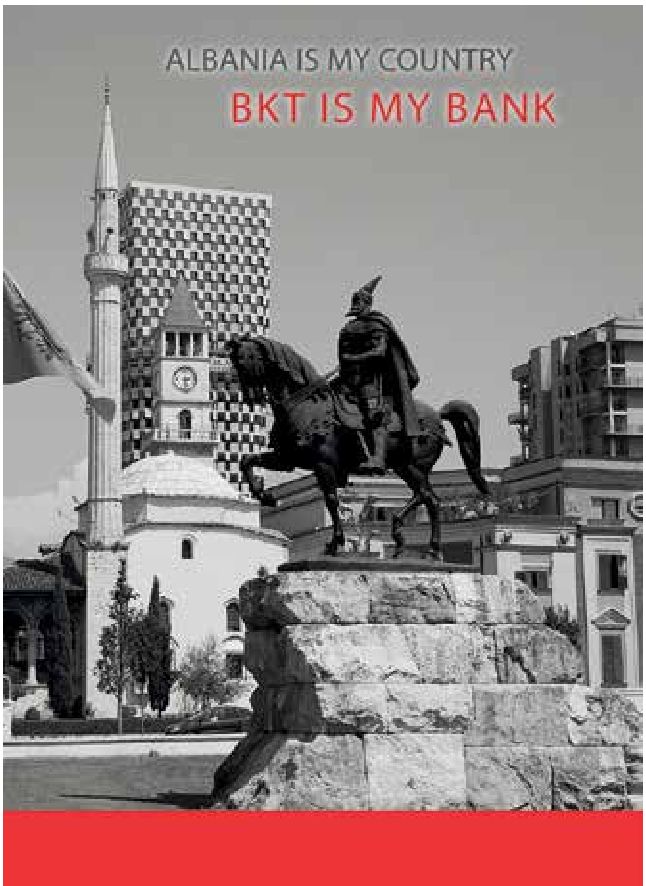
RISK MANAGEMENT GROUP

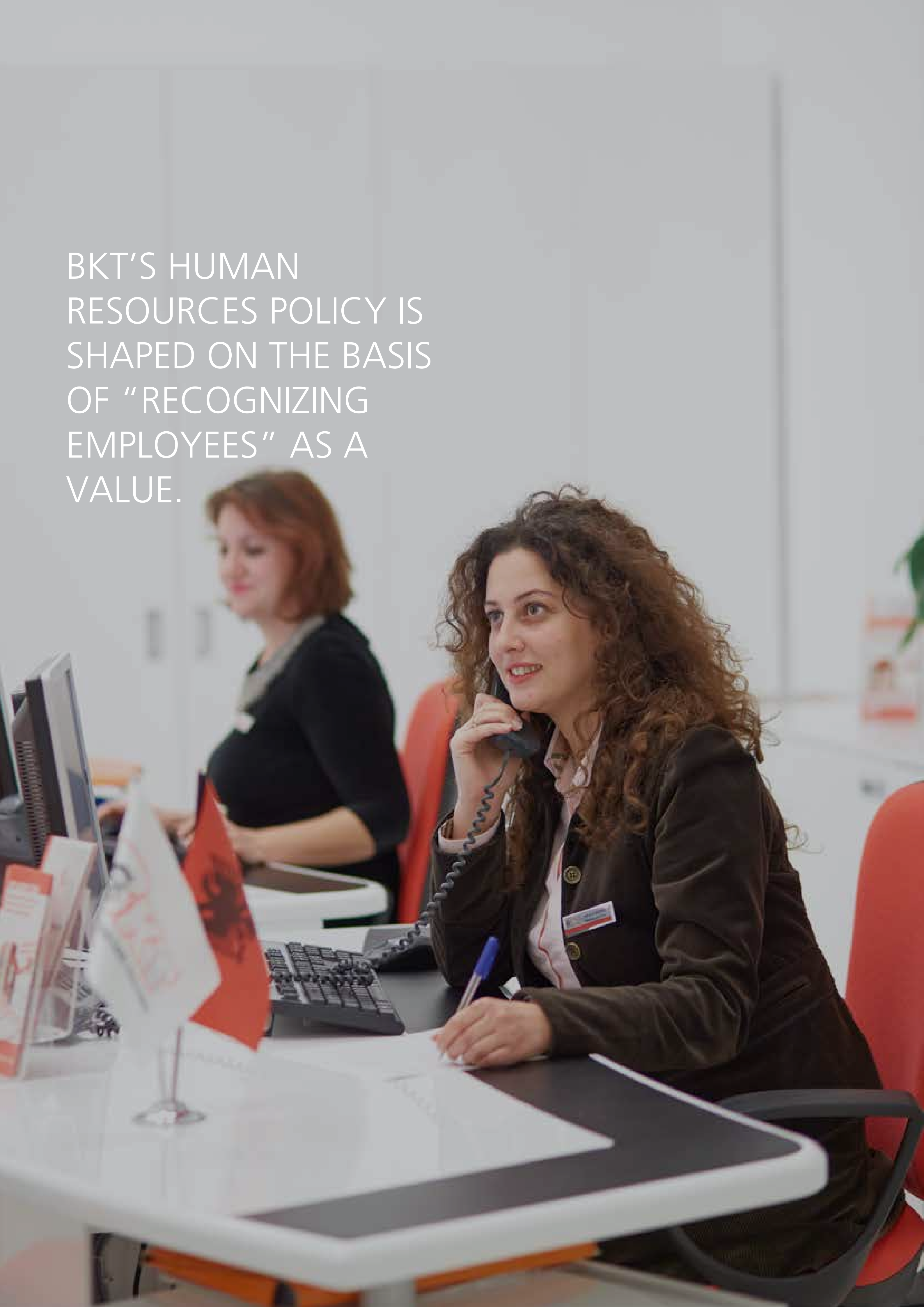
The global macroeconomic conjuncture and the associated impacts on the country's economy precipitated a significant increase in the NPL ratio. This ratio reached 24.8% in 2013.

BKT maintained its low NPL ratios thanks to its competence in maintaining asset quality, a credit policy which avoided the concentration of risk and promotes the spreading of risk to the base, and effective risk management. BKT's NPL ratio stands at a single-digit percentage - the lowest level among banks.

BKT can be considered safe in terms of credit, market, liquidity and operational risks. Policies and applications were reviewed in 2013 and confirmed their compliance with Basel II. Some stress tests were applied for market and interest rate risk and the Bank was found to be between the parameters.

MARKET SHARE IN DEPOSITS HAS REACHED 21.4%.





BKT'S HUMAN RESOURCES POLICY IS SHAPED ON THE BASIS OF "RECOGNIZING EMPLOYEES" AS A VALUE.

EVALUATION OF 2013 ACTIVITIES

HUMAN RESOURCES

Human resources, BKT's intellectual capital, comprise of employees who can best reflect the company's team spirit and who have targets that are in compliance with those of the Bank.

Throughout the entire recruitment process, candidates are evaluated on the basis on their competencies and potential for development, and their compliance with the Bank's culture, as well as their openness for change and innovation. With the aim of ensuring the availability of high-quality personnel at all times, we began to hold an examination for those seeking promotion from assistant specialist to specialist.

BKT's HR policy is shaped on the basis of "recognizing employees" as a value. This policy, which aims to introduce a strong career and a fair pay system to employees, is built on the following fundamental pillars: supporting the individual and professional development of employees, rewarding their achievements and to improve their efficiency by increasing their motivation. In this context, teamwork is promoted to create a sound business environment; employees are supported with a variety of technological facilities; and are given the opportunity to raise their competency through various training programs. 17 % of the banking staff has been promoted during 2013.

We continued our personnel training programs in 2013 through a number of programs and seminars. The number of training programs and seminars held in 2013 increased by 32%, while the total duration of training sessions increased by 10%. A total of 8.1 days of training was provided per employee in 2013, with nearly half of the training being sales-oriented. We also undertake efforts to switch to e-learning.

BKT works consistently to ensure the satisfaction of its employees and to strengthen their loyalty to the Bank. A survey conducted in 2013 found that the rate of employee satisfaction was as high as 98%. The percentage of female middle managers continues the trend: from 48% in 2011, 50% in 2012 to 52% in 2013. The voluntary staff turnover stood at 5.2%.

The cooperation with the Faculty of Integrated Studies with Practice (FASTIP) at Aleksander Moisiu University produced 3rd generation graduates of twenty people in 2013, which started their careers at BKT. A total of 51 students remain on the program. At the end of the 6th year of the program, the total number of people who joined BKT had reached 57, or 17.7% of all newly hired in 2013.

Graduation of FASTIP Students, Class of 2013.

CENTRAL TO BKT'S APPROACH TO SUSTAINABILITY-RELATED ISSUES ARE THE EFFORTS WHICH THE BANK UNDERTAKES IN THE AREAS OF SOCIAL RESPONSIBILITY.

EVALUATION OF 2013 ACTIVITIES

CORPORATE SOCIAL RESPONSIBILITY: APPROACHES AND PRACTICES

Central to BKT's approach to sustainability-related issues are the efforts which the Bank undertakes in the areas of social responsibility. These efforts rest on four main pillars: governance, employment, environment and social well-being.

In 2013, the Bank stepped up the process of adopting and reflecting the CSR and information policies to its practices, strengthening the Bank's corporate governance.

The fact that the Bank maintained its corporate governance rating of AA(Alb)/Merit for 2013, which was awarded by JCR, and that BKT was the first and only institution in Albania to receive such a high rating, was the result of the Bank's determination and success in this area.

Launch of the Albanian CSR Network.

The "Cleaning Albania in a day" activity.

Yunus Emre Turkish Cultural Centre, children playground reconstruction.

Within the framework of its CSR policy, BKT engages in projects and activities in a variety of areas.

In 2013 BKT sponsored;

- the International Conference on European Studies organized by Epoka University.
- the FASTIP Graduation Ceremony organized in Durres, where 20 students graduated; as well as their diplomas, they were offered a working contract with BKT.
- the Yunus Emre Turkish Cultural Centre. Through this sponsorship, BKT strengthens its relations with this institution as part of its social responsibility. With this sponsorship, BKT and the Yunus Emre Centre contribute to improving children's playgrounds.
- the project initiated by the NGO "Green Line Albania". The "Cleaning Albania in a day" activity had a far reaching impact in terms of raising awareness of the importance of keeping the country clean, while hundreds of tons of rubbish have been cleared. A record-high number of 147,000 volunteers participated in the event.
- the Opening Ceremony of the Touristic Season in Orikum.
- the National Tennis team in the "Davis Cup" organized in San Marino.
- the exhibition of the "Time and Places: Istanbul - Art Collection of the Central Bank of the Republic of Turkey" organized in the premises of the National Gallery of Arts.

Additionally the Bank;

- supported the Municipality of Tirana within the Green City project with a contribution in planting trees in "Dritan Hoxha" Street.
- began to appear in social media in order to strengthen the Bank's relations with the target mass and to become more transparent; the number of its followers reached the total number of followers of all banks, providing the Bank with leadership in this category.

The International Conference on European Studies organised by Epoka University.

IN 2014, BKT WILL CONTINUE TO BE INNOVATIVE AND INTRODUCE NEW PRODUCTS IN LOANS, DEPOSITS AND PAYMENTS.

OBJECTIVES FOR 2014

The Corporate and Commercial Banking Group

- will increase the volume of cheque-collateralized loans and Agro Loans and issue the Agrocards for agribusiness and Business Prima Card for all corporate and commercial customers.
- will further expand the business internet banking user base and will extend the e-payment products.
- will focus on renewable energy projects & Green Loans to enhance our participation to environmental-friendly projects.
- will be in charge of activating the Albanian Leasing Company and ensure cross selling opportunities for the customers.
- will continue to play an important role in public finance by implementing new products and collaboration with various national & international institutions and keep the momentum of the most active partner in projects like Italian SME, GGF, IPARD and USAID Loan Guarantee Program.

