Banka Kombetare Tregtare Sh.a. - Kosovo Branch

Financial statements

for the year ended 31 December 2009

(with independent auditor's report thereon)

Contents

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Independent Auditors' Report

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

Pristina, 22 February 2010

Report on the Financial Statements

We have audited the accompanying financial statements of Banka Kombetare Tregtare Sh.a. – Kosovo Branch ("the Bank"), which comprise the statement of financial position as at 31 December 2009, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Sh.p.k Kosovo Branch

KPMG Albania Sh.p.k. - Kosovo Branch
14, Sulejman Vokshi Street
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Kosovo

Banka Kombetare Tregtare Sh.a. – Kosovo Branch

Statement of financial position as at 31 December 2009

(in EUR)

	Notes	31 December 2009	31 December 2008
Assets			
Cash and balances with Central Bank	6	7,685,037	6,358,025
Balances with banks		362	-
Investment securities held-to-maturity	7	8,516,002	-
Loans and advances to customers	8	38,161,621	9,693,667
Property and equipment	9	2,449,105	1,678,023
Other assets	10	56,537	128,593
Total assets		**56,868,664**	**17,858,308**
Liabilities and shareholder's equity			
Liabilities			
Customer deposits	11	37,909,233	8,388,155
Due to banks	12	3,000,002	-
Due to Head Office	20	10,440,442	3,222,016
Accruals and other liabilities	13	56,846	45,841
Total liabilities		**51,406,523**	**11,656,012**
Shareholder's equity			
Share capital	14	7,000,000	7,000,000
Accumulated loss		(797,704)	(91,072)
Loss for the year		(740,155)	(706,632)
Total shareholder's equity		**5,462,141**	**6,202,296**
Total liabilities and shareholder's equity		**56,868,664**	**17,858,308**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 36.

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

BANKA KOMBETARE TREGTARE Sh.a. BKT DEGA - KOSOVË

Spiro Brumbulli
Managing Director

Rudin Lleshaj
Head of Financial Control

Statement of comprehensive income for the year ended 31 December 2009

(in EUR)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Interest			
Interest income	15	2,282,071	371,272
Interest expense	16	(735,452)	(183,989)
Net interest margin		**1,546,619**	**187,283**
Non-interest income, net			
Fees and commissions, net	17	146,200	135,517
Foreign exchange revaluation gain, net		27	5
Other income, net		119	98
Total non-interest income, net		**146,346**	**135,620**
Operating expenses			
Personnel expenses	18	(1,017,338)	(469,568)
Administrative expenses	19	(1,039,718)	(444,848)
Depreciation	9	(322,193)	(115,119)
Total operating expenses		**(2,379,249)**	**(1,029,535)**
Loan impairment expense	8	**(53,871)**	**-**
Income Tax	22	-	-
Loss for the year		**(740,155)**	**(706,632)**
Other comprehensive income, net of income tax		**-**	**-**
Total comprehensive loss for the year		**(740,155)**	**(706,632)**

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 36.

Statement of changes in equity for the year ended 31 December 2009

(in EUR)

	Share Capital	Accumulated loss	Total
Balance at 1 January 2008	**5,000,000**	**(91,072)**	**4,908,928**
Transactions with owners recorded directly in equity			
Contributions by and distributions to owners			
Increase in share capital	2,000,000	-	**2,000,000**
Total contributions by and distributions to owners	2,000,000	-	**2,000,000**
Total comprehensive loss for the year			
Loss for the year	-	(706,632)	**(706,632)**
Other comprehensive income, net of income tax	-	-	-
Total comprehensive loss for the year	-	(706,632)	**(706,632)**
Balance at 31 December 2008	**7,000,000**	**(797,704)**	**6,202,296**
Transactions with owners recorded directly in equity			
Contributions by and distributions to owners	-	-	-
Total contributions by and distributions to owners	-	-	-
Total comprehensive loss for the year			
Loss for the year	-	(740,155)	**(740,155)**
Other comprehensive income, net of income tax	-	-	-
	-	(740,155)	**(740,155)**
Balance at 31 December 2009	**7,000,000**	**(1,537,859)**	**5,462,141**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 36.