The Retail Banking Group

- will continue to be innovative and introduce new products in loans, deposits and payments.
- will extend the usage area of alternative distribution channels. Additional features to ATMs, POS's and Internet Branch will be available.
- will launch new mobile banking applications.
- will increase functionalities of credit cards.
- will improve work processes for loans and branch operations.
- will launch segment based product bundles.

The Treasury and Financial Institutions Group

- will establish the infrastructure to offer repo transactions to retail clients.
- will coordinate the efforts to receive the EUR 5 million tranche of the GGF sub-debt.
- will explore the prominent banks of African and Central Asian countries to establish relationships and make more profitable short term investments.
- will try to choose a state of the art "fully automated Treasury Front Office-Back Office Management System" and start to implement the project.
- We have plans to organize International Banking Conference in Albania aiming to bring together different banks from different geographies.
- will evaluate opportunities for setting up a representative offices in Turkey or Gulf Region and to acquire a bank in our region.

The Human Resources Department

- will work to be proactive and helpful to keep the Bank's competitive advantage through building a results-oriented company culture and acting as a Business Partner.
- will deliver solutions by providing a sustainable learning corporate culture across delivering training and developments activities, sustainably acceptance of constant change, recruiting, developing, motivating and retaining the best performers.
- The leadership and talent development programs will cultivate internally the bank talents for the succession planning and bank sustainable growth.
- HR Management, Innovations and HR Information Systems will be focused in achieving sustainable bank performance on using Human Capital Management Metrics for maximum impact of bank's human capital.

The Risk Management Group

- will persist not only to have the lowest NPL ratio in the peer group, but also to reduce it to 7.5%.

The Financial and IT Group

- will give the priority to the implementation of the new Flexcube modules for Securities, Loans and LC origination.
- will finalize the smooth transfer of the server room and the relocation of the Disaster Recovery Site.
- will continue to provide timely and quality reporting to the shareholder, management and authorities, by implementing duly the substantial changes of the regulatory reporting.
- will establish a fully automated reporting package to Asset and Liability Committee (ALCO) in coordination with all ALCO Members.

Banka Kombetare Tregtare Sh.a.
Consolidated financial statements for the year ended 31 December 2013
(with independent auditors' report thereon)

Contents

Banka Kombetare Tregtare Sh.a.
Independent auditor's report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of Banka Kombetare Tregtare Sh.a.:

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 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and 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.

Auditor's 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 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 the auditor's 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, the auditor considers 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 financial position of the Bank as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Banka Kombetare Tregtare Sh.a. for the year ended December 31, 2012, were audited by another auditor who expressed an unmodified opinion on those consolidated statements on February 26, 2013.

Deloitte Albania shpk

24 February 2014
Tirana, Albania

Elvis Ziu
Engagement Partner

Banka Kombetare Tregtare Sh.a.

Consolidated statement of financial position as at 31 December 2013

(Amounts in USD)

	Notes	31 December 2013	31 December 2012
Assets			
Cash and balances with Central Bank	7	237,473,002	231,341,516
Placement and balances with banks	8	201,279,874	149,439,990
Treasury bills	9	236,724,368	266,464,865
Investment securities available-for-sale	10	697,179,575	369,864,054
Investment securities held-to-maturity	11	217,755,420	221,912,787
Loans to banks	12	121,650,866	192,135,941
Loans to customers	13	886,202,417	854,185,956
Investment in associates	14	1,651,128	-
Property and equipment	15	27,942,467	28,168,784
Intangible assets	16	1,235,689	1,514,911
Other assets	17	46,647,434	22,285,162
Total assets		**2,675,742,240**	**2,337,313,966**
Liabilities and shareholder's equity			
Liabilities			
Customer deposits	18	2,154,265,396	1,884,887,955
Due to banks and financial institutions	19	278,355,823	239,104,842
Due to third parties	20	1,738,013	2,249,325
Deferred tax liabilities	21	3,264,859	1,978,653
Accruals and other liabilities	22	9,355,434	11,594,079
Subordinated debt	23	13,796,864	13,195,323
Total liabilities		2,460,776,389	2,153,010,177
Shareholder's equity			
Share capital	24	138,965,905	100,000,000
Legal reserve	24	-	3,410,723
Translation reserve	24	1,140,491	394,191
Fair value reserve	24	(3,196,237)	6,845,965
Retained earnings	24	78,055,692	73,652,910
Total shareholder's equity		**214,965,851**	**184,303,789**
Total liabilities and shareholder's equity		**2,675,742,240**	**2,337,313,966**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 61.

The consolidated financial statements were authorised for release by the Board of Directors on 28 January 2014 and signed on its behalf by:

Seyhan Pencabligil
CEO and Board Member

Skender Emini
Head of Financial and IT Group

Banka Kombetare Tregtare Sh.a.

Consolidated statement of comprehensive income for the year ended 31 December 2013
(Amounts in USD)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Interest			
Interest income	25	153,584,608	141,014,694
Interest expense	26	(75,024,078)	(69,640,869)
Net interest margin		**78,560,530**	**71,373,825**
Non-interest income, net			
Fees and commissions, net	27	9,557,408	8,658,204
Foreign exchange (FX) revaluation loss, net	28	(4,035,425)	(516,931)
(Loss)/profit from FX trading activities, net		(1,623,197)	13,542
Other income/(expense), net	29	10,743,743	(267,218)
Total non-interest income, net		**14,642,529**	**7,887,597**
Operating expenses			
Personnel expenses	30	(17,105,138)	(15,463,046)
Administrative expenses	31	(20,974,604)	(20,050,040)
Depreciation and amortization	15,16,17	(5,090,334)	(4,898,236)
Total operating expenses		**(43,170,076)**	**(40,411,322)**
Impairment of loans	13	(6,199,500)	(4,191,264)
Profit before taxes		**43,833,483**	**34,658,836**
Income tax	32	(4,530,730)	(3,763,562)
Net profit for the year		**39,302,753**	**30,895,274**
Foreign currency translation differences		746,300	3,142,486
Net change in fair value reserves		(10,042,202)	14,068,130
Other comprehensive (expense)/income for the year, net of income tax		**(9,295,902)**	**17,210,616**
Total comprehensive income for the year		**30,006,851**	**48,105,890**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 61.

Banka Kombetare Tregtare Sh.a.

Consolidated statement of changes in equity for the year ended 2012
(Amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2012	**100,000,000**	**-**	**(2,748,295)**	**(7,222,165)**	**48,134,973**	**138,164,513**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Creation of legal reserves	-	3,410,723	-	-	(3,410,723)	-
Appropriation of year 2011 translation difference	-	-	-	-	(2,748,295)	(2,748,295)
Adjustment of retained earnings with 2012 year end exchange rate	-	-	-	-	781,681	781,681
Total transactions with owners recorded in equity	-	*3,410,723*	-	-	*(5,377,337)*	*(1,966,614)*
Total comprehensive income for the year						
Net profit for the year	-	-	-	-	30,895,274	30,895,274
Other comprehensive loss, net of income tax						
Net change in fair value reserve	-	-	-	14,068,130	-	14,068,130
Foreign currency translation differences	-	-	3,142,486	-	-	3,142,486
Total other comprehensive income	-	-	3,142,486	14,068,130	-	17,210,616
Total comprehensive income for the year	-	-	*3,142,486*	*14,068,130*	*30,895,274*	*48,105,890*
Balance as at 31 December 2012	**100,000,000**	**3,410,723**	**394,191**	**6,845,965**	**73,652,910**	**184,303,789**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 61.

Banka Kombetare Tregtare Sh.a.

Consolidated statement of changes in equity for the year ended 2013

(Amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2013	**100,000,000**	**3,410,723**	**394,191**	**6,845,965**	**73,652,910**	**184,303,789**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	38,965,905	(3,282,146)	-	-	(35,683,759)	-
Adjustment for translation of legal reserve		(128,577)			128,577	-
Appropriation of year 2012 translation difference	-	-	-	-	394,191	394,191
Adjustment of retained earnings with 2013 year end exchange rate	-	-	-	-	261,020	261,020
Total transactions with owners recorded in equity	*38,965,905*	*(3,410,723)*	-	-	*(34,899,971)*	*655,211*
Comprehensive income/(expense) for the year						
Net profit for the year	-	-	-	-	39,302,753	39,302,753
Other comprehensive income/ (expense), net of income tax						
Net change in fair value reserve	-	-	-	(10,042,202)	-	(10,042,202)
Foreign currency translation differences	-	-	746,300	-	-	746,300
Total other comprehensive income/ (expense)	-	-	746,300	(10,042,202)	-	(9,295,902)
Total comprehensive income for the year	-	-	*746,300*	*(10,042,202)*	*39,302,753*	*30,006,851*
Balance as at 31 December 2013	**138,965,905**	**-**	**1,140,491**	**(3,196,237)**	**78,055,692**	**214,965,851**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 61.

Banka Kombetare Tregtare Sh.a.

Consolidated statement of cash flows for the year ended 31 December 2013

(Amounts in USD)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities:			
Profit before taxes		43,833,483	34,658,836
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	26	75,024,078	69,640,869
Interest income	25	(153,584,608)	(141,014,694)
Depreciation and amortization	15,16,17	5,090,334	4,898,236
Gain on sale of property and equipment		(25,936)	(59,208)
Gain on sale of treasury bills		(168,018)	(353,888)
Gain on sale of non-current assets		(95,933)	(111,697)
Gain on recovery of lost loans		(40,425)	(3,853)
Write-off of property and equipment		2,594	25,622
Loss on unrecoverable lost loans		24,068	129,054
Provision on other debtors		332,379	524,232
Movement in the fair value reserve		(9,939,563)	13,877,954
Impairment of loans	13	6,199,500	4,191,264
Cash flows from operating profits before changes in operating assets and liabilities		(33,348,047)	(13,597,273)
(Increase)/decrease in operating assets:			
Restricted balances with central banks		(514,567)	(32,955,716)
Placements and balances with banks		(10,704,937)	9,697,384
Loans to banks		74,438,070	(89,474,935)
Loans to customers		(3,875,408)	(66,869,790)
Other assets		(21,715,769)	1,296,669
		37,627,390	(178,306,388)
Increase/(decrease) in operating liabilities:			
Customer deposits		188,495,231	267,682,837
Due to third parties		(577,864)	(800,134)
Accruals and other liabilities		(2,146,658)	2,932,211
Subordinated debt		57,733	12,903,494
		185,828,442	282,718,408
Interest paid		(75,022,796)	(65,007,626)
Interest received		149,653,423	133,849,787
Income taxes paid		(4,980,028)	(4,683,274)
Net cash flows from operating activities		**259,758,384**	**154,973,634**
Cash flows from investing activities			
Purchases of investment securities		(283,360,513)	(145,449,955)
Purchases of treasury bills		(8,726,332)	(132,073,008)
Investment in associates		(1,591,746)	-
Purchases of property and equipment		(3,534,302)	(16,310,626)
Proceeds from sale of property and equipment		75,601	160,866
Proceeds from sale of treasury bills		45,312,300	82,631,851
Net cash flows used in investing activities		**(251,824,991)**	**(211,040,872)**
Cash flows from financing activities			
Proceeds from short term borrowings		28,848,590	103,896,222
Net cash from financing activities		**28,848,590**	**103,896,222**
Net increase in cash and cash equivalents		**36,781,982**	**47,828,984**
Effects of exchange rate changes on the balance of cash held in foreign currencies		2,192,912	4,686,938
Cash and cash equivalents at the beginning of the year	7	**199,640,486**	**147,124,564**
Cash and cash equivalents at the end of the year	7	**238,615,381**	**199,640,486**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 61.

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013
(amounts in USD, unless otherwise stated)

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 28 March 2012, the Bank created legal reserves of Lek 358,706 thousand (equivalent of USD 3,410,723), using part of the retained earnings from previous years.

Upon the Shareholder's Decision dated 27 March 2013, the Bank increased its paid-up capital by Lek 4,258,584 thousand (equivalent of USD 38,965,904.9), using the legal reserves of Lek 358,706 thousand (equivalent of USD 3,282,145.8) and part of the retained earnings of Lek 3,899,878 thousand (equivalent of USD 35,683,759.1). The capital increase was translated into USD using the exchange rate published by Bank of Albania as at 27 March 2013 (109.29 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 3,155,134. The shareholding structure as at 31 December 2013 and 31 December 2012 was as follows:

	31 December 2013			*31 December 2012*		
	No. of shares	Total in USD	%	No. of shares	Total in USD	%
Calik Finansal Hizmetler A.S.	11,252,300	138,965,905	100	8,097,166	100,000,000.10	100

The headquarters of BKT is located in Tirana. The network of the Bank in Albania includes 58 branches and 2 custom agencies. Twenty-two 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 Durres Seaport and Rinas Airport. In 2013, the Bank opened one new branch in Tirana.

The network in Kosovo includes 24 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, Prishtina Airport and Skenderaj.

The Bank had 1,161 (2012: 1,135) employees as at 31 December 2013, out of which 274 (2012: 285) are employees of the Kosovo Branch.

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013
(amounts in USD, unless otherwise stated)

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(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.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(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 consolidated 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 power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(amounts in USD, unless otherwise stated)

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

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. The functional currency of the branch is the EURO. The effect of translating foreign operations into the Bank's functional currency is explained in note 3.(b).(ii) below.

(ii) Transactions eliminated on consolidation

All intragroup assets and liabilities, equity, income, expenses and cash flows (except for foreign currency transaction gains or losses) relating to transactions between members of the Group are eliminated in full on consolidation. 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.

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(amounts in USD, unless otherwise stated)

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

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

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

- assets and liabilities for reporting date (including comparatives) are translated at the closing rate at the date of that reporting date, which is Bank of Albania's rate at 1 USD = 101.86 Lek (2012: 105.85).
- 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, are translated at exchange rates at the dates of the transactions.
- share capital has been translated as described in paragraph 3.(b).(i) above; and
- all resulting exchange differences are recognised through other comprehensive income as a separate component of equity in the "Translation reserve" account.

(iv) Spot foreign exchange transactions

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

(c) Interest

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

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

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income are recognised as the related services are performed.

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

(e) Lease payments made

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

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(amounts in USD, unless otherwise stated)

3. Significant accounting policies (continued)

(f) Income tax expense

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

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

In determining the amount of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognised 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, 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.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(ii) Classification

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013
(amounts in USD, unless otherwise stated)

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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.

(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.

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013
(amounts in USD, unless otherwise stated)

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at 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.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). In many cases the transaction price equals the fair value (that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold). When determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vii) Identification and measurement of impairment

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

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

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013
(amounts in USD, unless otherwise stated)

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

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

(j) Loans

Loans 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 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 at fair value through profit or loss as described in accounting policy 3(g),(vi).

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(amounts in USD, unless otherwise stated)

3. Significant accounting policies (continued)

(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, which do not meet the definition of loans receivables, 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.

(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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013
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3. Significant accounting policies (continued)

(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) Non-current 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.

(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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013
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3. Significant accounting policies (continued)

(o) Impairment of non-financial assets (continued)

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) Investments in associates

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Bank losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Bank accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Bank reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

(q) Deposits, borrowings and subordinated liabilities

Deposits, borrowings and subordinated liabilities 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, borrowings and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(r) 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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013

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3. Significant accounting policies (continued)

(r) Provisions (continued)

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.

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.

(s) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Bank created a fully employer sponsored pension plan fund-Staff Support Program (See Note 22, "Reserve fund for retiring employees") during 2002. The amount charged to this fund (SSP) was decided as 5% of yearly budgeted personnel salary expenses.

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 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.

(t) 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.

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3. Significant accounting policies (continued)

(u) Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- **IFRS 10 "Consolidated Financial Statements"** published by IASB on 12 May 2011. IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns. (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11 "Joint Arrangements"** published by IASB on 12 May 2011. IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets. (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12 "Disclosures of Interests in Other Entities"** published by IASB on 12 May 2011. IFRS 12 will require enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 "Fair Value Measurement"** published by IASB on 12 May 2011. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (revised in 2011) "Separate Financial Statements"** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** - Government Loans (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** - Transition Guidance (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 "Presentation of financial statements"** - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 19 "Employee Benefits"** - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)"** resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013),

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013
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3. Significant accounting policies (continued)

(u) Standards and Interpretations effective in the current period (continued)

- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"** (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Banks's accounting policies.

(v) Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, amendments to existing standards and interpretations were in issue, but not yet effective:

- **IFRS 9 "Financial Instruments" and subsequent amendments** published by IASB on 12 November 2009. On 28 October 2010 IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. On 19 November 2013 IASB issued another package of amendments to the accounting requirements for financial instruments. Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also will require a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss. The amendments from November 2013 bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. It allows the changes to address the so-called 'own credit' issue that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments. It also removes the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements. (on February 20, 2014, the IASB decided that the effective date for IFRS 9 shall be 1 January 2018),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements"** - Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- **Amendments to IAS 32 "Financial instruments: presentation"** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of assets"** - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014),

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013
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3. Significant accounting policies (continued)

(v) Standards and Interpretations in issue not yet adopted (continued)

- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. Except for the impact of IFRS 9, which will be assessed by the Bank during 2014, the Bank anticipates that the adoption of the other standards, revisions and interpretations will have no material impact on the consolidated financial statements of the Bank in the period of initial application.

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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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013

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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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013

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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 2013	Note	Carrying Amount	Fair Value			
			Level 1	Level 2	Level 3	Total
Placement and balances with banks	8	201,279,874	-	201,279,874	-	201,279,874
Treasury bills	9	236,724,368	-	236,724,368	-	236,724,368
Investment securities available-for-sale	10	697,179,575	194,903,826	423,269,186	79,006,563	697,179,575
Investment securities held-to-maturity	11	217,755,420	49,736,912	168,512,656	-	218,249,568
Loans to banks	12	121,650,866	-	121,650,866	-	121,650,866
Loans to customers, net	13	886,202,417	-	886,202,417	-	886,202,417
Total financial assets		**2,360,792,520**	**244,640,738**	**2,037,639,367**	**79,006,563**	**2,361,286,668**
Customer deposits	18	2,154,265,396	-	2,154,265,396	-	2,154,265,396
Due to banks and financial institutions	19	278,355,823	-	278,355,823	-	278,355,823
Subordinated debt	23	13,796,864	-	13,796,864	-	13,796,864
Total financial liabilities		**2,446,418,083**	**-**	**2,446,418,083**	**-**	**2,446,418,083**

31 December 2012	Note	Carrying Amount	Level 1	Level 2	Level 3	Total
Placement and balances with banks	8	149,439,990	-	149,439,990	-	149,439,990
Treasury bills	9	266,464,865	-	266,478,358	-	266,478,358
Investment securities available-for-sale	10	369,864,054	108,570,735	233,406,738	27,886,581	369,864,054
Investment securities held-to-maturity	11	221,912,787	34,043,243	188,519,250	-	222,562,493
Loans to banks	12	192,135,941	-	192,135,941	-	192,135,941
Loans to customers	13	854,185,956	-	854,185,956	-	854,185,956
Total financial assets		**2,054,003,593**	**142,613,978**	**1,884,166,233**	**27,886,581**	**2,054,666,792**
Customer deposits	18	1,884,887,955	-	1,884,887,955	-	1,884,887,955
Due to banks and financial institutions	19	239,104,842	-	239,104,842	-	239,104,842
	23	13,195,323	-	13,195,323	-	13,195,323
Total financial liabilities		**2,137,188,120**	**-**	**2,137,188,120**	**-**	**2,137,188,120**

The fair value of foreign exchange contracts approximates their carrying amount, which is disclosed in Notes 17 and 22.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013
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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 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.

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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 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Treasury bills	236,724,368	266,464,865
Due from other banks	322,930,740	341,575,931
Loans to customers, net	886,202,417	854,185,956
Investment securities - available for sale	697,179,575	369,864,054
Investment securities - held to maturity	217,755,420	221,912,787
Financial guarantees	115,317,133	81,799,801
Standby letters of credit	6,303,982	6,152,087
Commitments to extend credit	69,075,578	57,239,189
Maximum exposures to credit risk	2,551,489,213	2,199,194,670

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

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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 to customers		
31 December 2013	**Retail**	**Corporate**	**Advances**	**Total**
Neither past due nor impaired	211,744,057	409,285,716	1,144,557	622,174,330
Past due and individually tested but not impaired	75,978,262	174,803,779	49,766	250,831,807
Individually impaired	15,858,186	21,758,502	2,456,922	40,073,610
Total Loans, gross (Note 13)	**303,580,505**	**605,847,997**	**3,651,245**	**913,079,747**
Allowance for impairment	(10,894,268)	(13,520,647)	(2,462,415)	(26,877,330)
Total Loans, net of impairment	**292,686,237**	**592,327,350**	**1,188,830**	**886,202,417**

		Loans to customers		
31 December 2012	**Retail**	**Corporate**	**Advances**	**Total**
Neither past due nor impaired	186,758,001	428,831,953	1,577,466	617,167,420
Past due and individually tested but not impaired	59,604,531	168,613,391	40,540	228,258,462
Individually impaired	11,980,048	13,959,219	2,496,628	28,435,895
Total Loans, gross (Note 13)	**258,342,580**	**611,404,563**	**4,114,634**	**873,861,777**
Allowance for impairment	(8,422,384)	(8,775,682)	(2,477,755)	(19,675,821)
Total Loans, net of impairment	**249,920,196**	**602,628,881**	**1,636,879**	**854,185,956**

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013
(amounts in USD, unless otherwise stated)

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 2013	31 December 2012
A - Good	28,421,605	30,769,262
B - Acceptable	379,012,101	441,914,157
C - Close Monitoring	167,212,776	113,923,181
D - Unacceptable	26,326,381	21,578,150
(Note 13)	600,972,863	608,184,750
Accrued interest	6,530,079	5,489,455
Less: unamortized deferred fee income	(1,654,945)	(2,269,642)
Total	605,847,997	611,404,563

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

	Loans to customers			
	Retail	Corporate	Advances	Total Loans
31 December 2013	2,885,200	50,714,803	94,448	53,694,451
31 December 2012	2,316,209	56,628,308	146,076	59,090,593

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

	Loans to customers			
31 December 2013	Retail	Corporate	Advances	Total Loans
Past due up to 31 days	23,744,989	32,906,292	415,842	57,067,123
Past due 32-60 days	9,956,652	17,191,408	251,268	27,399,328
Past due 61-90 days	11,763,344	15,336,162	393,839	27,493,345
Past due 91-180 days	4,948,616	8,268,727	70,808	13,288,151
Past due 181 days- 365 days	6,197,129	20,218,937	357,697	26,773,763
Past due 1-2 years	3,264,641	16,990,811	83,329	20,338,781
Past due over 2 years	4,837,391	13,338,243	364,558	18,540,192
Total	64,712,762	124,250,580	1,937,341	190,900,683