Statement of cash flows for the year ended 31 December 2009

(in EUR)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Cash flows from operating activities:			
Loss for the year		(740,155)	(706,632)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	16	735,452	183,989
Interest income	15	(2,282,071)	(371,272)
Depreciation	9	322,193	115,119
Impairment of loans	8	53,871	-
Cash flows from operating loss before changes in operating assets and liabilities		**(1,910,710)**	**(778,796)**
(Increase)/decrease in operating assets:			
Loans and advances to customers	8	(28,353,187)	(9,693,667)
Due from Head Office		-	2,407,371
Other assets	10	72,056	(118,819)
		(28,281,131)	**(7,405,115)**
Increase/(decrease) in operating liabilities:			
Due to customers	11	32,277,647	4,365,988
Due to Head Office	20	7,218,426	3,222,016
Accruals and other liabilities	13	11,005	35,728
		39,507,078	**7,623,732**
Interest paid		(492,018)	(125,178)
Interest received		2,009,103	312,461
Net cash flows from/(used in) operating activities		**10,832,322**	**(372,896)**
Cash flows from investing activities			
Purchases of investment securities		(8,411,673)	-
Purchases of property and equipment	9	(1,093,275)	(1,244,674)
Net cash used in investing activities		**(9,504,948)**	**(1,244,674)**
Cash flows from financing activities			
Capital Injection		-	2,000,000
Net cash generated from financing activities		**-**	**2,000,000**
Net increase in cash and cash equivalents		**1,327,374**	**382,430**
Cash and balances with banks at the beginning of the period	6	**6,358,025**	**5,975,595**
Cash and balances with banks at the end of the period	6	**7,685,399**	**6,358,025**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 36.

1. General

Banka Kombetare Tregtare Sh.a.- Dega ne Kosove ("BKT Kosovo Branch" or the "Bank") is a foreign branch 100% owned by Banka Kombetare Tregtare Sh.a ("BKT"). The Bank offers a wide range of universal services to state and privately owned enterprises and to individuals in the Republic of Kosovo. The main source of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both EUR and foreign currency. BKT offers: a variety of corporate and consumer loans, EMV-compliant debit and credit cards, ATMs, qualified international banking services and various treasury products.

BKT - Kosovo Branch was registered on 30 August 2007 with the Central Bank of Republic of Kosovo ('CBK') to operate as a bank in the Republic of Kosovo and is subject to CBK regulations. The Bank was founded with an initial capital of 5,000,000 EUR. Upon the Board of Directors Decision taken on 9 August 2008, it increased its paid-up capital by EUR 2,000,000.

The Head Office of BKT is located in Tirana, but BKT - Kosovo Branch has also built its administrative office in Prishtina. During 2007, the Bank was present in Kosovo only with 1 unit in Prishtina. During 2008 BKT - Kosovo Branch opened 9 more units located in main cities of Kosovo.

Two units are in Prishtina, while others are located in Prizren, Peja, Ferizaj, Gjilan, Fushe Kosovo, Podujeva, Drenas and Rahovec. In 2009, an additional unit was added in Prishtina and another opened in the city of Gjakova.

The Bank had 129 employees as of 31 December 2009. The number of employees at the end of 2008 was 104.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis. There are no items measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in EUR, which is also the Bank's functional currency.

(d) Use of estimates and judgements

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

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

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank 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.

(b) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash 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.

(c) 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.

(d) Lease payments made

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

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

3. Significant accounting policies (continued)

(e) Financial assets and liabilities

(i) Recognition

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

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

(ii) Classification

See accounting policies 3(f) and (g).

(iii) Derecognition

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

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

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

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

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

3. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

(iv) Offsetting

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

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

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

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

3. Significant accounting policies (continued)

(e) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment

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

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

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

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

(f) 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.

(g) Loans and advances

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

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(h) 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. The Bank classifies all the investments as held-to-maturity.

3. Significant accounting policies (continued)

(h) Investment securities (continued)

Held-to-maturity

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

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

(i) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

• Buildings	20 years
• Motor vehicles	5 years
• Furniture and equipment	5 years
• Computers and electronic equipment	5 years

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

3. Significant accounting policies (continued)

(j) 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 exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

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

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

(k) Deposits

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

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

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

(l) Provisions

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

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

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.