	Loans to customers			
31 December 2012	Retail	Corporate	Advances	Total Loans
Past due up to 31 days	19,392,407	36,543,831	463,759	56,399,997
Past due 32-60 days	6,808,835	11,668,924	203,534	18,681,293
Past due 61-90 days	8,363,315	6,763,816	210,909	15,338,040
Past due 91-180 days	5,379,023	6,145,240	168,931	11,693,194
Past due 181 days- 365 days	5,266,115	21,826,148	215,747	27,308,010
Past due 1-2 years	3,038,500	12,994,604	229,031	16,262,135
Past due over 2 years	3,744,100	12,662,208	155,708	16,562,016
Total	51,992,295	108,604,771	1,647,619	162,244,685

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(amounts in USD, unless otherwise stated)

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 to customers		
31 December 2013	Retail	Corporate	Total Loans
Residential, commercial or industrial property	798,889,479	1,067,778,384	1,866,667,863
Financial assets	25,629,305	237,331,108	262,960,413
Other	44,818,518	204,748,961	249,567,479
Total	869,337,302	1,509,858,453	2,379,195,755

	Loans to customers		
31 December 2012	Retail	Corporate	Total Loans
Residential, commercial or industrial property	699,965,496	1,099,300,456	1,799,265,952
Financial assets	20,863,706	234,336,828	255,200,534
Other	47,616,740	195,091,887	242,708,627
Total	768,445,942	1,528,729,171	2,297,175,113

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

31 December 2013	Treasury Bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Total
Good	236,724,368	322,930,740	697,179,575	217,755,420	1,474,590,103
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	236,724,368	322,930,740	697,179,575	217,755,420	1,474,590,103

31 December 2012	Treasury Bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Total
Good	266,464,865	341,575,931	369,864,054	221,912,787	1,199,817,637
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	266,464,865	341,575,931	369,864,054	221,912,787	1,199,817,637

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013
(amounts in USD, unless otherwise stated)

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 2013	31 December 2012
Government bonds and treasury bills	9,10,11		
Rated A2 to Aa1		7,284,168	14,226,757
Rated Baa3 to Baa1		23,001,535	12,258,249
Rated Ba3 to Ba1		35,653,642	21,228,171
Rated B1		710,196,189	597,064,587
Not rated		7,520,709	1,119,121
Corporate bonds and asset backed securities	10,11		
Rated Baa3 to Baa1		93,850,379	11,372,534
Rated Ba3 to Ba1		9,169,587	27,886,581
Not Rated		3,472,047	-
Bank bonds	10,11		
Rated A3 to A1		4,343,666	7,449,551
Rated Baa3 to Baa1		107,984,117	24,521,924
Rated Ba2 to Ba1		58,753,506	90,029,244
Rated Ba3		3,071,900	6,238,936
Rated B2 to B1		24,337,913	18,237,866
Not rated		32,763,016	-
Investments in equity			
Not rated		30,256,989	26,608,185
Total		**1,151,659,363**	**858,241,706**

The rating for Loans to banks is detailed in Note 12.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(amounts in USD, unless otherwise stated)

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 investment securities as at 31 December 2013 and 2012 is shown below:

	Note	Loans to customers		Loans to banks		Investment Securities	
		2013	2012	2013	2012	2013	2012
Carrying amount	9-11,12,13	886,202,417	854,185,956	121,650,866	192,135,941	1,151,659,363	858,241,706
Concentration by sector							
Corporate		589,813,727	600,797,352	-	-	136,749,002	65,867,300
Government		2,513,624	1,831,529	-	-	783,656,243	645,896,885
Banks		-	-	121,650,866	192,135,941	231,254,118	146,477,521
Retail		293,875,066	251,557,075	-	-	-	-
Total		886,202,417	854,185,956	121,650,866	192,135,941	1,151,659,363	858,241,706

Concentration by location	Note	Loans to customers		Loans to banks		Investment securities	
		2013	2012	2013	2012	2013	2012
Albania		645,257,574	589,051,104	-	-	710,196,188	597,064,588
Kosovo		132,207,055	144,499,107	-	-	7,520,709	1,119,121
Europe		88,631,921	100,017,324	121,650,866	192,135,941	414,537,222	249,033,267
Asia		-	-	-	-	14,003,811	11,024,730
Middle East and Africa		20,105,867	20,618,421	-	-	5,401,433	-
Total	9-11,12,13	886,202,417	854,185,956	121,650,866	192,135,941	1,151,659,363	858,241,706

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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 2013. 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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(amounts in USD, unless otherwise stated)

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2013, 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 years	Total
Assets						
Cash and balances with Central Bank	237,473,002	-	-	-	-	237,473,002
Placement and balances with banks	174,861,169	22,408,966	4,009,739	-	-	201,279,874
Treasury bills	56,476,281	95,237,882	85,010,205	-	-	236,724,368
Investment securities available-for-sale	829,966	44,735,106	155,381,622	397,579,329	98,653,552	697,179,575
Investment securities held-to-maturity	15,561,509	25,483,707	77,023,207	98,671,808	1,015,189	217,755,420
Loans to banks	16,886	15,086,920	67,778,489	38,768,571	-	121,650,866
Loans to customers	120,846,826	30,909,223	196,588,657	340,070,792	197,786,919	886,202,417
Investment in associates	-	-	-	-	1,651,128	1,651,128
Property and equipment	-	-	-	6,127,379	21,815,088	27,942,467
Intangible assets	-	-	-	1,235,689	-	1,235,689
Other assets	11,793,932	547,605	26,691,903	-	7,613,994	46,647,434
Total assets	**617,859,571**	**234,409,409**	**612,483,822**	**882,453,568**	**328,535,870**	**2,675,742,240**
Liabilities and shareholder's equity						
Customer deposits	654,012,811	337,450,625	1,003,914,886	149,714,082	9,172,992	2,154,265,396
Due to banks and financial institutions	240,722,237	11,482,006	2,752,798	20,900,618	2,498,164	278,355,823
Due to third parties	1,738,013	-	-	-	-	1,738,013
Deferred tax liabilities	-	-	-	3,264,859	-	3,264,859
Accruals and other liabilities	8,255,564	-	-	-	1,099,870	9,355,434
Subordinated debt	-	-	32,874	-	13,763,990	13,796,864
Shareholder's equity	-	-	-	-	214,965,851	214,965,851
Total liabilities and shareholder's equity	**904,728,625**	**348,932,631**	**1,006,700,558**	**173,879,559**	**241,500,867**	**2,675,742,240**
Net Position	**(286,869,054)**	**(114,523,222)**	**(394,216,736)**	**708,574,009**	**87,035,003**	**-**
Cumulative Net Position	**(286,869,054)**	**(401,392,276)**	**(795,609,012)**	**(87,035,003)**	**-**	**-**

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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013
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5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2012, 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 years	Total
Assets						
Cash and balances with Central Bank	231,341,516	-	-	-	-	231,341,516
Placement and balances with banks	141,545,181	7,472,552	422,257	-	-	149,439,990
Treasury bills	49,046,027	88,801,297	128,617,541	-	-	266,464,865
Investment securities available-for-sale	5,368,573	17,297,974	79,425,144	247,398,413	20,373,950	369,864,054
Investment securities held-to-maturity	16,661,209	13,004,435	92,348,973	99,898,170	-	221,912,787
Loans to banks	7,517,713	440,173	158,990,526	25,187,529	-	192,135,941
Loans to customers	46,105,879	50,149,997	232,654,313	352,627,433	172,648,334	854,185,956
Property and equipment	-	-	-	6,360,388	21,808,396	28,168,784
Intangible assets	-	-	-	1,514,911	-	1,514,911
Other assets	6,361,433	-	13,325,738	-	2,597,991	22,285,162
Total assets	**503,947,531**	**177,166,428**	**705,784,492**	**732,986,844**	**217,428,671**	**2,337,313,966**
Liabilities and shareholder's equity						
Customer deposits	566,280,711	275,955,588	936,934,091	97,905,680	7,811,885	1,884,887,955
Due to banks and financial institutions	212,550,993	2,816,296	2,637,506	21,100,047	-	239,104,842
Due to third parties	2,249,325	-	-	-	-	2,249,325
Deferred tax liabilities	-	-	-	1,978,653	-	1,978,653
Accruals and other liabilities	10,421,177	-	-	-	1,172,902	11,594,079
Subordinated debt	-	-	7,794	-	13,187,529	13,195,323
Shareholder's equity	-	-	-	-	184,303,789	184,303,789
Total liabilities and shareholder's equity	**791,502,206**	**278,771,884**	**939,579,391**	**120,984,380**	**206,476,105**	**2,337,313,966**
Net Position	**(287,554,675)**	**(101,605,456)**	**(233,794,899)**	**612,002,464**	**10,952,566**	**-**
Cumulative Net Position	**(287,554,675)**	**(389,160,131)**	**(622,955,030)**	**(10,952,566)**	**-**	**-**

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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 the total liquidity ratio should be at a minimum of 25%, whereas the minimum of individual ratios for local and foreign currencies (FX) at 20%. Meanwhile, based on the latest changes of this regulation effective 15 May 2013, the minimum of total liquidity ratio is decreased to 20% and that of individual ratios to 15%.

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-Dec-2013	31-Dec-2012
Total Liquid Assets/Short Term Liabilities Ratio	32.67%	29.23%
Liquid Assets in local currency /Short Term Liabilities in local currency Ratio	38.23%	36.93%
Liquid Assets in foreign currency /Short Term Liabilities in foreign currency Ratio	27.15%	22.15%

(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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013
(amounts in USD, unless otherwise stated)

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

The following tables present the USD equivalent amounts of assets, liabilities and shareholder's equity by currency as at 31 December 2013 and 2012 in accordance with the Bank of Albania foreign currency position requirements:

31 December 2013	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	88,398,635	14,054,276	131,691,494	3,328,597	237,473,002
Placements and balances with banks	503,524	34,692,695	151,616,453	14,467,202	201,279,874
Treasury bills	229,203,659	-	7,520,709	-	236,724,368
Investment securities available-for-sale	365,916,891	131,970,458	96,623,675	102,668,551	697,179,575
Investment securities held-to-maturity	81,047,193	38,444,508	98,263,719	-	217,755,420
Loans to banks	-	3,017,936	118,632,930	-	121,650,866
Loans to customers	474,788,271	67,968,196	342,888,136	557,814	886,202,417
Investment in associates	-	-	1,651,128	-	1,651,128
Property and equipment	22,309,355	-	5,633,112	-	27,942,467
Intangible assets	1,235,689	-	-	-	1,235,689
Other assets	28,791,579	421,960	11,331,927	6,101,968	46,647,434
Total assets	1,292,194,796	290,570,029	965,853,283	127,124,132	2,675,742,240
Foreign exchange contracts	3,533,708	93,419,603	117,801,192	67,970,719	282,725,222
Liabilities and shareholder's equity					
Customer deposits	1,077,306,152	122,734,529	930,366,459	23,858,256	2,154,265,396
Due to banks and financial institutions	195,861,186	12,851,246	40,329,888	29,313,503	278,355,823
Due to third parties	1,738,013	-	-	-	1,738,013
Deferred tax liabilities	3,264,859	-	-	-	3,264,859
Accruals and other liabilities	3,755,457	3,715,804	1,661,830	222,343	9,355,434
Subordinated debt	-	-	13,796,864	-	13,796,864
Shareholder's equity	75,999,946	138,965,905	-	-	214,965,851
Total liabilities and shareholder's equity	1,357,925,613	278,267,484	986,155,041	53,394,102	2,675,742,240
Foreign exchange contracts	-	72,646,335	79,369,972	130,708,915	282,725,222
Net position (GAP)	(62,197,109)	33,075,813	18,129,462	10,991,834	-
Total assets / Total liabilities and equity	95.42%	109.43%	101.70%	105.97%	100.00%
GAP / FX denominated assets		0.09	0.017	0.0563	-
Sensitivity analysis					
Lek depreciates by 10%		3,006,892	1,136,032	999,258	5,142,182
Lek depreciates by 5%		1,575,039	595,064	523,421	2,693,524
Lek appreciates by 5%		(1,740,832)	(657,703)	(578,518)	(2,977,053)
Lek appreciates by 10%		(3,675,090)	(1,388,483)	(1,221,315)	(6,284,888)