3. Significant accounting policies (continued)

(m) 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 Kosovo under a defined contribution pension plan.

(ii) Short-term benefits

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

(n) 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 recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. 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 realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

3. Significant accounting policies (continued)

(o) New standards and interpretations not yet adopted (continued)

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

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013, early adoption is permitted). This Standard replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.

  Financial assets will be classified into one of two categories on initial recognition:

  - financial assets measured at amortized cost; or
  - financial assets measured at fair value.

  A financial asset is measured at amortized cost if the following two conditions are met: the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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

  It is expected that the new Standard, when initially applied, will have an impact on the financial statements, since it will be required to be retrospectively applied. However, the Bank is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.

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

4. Use of estimates and judgements

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

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

Allowances for credit losses

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

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(e)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement 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 judgements 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(e)(vi).

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

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

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

4. Use of estimates and judgements (continued)

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. 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 recognised 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 recognised 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 the 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.

Fair values

Loans and advances to customers

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

Investment securities held-to-maturity

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

As at 31 December 2009, the fair value of the bond portfolio was EUR 8,476,606 (2008: nil), which is lower than the carrying amount by EUR 39,396 (2008: nil).

Deposits and borrowings

The time deposits have an estimated fair value approximately equal to their carrying amount, because of their short-term nature and underlying interest rates, which approximate market rates. The fair value of these instruments is based on the Level 3 method described above.

5. Financial risk management

(a) Introduction and overview

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

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

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

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability). Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risk.

Risk management framework

BKT 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) in Head Office, 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 Audit Committee in Head Office 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 Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Current developments

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

The start up phase of the Bank, which is the main reason for the losses, is supported by the Head Office.

5. Financial risk management (continued)

(b) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). BKT Kosovo has formed a Branch Credit Committee to oversee the approval of requests for credits up to the limit of 250,000 EUR. Amounts up to EUR 1,000,000 are approved by the Credit Committee in Head Office. Credit requests with amounts over EUR 1,000,000 are approved only upon decision of the Board of Directors. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

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

Maximum credit exposure

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

	31 December 2009	**31 December 2008**
Loans and advances to customers (net)	38,161,621	9,693,667
Due from banks	362	-
Investment securities - held to maturity	8,516,002	-
Financial guarantees	527,591	2,000,000
Maximum exposures to credit risk	**47,205,576**	**11,693,667**

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 and the Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes of grading and takes the necessary actions according to the monitoring procedures.

The risk committee grades each loan according to these factors:

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

5. Financial risk management (continued)

(b) Credit Risk (continued)

Past due but not impaired loans

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

Loans with renegotiated terms

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

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

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

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 Central Bank of Kosovo regulations. The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

	Loans and advances to customers		
31 December 2009	**Retail**	**Corporate**	**Total**
Neither past due nor impaired	19,885,725	18,029,610	37,915,335
Past due but not impaired	193,856	51,266	245,122
Individually impaired	55,035	-	55,035
Total	**20,134,616**	**18,080,876**	**38,215,492**
Allowance for impairment	(53,871)	-	(53,871)
Total Loans, Net of impairment	**20,080,745**	**18,080,876**	**38,161,621**

	Loans and advances to customers		
31 December 2008	**Retail**	**Corporate**	**Total**
Neither past due nor impaired	3,887,352	5,660,209	9,547,561
Past due but not impaired	-	146,106	146,106
Individually impaired	-	-	-
Total	**3,887,352**	**5,806,315**	**9,693,667**

The Bank has not created an allowance for impairment as at 31 December 2008.

5. Financial risk management (continued)

(b) Credit Risk (continued)

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

Rating	**31 December 2009**
A – Good	143,035
B – Acceptable	17,870,796
C - Close monitoring	51,273
D – Unacceptable	-
Sub Total	**18,065,104**
Accrued Interest	103,291
Deferred fee income	(87,519)
Total	**18,080,876**

In 2008 the loan portfolio was rated as Good.