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

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(amounts in USD, unless otherwise stated)

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

31 December 2012	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	88,425,323	13,193,266	126,530,316	3,192,611	231,341,516
Placements and balances with banks	11,736	12,144,530	120,264,555	17,019,169	149,439,990
Treasury bills	258,060,588	-	8,404,277	-	266,464,865
Investment securities available-for-sale	191,344,796	50,185,923	82,008,055	46,325,280	369,864,054
Investment securities held-to-maturity	126,077,031	29,434,774	66,400,982	-	221,912,787
Loans to banks	-	32,499,254	159,636,687	-	192,135,941
Loans to customers	409,954,339	110,292,274	333,159,018	780,325	854,185,956
Property and equipment	21,399,356	-	6,769,428	-	28,168,784
Intangible assets	1,514,911	-	-	-	1,514,911
Other assets	16,792,598	466,972	5,025,450	142	22,285,162
Total assets	1,113,580,678	248,216,993	908,198,768	67,317,527	2,337,313,966
Foreign exchange contracts	-	14,001,423	30,310,374	9,302,574	53,614,371
Liabilities and shareholder's equity					
Customer deposits	890,942,629	115,085,561	857,512,884	21,346,881	1,884,887,955
Due to banks and financial institutions	184,072,515	5,484,091	31,676,235	17,872,001	239,104,842
Due to third parties	2,249,325	-	-	-	2,249,325
Deferred tax liabilities	1,978,653	-	-	-	1,978,653
Accruals and other liabilities	3,382,181	3,815,410	1,227,497	3,168,991	11,594,079
Subordinated debt	-	-	13,195,323	-	13,195,323
Shareholder's equity	84,303,789	100,000,000	-	-	184,303,789
Total liabilities and shareholder's equity	1,166,929,092	224,385,062	903,611,939	42,387,873	2,337,313,966
Foreign exchange contracts	1,557,570	9,243,301	20,583,538	22,229,962	53,614,371
Net position (GAP)	(54,905,984)	28,590,053	14,313,665	12,002,266	-
Total assets / Total liabilities and equity	95.30%	112.24%	101.55%	118.57%	100.00%
GAP / FX denominated assets		0.11	0.015	0.1566	-
Sensitivity analysis					
Lek depreciates by 10%		2,599,096	685,840	1,091,115	4,376,051
Lek depreciates by 5%		1,361,431	359,249	571,536	2,292,216
Lek appreciates by 5%		(1,504,740)	(397,065)	(631,698)	(2,533,503)
Lek appreciates by 10%		(3,176,673)	(838,249)	(1,333,585)	(5,348,507)

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.

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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 2013 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	2.10%	N/A	N/A
Placement and balances with banks	3.05%	3.56%	0.43%
Treasury bills	5.79%	N/A	1.70%
Investment securities	7.53%	4.84%	4.66%
Loans to banks	N/A	3.51%	1.76%
Loans to customers	8.75%	7.39%	7.93%
Liabilities			
Customer deposits	3.84%	1.85%	1.90%
Due to banks and financial institutions	3.02%	0.95%	2.28%
Subordinated debt	-	-	5.37%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2012 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	2.80%	N/A	N/A
Placement and balances with banks	N/A	2.55%	0.11%
Treasury bills	7.17%	N/A	4.55%
Investment securities	8.74%	5.61%	4.57%
Loans to banks	N/A	3.92%	2.18%
Loans to customers	9.71%	6.07%	8.99%
Liabilities			
Customer deposits	4.81%	2.18%	2.75%
Due to banks and financial institutions	4.07%	0.43%	2.44%
Subordinated debt	-	-	5.32%

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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 2013 are as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Cash and balances with Central Bank	237,473,002	-	-	-	-	237,473,002
Placement and balances with banks	174,861,169	22,408,966	4,009,739	-	-	201,279,874
Treasury bills	56,476,280	95,237,882	85,010,206	-	-	236,724,368
Investment securities available-for-sale	803,955	46,417,643	155,971,643	396,322,011	97,664,323	697,179,575
Investment securities held-to-maturity	15,561,509	25,516,487	77,525,536	98,151,888	1,000,000	217,755,420
Loans to banks	8,275,280	84,154,071	29,221,515	-	-	121,650,866
Loans to customers	656,917,757	20,623,823	149,202,181	52,411,413	7,047,243	886,202,417
Total	**1,150,368,952**	**294,358,872**	**500,940,820**	**546,885,312**	**105,711,566**	**2,598,265,522**
Liabilities						
Customer deposits	654,012,811	337,450,625	1,003,914,886	149,714,082	9,172,992	2,154,265,396
Due to banks and financial institutions	240,722,236	37,633,587	-	-	-	278,355,823
Subordinated debt	-	-	13,796,864	-	-	13,796,864
Total	**894,735,047**	**375,084,212**	**1,017,711,750**	**149,714,082**	**9,172,992**	**2,446,418,083**

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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 2012 were as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Assets						
Cash and balances with Central Bank	231,341,516	-	-	-	-	231,341,516
Placement and balances with banks	141,545,181	7,472,552	422,257	-	-	149,439,990
Treasury bills	48,436,185	89,126,609	128,902,071	-	-	266,464,865
Investment securities available-for-sale	5,620,823	16,949,894	79,522,648	247,535,179	20,235,510	369,864,054
Investment securities held-to-maturity	16,733,767	13,004,436	92,356,848	99,817,736	-	221,912,787
Loans to banks	87,435,960	70,334,079	34,365,902	-	-	192,135,941
Loans to customers	557,085,593	42,247,211	216,443,504	29,515,859	8,893,789	854,185,956
Total	**1,088,199,025**	**239,134,781**	**552,013,230**	**376,868,774**	**29,129,299**	**2,285,345,109**
Liabilities						
Customer deposits	566,280,711	275,955,588	936,934,091	97,905,680	7,811,885	1,884,887,955
Due to banks and financial institutions	212,550,993	26,553,849	-	-	-	239,104,842
Subordinated debt	-	-	13,195,323	-	-	13,195,323
Total	**778,831,704**	**302,509,437**	**950,129,414**	**97,905,680**	**7,811,885**	**2,137,188,120**

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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 2013		*31 December 2012*	
	Up to 1 year	Over 1 year	Up to 1 year	Over 1 year
Interest rate increases by 2%	(1,720,569)	8,153,627	1,287,478	7,293,088
Interest rate increases by 1.5%	(1,290,426)	6,115,221	965,608	5,469,816
Interest rate increases by 1%	(860,284)	4,076,814	643,739	3,646,544
Interest rate decreases by 1%	860,284	(4,076,814)	(643,739)	(3,646,544)
Interest rate decreases by 1.5%	1,290,426	(6,115,221)	(965,608)	(5,469,816)
Interest rate decreases by 2%	1,720,569	(8,153,627)	(1,287,478)	(7,293,088)

(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.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013
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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 14.6% as at 31 December 2013 (2012: 14.3%).

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%, while the Bank has maintained this ratio at 13.5% as at 31 December 2013 (2012: 13.0%).

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.

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6. Segmental reporting

	31 December 2013			31 December 2012		
Geographical Segments	Albania	Kosovo	Consolidated	Albania	Kosovo	Consolidated
Assets						
Cash and balances with Central Bank	177,969,351	59,503,651	237,473,002	176,165,511	55,176,005	231,341,516
Placement and balances with banks	201,073,192	206,682	201,279,874	148,700,312	739,678	149,439,990
Treasury bills	229,217,218	7,507,150	236,724,368	265,346,737	1,118,128	266,464,865
Investment securities available-for-sale	697,179,575	-	697,179,575	369,864,054	-	369,864,054
Investment securities held-to-maturity	217,755,420	-	217,755,420	221,912,787	-	221,912,787
Loans to banks	121,650,866	-	121,650,866	192,135,941	-	192,135,941
Loans to customers	753,995,362	132,207,055	886,202,417	709,686,849	144,499,107	854,185,956
Investment in associates	1,651,128	-	1,651,128	-	-	-
Property and equipment	22,309,339	5,633,128	27,942,467	21,399,341	6,769,443	28,168,784
Intangible assets	1,235,689	-	1,235,689	1,514,911	-	1,514,911
Other assets	(51,159,450)	97,806,884	46,647,434	(22,621,720)	44,906,882	22,285,162
Total assets	**2,372,877,690**	**302,864,550**	**2,675,742,240**	**2,084,104,723**	**253,209,243**	**2,337,313,966**
Liabilities and shareholder's equity						
Liabilities						
Customer deposits	1,884,959,892	269,305,504	2,154,265,396	1,652,984,247	231,903,708	1,884,887,955
Due to banks and financial institutions	271,457,353	6,898,470	278,355,823	236,203,314	2,901,528	239,104,842
Due to third parties	1,738,013	-	1,738,013	2,249,325	-	2,249,325
Deferred tax liabilities	3,264,859	-	3,264,859	1,978,653	-	1,978,653
Accruals and other liabilities	8,317,842	1,037,592	9,355,434	11,395,453	198,626	11,594,079
Subordinated debt	13,796,864	-	13,796,864	13,195,323	-	13,195,323
Total liabilities	**2,183,534,823**	**277,241,566**	**2,460,776,389**	**1,918,006,315**	**235,003,862**	**2,153,010,177**
Shareholder's equity						
Share capital			138,965,905			100,000,000
Legal reserve			-			3,410,723
Translation reserve			1,140,491			394,191
Fair value reserve			(3,196,237)			6,845,965
Retained earnings			78,055,692			73,652,910
Total shareholder's equity			**214,965,851**			**184,303,789**
Total liabilities and shareholder's equity			**2,675,742,240**			**2,337,313,966**

Included within the USD 97,806,884 debit for Kosovo 'Other assets' is an amount of USD 95,562,491, which represents intra-group balances between the Head Office and Branches in Albania and Kosovo Branch as at 31 December 2013, and has been eliminated on consolidation (31 December 2012: USD 43,394,107).

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6. Segmental reporting (continued)

	2013			2012		
Geographical Segments	Albania	Kosovo	Consolidated	Albania	Kosovo	Consolidated
Interest						
Interest income	136,833,603	16,751,005	153,584,608	123,702,609	17,312,085	141,014,694
Interest expense	(67,490,029)	(7,534,049)	(75,024,078)	(62,679,859)	(6,961,010)	(69,640,869)
Net interest margin	69,343,574	9,216,956	78,560,530	61,022,750	10,351,075	71,373,825
Non-interest income, net				-		
Fees and commissions, net	6,234,447	3,322,961	9,557,408	6,813,306	1,844,898	8,658,204
Foreign exchange revaluation gain/(loss), net	(4,035,440)	15	(4,035,425)	(516,949)	18	(516,931)
Profit/(loss) from FX trading activities, net	(1,557,849)	(65,348)	(1,623,197)	76,473	(62,931)	13,542
Other income/(expense), net	10,741,940	1,803	10,743,743	(262,850)	(4,368)	(267,218)
Total non-interest income, net	11,383,098	3,259,431	14,642,529	6,109,980	1,777,617	7,887,597
Operating expenses						
Personnel	(12,883,320)	(4,221,818)	(17,105,138)	(11,732,436)	(3,730,610)	(15,463,046)
Administrative	(16,157,317)	(4,817,287)	(20,974,604)	(15,395,067)	(4,654,973)	(20,050,040)
Depreciation and amortization	(3,320,773)	(1,769,561)	(5,090,334)	(3,405,587)	(1,492,649)	(4,898,236)
Total operating expenses	(32,361,410)	(10,808,666)	(43,170,076)	(30,533,090)	(9,878,232)	(40,411,322)
Impairment of loans	(4,932,357)	(1,267,143)	(6,199,500)	(3,106,352)	(1,084,912)	(4,191,264)
Profit before taxes	43,432,905	400,578	43,833,483	33,493,288	1,165,548	34,658,836
Income tax	(4,530,730)	-	(4,530,730)	(3,763,562)	-	(3,763,562)
Net profit for the year	38,902,175	400,578	39,302,753	29,729,726	1,165,548	30,895,274

Interest income of USD 1,787,428 (2012: USD 247,610), which represents interest earned from Kosovo Branch on intra-group balances was eliminated on consolidation.

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7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2013 and 2012 are detailed as follows:

	31 December 2013	31 December 2012
Cash on hand	39,442,451	34,477,301
Deposits with the Central Bank of Kosovo	49,207,253	46,798,595
Bank of Albania		
Current account	694,379	135,793
Statutory reserve	148,077,326	149,880,551
Accrued interest	51,593	49,276
	148,823,298	150,065,620
	237,473,002	231,341,516

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

Deposits with the Central Bank of Kosovo include the statutory reserve of 10% of customer deposits in Kosovo and the cash deposit pledged as capital equivalency deposit.

Cash and cash equivalents as at 31 December 2013 and 2012 are presented as follows:

	31 December 2013	31 December 2012
Cash and balances with Central Bank	237,473,002	231,341,516
Statutory reserve in Albania	(148,077,326)	(149,880,551)
Statutory reserve in Kosovo	(23,019,592)	(21,105,322)
Capital equivalency deposit in Kosovo	(9,634,793)	(9,231,271)
Current accounts with banks	19,591,543	15,212,198
Accrued interest with banks	418,627	130,736
Placements with maturities of 3 months or less	161,863,920	133,173,180
	238,615,381	199,640,486

8. Placements and balances with banks

Placements and balances with banks as at 31 December 2013 and 31 December 2012 consisted as follows:

	31 December 2013	31 December 2012
Placements	176,837,103	133,173,180
Cash collateral held by financial institutions	4,432,601	923,876
Current accounts	19,591,543	15,212,198
Accrued interest	418,627	130,736
	201,279,874	149,439,990

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 to letters of credit issued to the Bank's clients and cash deposits that secure risks in relation to the credit cards activity of the Bank.

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9. Treasury bills

Treasury bills portfolio is composed as follows:

	31 December 2013	31 December 2012
Treasury bills available-for-sale	236,724,368	236,660,850
Treasury bills held-to-maturity	-	29,804,015
	236,724,368	266,464,865

Treasury bills available-for-sale

Treasury bills available-for-sale by original maturity as at 31 December 2013 and 31 December 2012 are presented as follows:

	31 December 2013			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair Value
3 months	1,768,353	598	108	1,769,059
6 months	8,666,145	87,410	6,682	8,760,237
12 months	216,359,950	9,128,739	706,383	226,195,072
	226,794,448	9,216,747	713,173	236,724,368

	31 December 2012			
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair Value
3 months	788,638	1,470	92	790,200
6 months	493,845	3,783	1,265	498,893
12 months	225,523,031	9,220,780	627,946	235,371,757
	226,805,514	9,226,033	629,303	236,660,850

Treasury bills held-to-maturity

The Bank has no treasury bills classified into held-to-maturity portfolio as at 31 December 2013, while the details of this portfolio, by original maturity, as at 31 December 2012 are presented as follows:

	31 December 2012		
	Purchase value	Amortized discount	Amortized cost
12 months	27,849,520	1,954,495	29,804,015
	27,849,520	1,954,495	29,804,015

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10. Investment securities available-for-sale

Investment securities available-for-sale as at 31 December 2013 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
Lek denominated	355,468,105	272,922	6,299,647	3,876,217	365,916,891
USD denominated	129,422,632	1,890,535	1,697,758	(1,040,467)	131,970,458
EUR denominated	90,278,009	1,927,882	2,931,070	1,486,715	96,623,676
TRY denominated	86,724,924	(43,769)	5,142,057	(4,475,360)	87,347,852
CAD denominated	12,566,607	-	-	(3,678,859)	8,887,748
GBP denominated	6,090,210	119,667	215,953	7,120	6,432,950
	680,550,487	4,167,237	16,286,485	(3,824,634)	697,179,575

Investment securities available-for-sale as at 31 December 2012 comprise as follows:

Type	Nominal value	Unamortized discount	Accrued interest	Marked to market gain/ (loss)	Fair Value
Lek denominated	186,413,793	(2,740)	4,166,035	767,708	191,344,796
USD denominated	49,531,875	97,079	528,968	28,001	50,185,923
EUR denominated	78,350,464	226,917	2,386,324	1,044,350	82,008,055
GBP denominated	5,660,179	147,384	123,878	(4,230)	5,927,211
TRY denominated	38,123,925	-	1,850,233	423,911	40,398,069
	358,080,236	468,640	9,055,438	2,259,740	369,864,054

11. Investment securities held-to-maturity

Investment securities held-to-maturity as at 31 December 2013 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek denominated	79,198,070	6,888	1,842,235	81,047,193
USD denominated	37,923,712	82,493	438,303	38,444,508
EUR denominated	96,335,266	446,450	1,482,003	98,263,719
	213,457,048	535,831	3,762,541	217,755,420

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

Investment securities held-to-maturity as at 31 December 2012 comprise as follows:

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value
Lek denominated	123,449,366	9,889	2,617,777	126,077,032
USD denominated	28,905,088	14,494	515,191	29,434,773
EUR denominated	64,917,062	196,980	1,286,940	66,400,982
	217,271,516	221,363	4,419,908	221,912,787

12. Loans to banks

The Bank has purchased syndicated loans of some non-resident banks with ratings as follows:

Moody's or equivalent	31 December 2013	31 December 2012
Rated Baa3 to Baa1	59,124,561	27,875,771
Rated Ba2 to Ba1	36,514,785	137,598,003
Rated Ba3	12,427,280	13,445,906
Rated B2 to B1	8,946,891	6,602,172
Not rated	4,637,349	6,614,089
	121,650,866	192,135,941

13. Loans to customers

Loans to customers consisted of the following:

	31 December 2013	31 December 2012
Loans to customers, gross	908,528,043	870,920,617
Accrued interest	8,704,282	7,461,390
Less allowances for impairment on loans	(26,877,330)	(19,675,821)
Less unamortized deferred fee income	(4,152,578)	(4,520,230)
	886,202,417	854,185,956

Movements in the allowance for impairment on loans:

	2013	2012
At 1 January	19,675,821	15,150,406
Impairment charge for the year	6,199,500	4,191,264
Translation difference	1,002,009	334,151
At the end of the year	26,877,330	19,675,821

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

Loans in Lek	0.50% to 25.00%
Loans in Euro	0.50% to 22.00%
Loans in USD	1.58% to 12.02%
Loans in CHF	4.76% to 5.26%

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.

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13. Loans to customers (continued)

The classification of business loans by industry is as follows:

	31 December 2013		31 December 2012	
	USD	%	USD	%
Wholesale Trade	100,667,527	16%	108,770,990	18%
Electricity, Gas and Water Supply	82,893,194	13%	73,735,344	12%
Construction	63,549,488	11%	78,030,654	13%
Financial Intermediation	41,012,105	7%	16,086,898	3%
Mining and Quarrying	40,649,325	7%	40,915,934	7%
Manufacturing of Other Non-metallic Products	35,955,531	6%	36,434,832	6%
Retail Trade	34,097,476	6%	36,981,497	6%
Manufacture of Food Products, Beverages	23,391,192	4%	24,116,465	4%
Real Estate, Renting and Business Activity	21,317,914	4%	20,404,404	3%
Other Community, Social and Personal Activities	19,244,791	3%	19,447,639	3%
Overdraft	18,688,430	3%	13,338,931	2%
Education	17,262,681	3%	16,514,136	3%
Agriculture, Hunting and Forestry	15,127,617	3%	14,507,300	2%
Hotels and Restaurants	13,617,873	2%	29,024,064	5%
Manufacturing of Basic Metals and Fabricated Metal Products	10,684,014	2%	11,163,914	2%
Health and Social Work	8,626,846	1%	8,997,342	1%
Personal Needs	8,046,355	1%	8,196,602	1%
Manufacture of Rubber and Plastic Products	6,887,446	1%	7,572,581	1%
Manufacture of Pulp, Paper and Paper Products	5,265,125	1%	1,686,709	1%
Manufacture of Wood and Wood Products	4,805,987	1%	5,471,102	1%
Other Sectors	29,181,946	5%	36,787,411	6%
	600,972,863	100%	608,184,749	100%

The classification of retail loans by type is as follows:

	31 December 2013		31 December 2012	
	USD	%	USD	%
Home purchase	200,197,318	63%	163,780,003	62%
Home improvement	28,387,014	9%	27,334,296	10%
Super Loan	20,636,930	7%	18,120,325	7%
Overdraft and credit cards	15,024,603	5%	11,388,783	4%
Shop purchase	13,960,174	5%	13,947,521	5%
Home reconstruction	9,829,137	3%	10,353,999	4%
Home advances	3,618,398	1%	4,070,821	2%
Technical equipment	796,664	1%	907,584	1%
Car purchase	636,013	1%	835,634	1%
Other types	14,468,929	5%	11,996,900	4%
	307,555,180	100%	262,735,866	100%

14. Investment in associates

Investment in associates of USD 1,651,128 (31 December 2012: nil) represents the equivalent amount of an investment of EUR 1,199,600 into the share capital of the company-Albania Leasing sh.a at a participation ratio of 29.99%. This company was legally registered on August 2013. The company operations have not yet started pending on obtaining the License from the Bank of Albania.

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15. Property and equipment

Property and equipment as at 31 December 2013 and 2012 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 2012	19,562,914	4,745,477	12,773,406	1,472,138	38,553,935
Additions	13,056,486	531,756	1,948,897	416,786	15,953,925
Disposals / transfers	(103,265)	(107,488)	(776,303)	(14,680)	(1,001,736)
Reclassifications	(2,665,180)	-	-	-	(2,665,180)
Translation difference	327,702	82,367	219,775	25,395	655,239
At 31 December 2012	30,178,657	5,252,112	14,165,775	1,899,639	51,496,183
Additions	706,908	647,171	1,426,117	234,039	3,014,235
Disposals / transfers	-	(154,810)	(31,338)	-	(186,148)
Translation difference	1,117,480	213,007	575,869	77,113	1,983,469
At 31 December 2013	32,003,045	5,957,480	16,136,423	2,210,791	56,307,739
Accumulated depreciation					
At 1 January 2012	(7,175,548)	(3,348,831)	(8,302,696)	(1,004,202)	(19,831,277)
Charge for the year	(1,192,434)	(617,437)	(2,005,694)	(228,188)	(4,043,753)
Disposals / write offs	4,454	107,291	763,754	14,680	890,179
Reclassifications	67,189	-	-	-	67,189
Translation difference	(141,109)	(43,448)	(203,266)	(21,914)	(409,737)
At 31 December 2012	(8,437,448)	(3,902,425)	(9,747,902)	(1,239,624)	(23,327,399)
Charge for the year	(1,365,362)	(631,832)	(1,860,137)	(277,940)	(4,135,271)
Disposals / write offs	-	152,099	31,338	-	183,437
Translation difference	(385,147)	(181,057)	(459,466)	(60,369)	(1,086,039)
At 31 December 2013	(10,187,957)	(4,563,215)	(12,036,167)	(1,577,933)	(28,365,272)
Net book value					
At 1 January 2012	12,387,366	1,396,646	4,470,710	467,936	18,722,658
At 31 December 2012	21,741,209	1,349,687	4,417,873	660,015	28,168,784
At 31 December 2013	21,815,088	1,394,265	4,100,256	632,858	27,942,467

As at 31 December 2013 the gross value of the assets which were fully depreciated was USD 14,584,516 (2012: USD 10,840,187).