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

	Loans and advances to customers		
31 December 2009	**Retail**	**Corporate**	**Total**
Residential, commercial or industrial property	87,331,152	77,265,106	164,596,258
Financial assets	473,186	1,113,996	1,587,182
Other	1,865,768	9,226,766	11,092,534
Total	**89,670,106**	**87,605,868**	**177,275,974**

	Loans and advances to customers		
31 December 2008	**Retail**	**Corporate**	**Total**
Residential, commercial or industrial property	10,099,606	21,024,764	31,124,370
Financial assets	1,079,068	-	1,079,068
Other	200,660	-	200,660
Total	**11,379,334**	**21,024,764**	**32,404,098**

(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. Liquidity Risk Management is handled in collaboration and close supervision of BKT Treasury Group in Head Office.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2009, 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	Non-specific	Total
Assets							
Cash and balances with Central Bank	7,685,037	-	-	-	-	-	7,685,037
Balances with banks	362	-	-	-	-	-	362
Investment securities held-to-maturity	311,785	8,150	37,227	8,158,840	-	-	8,516,002
Loans and advances to customers	1,085,368	1,536,032	10,044,939	18,186,333	7,308,949	-	38,161,621
Property and equipment	-	-	-	-	-	2,449,105	2,449,105
Other assets	56,537	-	-	-	-	-	56,537
Total assets	**9,139,089**	**1,544,182**	**10,082,166**	**26,345,173**	**7,308,949**	**2,449,105**	**56,868,664**
Liabilities							
Customer deposits	14,732,141	559,307	22,517,780	100,005	-	-	37,909,233
Due to banks	3,000,002	-	-	-	-	-	3,000,002
Due to Head Office	-	-	-	-	-	10,440,442	10,440,442
Accruals and other liabilities	42,012	-	14,834	-	-	-	56,846
Shareholder's equity	-	-	-	-	-	5,462,141	5,462,141
Total liabilities and equity	**17,774,155**	**559,307**	**22,532,614**	**100,005**	**-**	**15,902,583**	**56,868,664**
Net Position	**(8,635,066)**	**984,875**	**(12,450,448)**	**26,245,168**	**7,308,949**	**(13,453,478)**	**-**
Cumulative net position	**(8,635,066)**	**(7,650,191)**	**(20,100,639)**	**6,144,529**	**13,453,478**	**-**	**-**

The Head Office manages the liquidity risk of the Bank on an ongoing basis.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2008, 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	Non-specific	Total
Assets							
Cash and balances with Central Bank	1,358,025	-	-	-	-	5,000,000	6,358,025
Loans and advances to customers	128,380	561,242	2,006,895	5,249,636	1,747,514	-	9,693,667
Property and equipment	-	-	-	-	-	1,678,023	1,678,023
Other assets	92,928	35,665	-	-	-	-	128,593
Total assets	**1,579,333**	**596,907**	**2,006,895**	**5,249,636**	**1,747,514**	**6,678,023**	**17,858,308**
Liabilities							
Customer deposits	4,801,611	126,315	3,295,872	164,357	-	-	8,388,155
Due to Head Office	-	-	-	-	-	3,222,016	3,222,016
Accruals and other liabilities	-	40,255	5,586	-	-	-	45,841
Shareholder's equity	-	-	-	-	-	6,202,296	6,202,296
Total liabilities	**4,801,611**	**166,570**	**3,301,458**	**164,357**	**-**	**9,424,312**	**17,858,308**
Net Position	**(3,222,278)**	**430,337**	**(1,294,563)**	**5,085,279**	**1,747,514**	**(2,746,289)**	**-**
Cumulative net position	**(3,222,278)**	**(2,791,941)**	**(4,086,504)**	**998,775**	**2,746,289**	**-**	**-**

(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 Central Bank of Republic of Kosovo guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions.

The Head Office manages the foreign currency positions and balances the currency spread of the Bank on an ongoing basis.