The reclassifications made as at 31 December 2012 represent a number of commercial properties (land and buildings) that were leased to third parties and were classified as investment property and included in other assets (see note 17).

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16. Intangible assets

Intangible assets as at 31 December 2013 and 2012 are composed as follows:

	Software
Gross value	
At 1 January 2012	**5,347,519**
Additions	639,048
Translation difference	85,378
At 31 December 2012	**6,071,945**
Additions	444,654
Translation difference	237,846
At 31 December 2013	**6,754,445**
Accumulated depreciation	
At 1 January 2012	**(3,648,072)**
Charge for the year	(854,483)
Translation difference	(54,479)
At 31 December 2012	**(4,557,034)**
Charge for the year	(754,854)
Translation difference	(206,868)
At 31 December 2013	**(5,518,756)**
Net book value	
At 1 January 2012	**1,699,447**
At 31 December 2012	**1,514,911**
At 31 December 2013	**1,235,689**

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 was finalised in November 2013.

17. Other assets

Other assets as at 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Assets acquired through legal process	29,142,829	15,923,728
Cheques receivable	6,101,806	-
Administration costs receivable from borrowers	2,794,091	2,071,794
Cheques for collection and payments in transit	2,087,473	1,087,195
Prepaid expenses	1,270,371	1,377,077
Inventory	847,030	641,656
Advances to suppliers	734,656	250,825
Foreign exchange contracts revaluation gain	199,857	432,465
Other debtors	3,469,321	500,422
	46,647,434	**22,285,162**

Assets acquired through legal process represent the repossessed collaterals of some unrecoverable loans, the ownership of which was taken on behalf of the Bank. The Bank has established an Asset Sale Committee, responsible for the disposal of these assets. Cheques receivable represents cheques that will be settled from January to August in 2014.

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17. Other assets (continued)

The fair value of these assets at the reporting date is determined with reference to the current market prices. A number of properties with a carrying amount of USD 7,613,994 (2012: USD 2,597,991) which are leased to third parties, were reclassified in 2012 from property and equipment (see note 15) to assets acquired through legal process (investment property). The depreciation charge of the leased assets for the year end 2013 was USD 200,209 (31 December 2012: USD 58,428). Subsequent renewals are negotiated with the lessee on an annual basis. Rental income from investment property of USD 212,328 (31 December 2012: USD 118,728) is recognised in other income.

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

18. Customer deposits

Customer deposits as at 31 December 2013 and 2012 are composed as follows:

	31 December 2013	31 December 2012
Current accounts:		
Individuals	111,149,607	80,294,608
Private enterprises	162,266,836	143,633,073
State owned entities	21,859,942	27,047,033
	295,276,385	**250,974,714**
Deposits:		
Individuals	1,668,832,778	1,478,359,304
Private enterprises	110,693,639	95,693,420
State owned entities	47,354,847	31,975,273
	1,826,881,264	**1,606,027,997**
Other customer accounts:		
Individuals	2,929,112	3,122,559
Private enterprises	28,442,374	23,845,350
State owned entities	736,261	917,335
	32,107,747	**27,885,244**
	2,154,265,396	**1,884,887,955**

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18. Customer deposits (continued)

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

	31 December 2013			31 December 2012		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	127,997,416	167,278,969	295,276,385	114,929,447	136,045,267	250,974,714
Deposits						
On demand	1,391,735	50,245,822	51,637,557	604,418	44,699,095	45,303,513
Up to 39 days	26,889,141	64,854,923	91,744,064	17,964,383	44,924,394	62,888,777
40-99 days	65,817,946	94,202,623	160,020,569	62,820,019	83,828,887	146,648,906
100-189 days	109,715,664	109,003,584	218,719,248	104,642,894	103,989,302	208,632,196
190- 370 days	589,332,565	478,404,375	1,067,736,940	489,270,313	489,607,647	978,877,960
371 days and over	123,750,029	83,553,438	207,303,467	73,246,186	61,837,482	135,083,668
Accrued interest on deposits	22,036,360	7,683,059	29,719,419	19,230,687	9,362,290	28,592,977
Total deposits	938,933,440	887,947,824	1,826,881,264	767,778,900	838,249,097	1,606,027,997
Other customer accounts	10,375,296	21,732,451	32,107,747	8,234,282	19,650,962	27,885,244
Total customer deposits	1,077,306,152	1,076,959,244	2,154,265,396	890,942,629	993,945,326	1,884,887,955

Other customer accounts are composed as follows:

	31 December 2013			31 December 2012		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Guarantees for letters of credit	-	1,464,517	1,464,517	-	1,857,035	1,857,035
Escrow accounts	5,994,544	14,395,580	20,390,124	4,535,293	11,482,981	16,018,274
Payment orders to be executed	223,380	663,597	886,977	162,961	779,137	942,098
Other	4,157,372	5,208,757	9,366,129	3,536,028	5,531,809	9,067,837
	10,375,296	21,732,451	32,107,747	8,234,282	19,650,962	27,885,244

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).

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19. Due to banks and financial institutions

Due to banks as at 31 December 2013 and 2012 consisted as follows:

	31 December 2013	31 December 2012
Treasury bills sold under Repo agreements with Central Bank	160,008,842	149,436,893
FX securities sold under Repo agreement	6,551,212	-
Deposits from banks	77,885,797	59,228,406
Current accounts of non-resident banks	4,851,687	3,880,548
Current accounts of resident banks	5,117	5,146
Borrowing from financial institutions	29,053,168	26,553,849
	278,355,823	239,104,842

Treasury bills and Albanian Government Bonds with a total value of USD 205,487,925 (2012: USD 173,075,106) were used to secure Repo agreements with the Central Bank and borrowings from banks.

Deposits from banks as at 31 December 2013 represent short-term borrowings obtained from resident and non-resident banks.

Borrowing from financial institutions represents seven-year borrowings of EUR 21,108,100 (2012: EUR 20,135,575), obtained from European Fund for Southeast Europe (EFSE) for granting loans to SME customers of the Bank. Part of these borrowings as at 31 December 2013 is the amount of EUR 5,000,000 disbursed from EFSE to BKT Kosovo, under the new agreement signed on 13 December 2013.

20. Due to third parties

The Bank acts as an agent for the tax authorities, either in the collection of taxes or in performing advance payments for the budget. In return, the Bank charges a commission to the taxpayers for the service rendered. The credit balance as at 31 December 2013 of USD 1,738,013 (2012: USD 2,249,325) represents the net outstanding amount of payments and collections made by the Bank to and from third parties, on behalf of tax authorities.

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21. 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 2013	31 December 2012
Liability at 1 January	1,978,653	2,374,663
Expense/(income) for the year	1,523,522	(424,578)
Reversal for the year	(358,293)	-
Exchange differences	120,977	28,568
Liability at the end of the year	3,264,859	1,978,653

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

	31 December 2013	31 December 2012
Deferred income on fees on loans	(415,258)	(452,023)
Decelerated depreciation	(485,003)	(414,173)
Allowance for loan impairment	3,178,313	3,106,589
Fair value reserve for AFS securities	986,807	(261,740)
	3,264,859	1,978,653

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.

22. Accruals and other liabilities

	31 December 2013	31 December 2012
Creditors	1,814,041	5,006,916
Deposit insurance payable	1,345,918	1,155,614
Bonus payable	1,111,939	1,170,289
Liability for retiring employees (note 3(r).ii.)	1,099,870	1,172,902
Due to tax authorities	1,013,325	1,417,158
Payables to constructors for home loans	812,172	837,305
Payments in transit	731,545	266,331
Accrued expenses	591,173	304,432
Foreign exchange contracts revaluation loss	573,908	-
Social insurance	170,516	162,202
Cash guarantees from suppliers	91,027	100,930
	9,355,434	11,594,079

Creditors represent balances of USD 1,814,041 (2012: USD 1,854,100) that relate to old transactions of the Albanian Government and are pending on the future determination of the rightful owner of these amounts.

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 2014.

Deposit insurance payable relates to the last quarter of 2013 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.

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23. Subordinated debt

Subordinated debt of USD 13,796,864 (2012: 13,195,323) represents the equivalent amount of a facility of EUR 10 million that was obtained from the Green for Growth Fund Southeast Europe, under the Subordinated Term Loan Facility Agreement, signed on 19 November 2012 with the purpose of granting loans related to Energy Efficiency and Renewable Energy investments.

Pursuant to the approval granted by Bank of Albania on 21 December 2012, this subordinated debt was classified as second-tier capital and included in the regulatory capital of the Bank.

24. Shareholder's equity and reserves

Share Capital

At 31 December 2013 the authorised share capital comprised 11,252,300 ordinary shares (2012: 8,097,166). The shares have a par value of USD 12.35. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank's residual assets.

Legal reserve

As described in Note 1, based on the Shareholder's Decision dated 28 March 2012, the Bank created legal reserves of Lek 358,706 thousand (equivalent of USD 3,410,723). The total legal reserve was used to increase the share capital on 27 March 2013.

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 2013, includes the cumulative non distributed earnings. As described in Note 1, the Bank has used part of its retained earnings amounting to Lek 3,899,878 thousand or USD 35,683,759.10 to increase its share capital on 27 March 2013.

25. Interest income

Interest income is composed as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Placements with banks and balances with Central Bank	6,632,818	6,881,760
Treasury bills and investment securities	65,543,629	56,280,892
Loans to customers	81,408,161	77,852,042
	153,584,608	141,014,694

Interest income can be further detailed as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Held-to-maturity investments	20,462,565	27,573,985
Available-for-sale financial assets	51,713,882	35,588,667
Loans and receivables	81,408,161	77,852,042
	153,584,608	141,014,694

Interest income on individually impaired loans for the year ended 31 December 2013 was USD 309,722 (2012: USD 143,585).

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26. Interest expense

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

	Year ended 31 December 2013	Year ended 31 December 2012
Due to banks and financial institutions	10,648,766	9,423,592
Customer deposits	64,375,312	60,217,277
	75,024,078	**69,640,869**

27. Fees and commissions, net

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

	Year ended 31 December 2013	Year ended 31 December 2012
Fee and commission income		
Payment services to clients	3,991,684	3,462,223
Electronic banking services	1,834,994	1,244,899
Inter-bank transactions	1,809,562	2,232,702
Customer accounts' maintenance	1,421,280	831,970
Lending activity	1,112,353	753,648
Cash transactions with clients	327,186	235,270
Other fees and commissions	251,112	136,458
	10,748,171	*8,897,170*
Fee and commission expense		
Inter-bank transactions	(1,062,395)	(96,920)
Bank accounts' maintenance	(98,014)	(80,081)
Payment services to clients	(29,367)	(53,469)
Transactions with clients	(947)	(3,489)
Other fees and commissions	(40)	(5,007)
	(1,190,763)	*(238,966)*
Fees and commissions, net	**9,557,408**	**8,658,204**

28. Foreign exchange revaluation gain/(loss), net

Foreign exchange revaluation gain/(loss) 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 gain on the share capital revaluation for the year ended 31 December 2013 is USD 6,516,342 (2012: USD 1,562,211).