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

The following tables present the equivalent amount of assets, liabilities and shareholder's equity by currency as at 31 December 2009 and 2008:

2009	**EUR**	**ALL**	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets							
Cash and balances with Central Bank	7,225,594	1,513	331,081	35,480	86,809	4,560	7,685,037
Balances with banks	-	-	269	93	-	-	362
Investment securities held-to-maturity	8,516,002	-	-	-	-	-	8,516,002
Loans and advances to customers	38,161,621	-	-	-	-	-	38,161,621
Property and equipment	2,449,105	-	-	-	-	-	2,449,105
Other assets	56,537	-	-	-	-	-	56,537
Total assets	**56,408,859**	**1,513**	**331,350**	**35,573**	**86,809**	**4,560**	**56,868,664**
Liabilities							
Customer deposits	37,230,862	33	621,242	20,931	36,125	40	37,909,233
Due to banks	3,000,002	-	-	-	-	-	3,000,002
Due to Head Office	10,657,526	3,095	(290,009)	14,641	50,682	4,507	10,440,442
Accruals and other liabilities	55,211	1,616	16	1	2	-	56,846
Shareholder's equity	5,462,141	-	-	-	-	-	5,462,141
Total liability and equity	**56,405,742**	**4,744**	**331,249**	**35,573**	**86,809**	**4,547**	**56,868,664**
Net position	**3,117**	**(3,231)**	**101**	**-**	**-**	**13**	**-**
Cumulative net position	**3,117**	**(114)**	**(13)**	**(13)**	**(13)**	**-**	**-**

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

2008	EUR	ALL	USD	GBP	CHF	Other	Total
Assets							
Cash and balances with Central Bank	5,957,864	3,594	246,958	125,402	20,463	3,744	6,358,025
Loans and advances to customers	9,693,667	-	-	-	-	-	9,693,667
Property and equipment	1,678,023	-	-	-	-	-	1,678,023
Other assets	128,593	-	-	-	-	-	128,593
Total assets	**17,458,147**	**3,594**	**246,958**	**125,402**	**20,463**	**3,744**	**17,858,308**
Liabilities							
Customer deposits	7,612,419	-	769,066	-	6,670	-	8,388,155
Due to Head Office	3,601,187	-	(522,110)	125,402	13,793	3,744	3,222,016
Accruals and other liabilities	45,839	-	2	-	-	-	45,841
Shareholder’s equity	6,202,296	-	-	-	-	-	6,202,296
Total liability and equity	**17,461,741**	**-**	**246,958**	**125,402**	**20,463**	**3,744**	**17,858,308**
Net position	**(3,594)**	**3,594**	**-**	**-**	**-**	**-**	**-**
Cumulative net position	**(3,594)**	**-**	**-**	**-**	**-**	**-**	**-**

5. Financial risk management (continued)

(d) Market risk (continued)

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 in Head Office 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 in Head Office. 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.

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

	USD	*Euro*
Assets		
Cash and balances with Central Bank	-	0.15%
Loans and advances to customers	-	10.74%
Liabilities		
Customer deposits and due to banks	2.40%	5.11%

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

	USD	*Euro*
Assets		
Cash and balances with Central Bank	-	0.50%
Loans and advances to customers	-	9.53%
Liabilities		
Customer deposits	2.06%	3.67%

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

2009	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	(54,680)	54,680	280,856	(280,856)

2008	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
Estimated Profit (loss) effect	75,132	(75,132)	1,504	(1,504)

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Total
Assets						
Cash and balances with Central Bank	7,685,037	-	-	-	-	7,685,037
Balances with banks	362	-	-	-	-	362
Loans and advances to customers	28,262,304	1,016,899	4,918,697	3,948,764	14,957	38,161,621
Investment securities	311,785	8,150	37,227	8,158,840	-	8,516,002
Total	**36,259,488**	**1,025,049**	**4,955,924**	**12,107,604**	**14,957**	**54,363,022**
Liabilities						
Customer Deposits and due to banks	17,732,143	559,307	22,517,780	100,005	-	40,909,235
Total	**17,732,143**	**559,307**	**22,517,780**	**100,005**	**-**	**40,909,235**

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Total
Assets						
Cash and balances with Central Bank	6,358,025	-	-	-	-	6,358,025
Loans and advances to customers	7,656,967	1,271,900	450,091	174,709	140,000	9,693,667
Total	**14,014,992**	**1,271,900**	**450,091**	**174,709**	**140,000**	**16,051,692**
Liabilities						
Customer Deposits	4,801,611	126,315	3,295,872	164,357	-	8,388,155
Total	**4,801,611**	**126,315**	**3,295,872**	**164,357**	**-**	**8,388,155**

5. Financial risk management (continued)

(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 and carried out with collaboration with Head Office.