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29. Other income/(expense), net

Other income and expenses are composed as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Other income		
Income from financial instruments measured at FV	8,490,428	-
Dividend income from equity investments	2,179,905	-
Income from operating lease	212,328	118,728
Gain on sale of assets acquired through legal process	95,933	111,697
Reversal of staff pension fund	70,234	116,465
Gain on recovery of lost loans	40,425	3,853
Gain on sale of property and equipment	25,936	59,208
Sundry	53,558	48,677
	11,168,747	*458,628*
Other expense		
Loss on sale or write off of fixed assets	(2,594)	(25,622)
Loss on unrecoverable lost loans	(24,068)	(129,055)
Provision of other debtors	(332,379)	(524,232)
Sundry	(65,963)	(46,937)
	(425,004)	*(725,846)*
Other expense, net	**10,743,743**	**(267,218)**

30. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Salaries	13,526,579	12,311,013
Performance bonus	1,366,251	1,139,385
Social insurance	1,250,158	1,142,850
Training	518,890	519,216
Health and life insurance	137,748	62,518
Other	305,512	288,064
	17,105,138	**15,463,046**

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31. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Deposit insurance expense	5,370,057	4,639,197
Lease payments	2,580,707	2,329,420
Telephone, electricity and IT expenses	2,534,039	2,508,254
Credit/debit cards expenses	2,454,490	1,622,381
Marketing expenses	2,213,344	2,601,052
Repairs and maintenance	1,940,421	2,262,105
Security and insurance expenses	1,098,598	1,066,157
Transportation and business related travel	906,759	903,973
Office stationery and supplies	488,529	513,974
Other external services (including external audit fees)	383,437	636,860
Representation expenses	257,991	226,372
Taxes other than tax on profits	153,412	144,711
Sundry	592,820	595,584
	20,974,604	20,050,040

32. Income tax

Income tax is comprised of:

	Year ended 31 December 2013	Year ended 31 December 2012
Current income tax	3,365,501	4,188,140
Deferred tax expense/(income) (note 21)	1,523,522	(424,578)
Deferred tax recognized into current tax (note 21)	(358,293)	-
	4,530,730	3,763,562

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 2013	Year ended 31 December 2012
Profit before taxes	43,833,483	34,658,836
Computed tax using applicable tax rate of 10%	4,383,348	3,465,884
Non tax deductible expenses	536,762	326,378
Deferred tax recognized into current tax	(358,293)	-
Foreign exchange difference	(31,087)	(28,700)
Income tax	4,530,730	3,763,562
Effective tax rate	10.34%	10.86%

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013
(amounts in USD, unless otherwise stated)

33. 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 2013. The ultimate controlling party is Mr Ahmet Calik.

ALBtelecom Sh.a., Eagle Mobile Sh.a., Aktif Yatirim Bankasi A.S. ("Aktifbank"), GAP Pazarlama FZE, Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S and Kosovo Electricity Distribution and Supply Company J.S.C (KEDS) are controlled by Calik Holding. Anateks Anadolu Tekstil Fab. Tic. is an entity controlled by individuals that are close members of the family of the owner of Calik Holding.

Balances and transactions with related parties

	31 December 2013	31 December 2012
Assets		
Placement and balances with banks:		
Current accounts with Aktifbank	88,290	78,297
Placements with Aktifbank	12,054,618	-
Investment securities available-for-sale:		
Aktifbank	40,852,295	23,158,640
Loans to customers:		
Anateks Anadolu Tekstil Fab. Tic.	-	11,857,389
KEDS	1,854,163	-
Other assets:		
Receivables from ALBtelecom Sh.a	11,035	-
Total assets	**54,860,401**	**35,094,326**
Liabilities		
Due to banks and financial institutions:		
Borrowings from Aktifbank	11,199,412	3,924,158
Customer deposits:		
ALBtelecom Sh.a.	4,112,346	3,373,026
Eagle Mobile Sh.a.	24	654,490
Other liabilities:		
Payables to ALBtelecom Sh.a	67,793	-
Total liabilities	**15,379,575**	**7,951,674**

	31 December 2013	31 December 2012
Commitments and contingencies		
Guarantees in favour of customers:		
ALBtelecom Sh.a.	-	32,607
Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S	-	1,318,753
KEDS	7,163,046	-

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013
(amounts in USD, unless otherwise stated)

33. Related party transactions (continued)

	2013	2012
Statement of comprehensive income		
Interest income from:		
Aktifbank	1,578,254	845,416
GAP Pazarlama FZE	-	177,500
Anateks Anadolu Tekstil Fab. Tic.	401,476	648,988
KEDS	5,031	-
ALBtelecom Sh.a.	-	10,484
Eagle Mobile sh.a	-	6,140
Interest expenses for:		
ALBtelecom Sh.a. and Eagle Mobile Sh.a.	(80,781)	(63,309)
Aktifbank	(70,700)	(217,395)
Fees and commissions:		
Commissions charged by Aktifbank	-	(3,347)
Letters of guarantee:		
ALBtelecom Sh.a.	290	682
Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S	11,203	26,203
KEDS	50,520	-
Account maintenance and lending fees from ALBtelecom Sh.a. and Eagle Mobile Sh.a.	814	10,207
Other income:		
Operating lease income from ALBtelecom Sh.a.	20,501	-
Operating expenses		
ALBtelecom Sh.a., Eagle Mobile Sh.a. and Calik Holding	(1,141,607)	(999,102)
Net	**775,001**	**442,467**

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 2013	Year ended 31 December 2012
Directors	118,650	106,668
Executive officers	2,699,641	2,471,446
	2,818,291	**2,578,114**

As at 31 December 2013, the total deposits of directors held with the Bank were USD 1,015,441 (31 December 2012: USD 770,061), while there are no outstanding loans granted to directors.

34. Contingencies and commitments

Guarantees and letters of credit

	31 December 2013	31 December 2012
Guarantees in favour of customers	115,317,133	81,799,801
Guarantees received from credit institutions	37,502,568	16,208,660
Letters of credit issued to customers	6,303,982	6,152,087

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

Banka Kombetare Tregtare Sh.a.

Notes to the Consolidated Financial Statements for the year ended 31 December 2013
(amounts in USD, unless otherwise stated)

34. Contingencies and commitments (continued)

At present the Bank is operating as an agent of 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 2013	31 December 2012
Undrawn credit commitments	69,075,578	57,239,189
Outstanding cheques of non-resident banks	238,407	158,170
Spot foreign currency contract	282,725,222	53,614,371
Collaterals for loan portfolio	2,379,195,755	2,297,175,113
Securities pledged as collateral (notes 19)	198,605,930	173,075,106

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 2013.

Lease commitments

Such commitments for the years ended 31 December 2013 and 2012 are composed as follows:

	31 December 2013	31 December 2012
Not later than 1 year	2,461,708	2,361,994
Later than 1 year and not later than 5 years	7,371,947	8,144,393
Later than 5 years	1,724,639	2,290,854
Total	11,558,294	12,797,241

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2013 with a maximum duration of ten years.

The Bank had 80 rented buildings as at 31 December 2013, in which are included the rented space dedicated to offsite disaster recovery and the 26 buildings rented for units of Kosovo Branch.

The Bank may cancel these leases upon giving three months notice. Therefore, at 31 December 2013, the maximum non-cancellable commitment payable not later than one year is USD 615,427 (2012: USD 590,498).

The Bank leases a number of properties under operating leases. The leases typically run for a period of up to 1 year, with an option to renew the lease after that period.

35. Subsequent events

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

DIRECTORY

Tirana Branches

Main Branch
Tel: +355 4 2266 276/7/8

Rr. Elbasanit Branch
Tel: +355 4 2347-552/6

Lapraka Branch
Tel: +355 4 2413 176

Kombinat Branch
Tel: +355 4 2351672

Medrese Branch
Tel: +355 4 2379380/1

Stacioni Trenit Branch
Tel: +355 4 2234047

Mustafa Qemal Ataturk Branch
Tel: +355 4 2245868

Ismail Qemali Branch
Tel: +355 4 2264947

Abdyl Frashëri Branch
Tel: +355 4 2265865

Dajti Branch
Tel: +355 4 2370727

Myslym Shyri Branch
Tel: +355 4 2243342

Kamëz Branch
Tel: +355 4 7200440

Komuna Parisit Branch
Tel: +355 4 2320671

Sauk Branch
Tel: +355 4 2467921

Ali Demi Branch
Tel: +355 4 2358946

Shkolla Baletit Branch
Tel: +355 4 2379603/4

Kristal Branch
Tel: +355 4 2322295

Don Bosko Branch
Tel: +355 4 2404208/9

Rr. Durresit Branch
Tel: +355 4 2400261

Kashar Branch
Tel: +355 4 2291727/8

Hoxha Tahsim Branch
Tel: +355 4 2268199/201

Liqeni Branch
Tel: +355 4 24654312/314

Qyteti i Nxënësve Branch
Tel: +355 42200211

Other Branches in Albania

Durrës Branch
Tel: +355 52 220061

Elbasan Branch
Tel: +355 54 241183

Rinia Branch
Tel: +355 54 240270/241400

Korça Branch
Tel: +355 82 251916/7/8

Lushnja Branch
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Vlora Branch
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Pavarësia Branch
Tel: +355 33 238369

Gjirokastër Branch
Tel: +355 84 267129/30

Shkodër Branch
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Çlirimi Branch
Tel: +355 22 245365/249449

Fier Branch
Tel: +355 34 22 8455

Berat Branch
Tel: +355 32 236470

Pogradec Branch
Tel: +355 83 225704/6

Saranda Branch
Tel: +355 85 225705

Lezha Branch
Tel: +355 215 22602/4

Kukës Branch
Tel: +355 242 22434

Peshkopi Branch
Tel: +355 218 25535/6/7

Fushë-Krujë Branch
Tel: +355 563 22927/8

Bilisht Branch
Tel: +355 81 13681/2

Delvina Branch
Tel: +355 81 523713

Kavaja Branch
Tel: +355 5524 7743/4

Vora Branch
Tel: +355 47600 375

Laç Branch
Tel: +355 532 222547

Rrëshen Branch
Tel: +355 216 23142/6

Bushat Branch
Tel: +355 266 220262/3

Shkozet Branch
Tel: +355 52 265413/4

Shkodra Branch
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Koplik Branch
Tel: +355 211 23169

Librazhd Branch
Tel: +355 514 22177/8

Peqin Branch
Tel: +355 512 23745/6

Rrogozhina Branch
Tel: +355 57 723207/8

Plazhi Durrës Branch
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Orikum Branch
Tel: +355 391 22942

Kuçovë Branch
Tel: +355 311 222 34

Aleksandër Goga Branch
Tel: +355 52 222179/81

Dogana Durrës Agency
Tel: +355 52 220161

Forex Airport Rinas Agency
Tel: +355 4 2381963

Kastrioti Branch
Tel: +355 34 233801/2

Kosova Branches

Administrative Office
Tel: +381 38 222 910

Pejton Unit
Tel: +381 38 222 910

Kodra e Diellit Unit
Tel: +381 38 233 910

Dardania Unit
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Fushë-Kosova Unit
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Podujeva Unit
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Shatervan Unit
Tel: +381 29 223 910

Teuta Unit
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Gjakova Unit
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Rahovec Unit
Tel: +381 29 276 910

Ferizaj Unit
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Drenas Unit
Tel: +381 38 584 910

Gjilan Unit
Tel: +381 28 320 910

Lipjan Unit
Tel: +381 38 580 910

Vushtrri Unit
Tel: +381 28 573 910

Nënë Tereza Unit
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Aeroport Agency
Tel: +381 38 220 910

Hani i Elezit Agency
Tel: +381 290 385 910

Viti Unit
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Dheu i Bardhë Unit
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Mitrovicë Unit
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Prizren Unit
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Albi Unit
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BANKA KOMBETARE TREGTARE