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.

(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.

5. Financial risk management (continued)

(f) Capital management (continued)

Regulatory capital
The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Central Bank of Kosovo ("CBK"). The Bank operates in compliance with Rule No.1 "On capital adequacy", amended on 25 June 2004.

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 required Capital Adequacy Ratio is 12%.

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%, 75%, 100%) are applied; for example cash and money market instruments with CBK 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.

6. Cash and balances with Central Bank

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

	31 December 2009	31 December 2008
Cash on hand	1,905,046	1,189,954
Deposits with CBK	5,779,991	5,168,071
	7,685,037	**6,358,025**

In accordance with the Central Bank of Republic of Kosovo requirements, the Bank should maintain minimum cash and/or deposit reserve at CBK equivalent to 10% of customer deposits as cash and/or deposit reserve at CBK.

Deposits with CBK at 31 December 2008 represent mostly the amount placed with the Central Bank of Kosovo as a capital equivalency deposit, in order to obtain the license for Kosovo Branch. In 2009, the Bank pledged in favour of the CBK, a bond denominated in EUR (see Note 7).

Cash and balances with banks presented in the statement of cash flows as at 31 December 2009 and 2008, are as follows:

	31 December 2009	31 December 2008
Cash and balances with Central Bank	7,685,037	6,358,025
Balances with banks	362	-
	7,685,399	**6,358,025**

7. Investment securities held-to-maturity

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

Type	Nominal Value	Unamortized Premium / (Discount)	Accrued interest	Net Value	Moody's Bond Rating
Euro Denominated Irish Government Bond	8,000,000	208,276	307,726	8,516,002	Aa1
	8,000,000	**208,276**	**307,726**	**8,516,002**	

The Irish Bond was pledged in favour of the Central Bank of the Republic of Kosovo as a capital equivalency deposit required for a branch of a foreign bank.

8. Loans and advances to customers

Loans and advances to customers consisted of the following:

	31 December 2009	31 December 2008
Loans and advances to customers, gross	37,990,876	9,637,687
Accrued interest	224,616	55,980
Less allowances for impairment on loans and advances	(53,871)	-
	38,161,621	**9,693,667**

The impairment charge for the year 2009 was EUR 53,871 (2008: nil).

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

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

Individuals	53%
Private Enterprises	47%

All the loans are in EUR and bear interest rates ranging from 2.0% to 22.0 %. The Bank has granted a few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals.

The classification of corporate loans by industry is as follows:

	31 December 2009		31 December 2008	
	EUR	%	EUR	%
Wholesale Trade	4,604,306	25%	1,987,100	34%
Construction	3,423,934	19%	937,409	16%
Retail Trade	4,422,014	24%	-	-
Hotels and Restaurants	462,065	3%	-	-
Other Community, Social and Personal Activities	214,338	1%	251,397	4%
Agriculture, Hunting and Forestry	247,599	1%	-	-
Manufacturing of Food Products, Beverages and Tobacco	2,072,635	11%	1,555,242	27%
Personal Needs	195,879	1%	794,550	14%
Manufacturing of Rubber and Plastic Products	485,840	3%	-	-
Manufacturing of Wood and Wood Products	96,670	1%	-	-
Financial Intermediation	970,114	5%	-	-
Manufacturing of Basic Metals and Metal Products	459,787	3%	280,616	5%
Transport, Storage and Communication	126,994	1%	-	-
Manufacturing of Textile and Textile Products	298,701	2%	-	-
	18,080,876	**100%**	**5,806,314**	**100%**

8. Loans and advances to customers (continued)

The classification of retail loans by type is as follows:

	31 December 2009		31 December 2008	
	EUR	**%**	**EUR**	**%**
Home Purchase	12,793,123	64%	1,873,675	48%
Home Improvement	3,655,996	18%	1,124,257	29%
Home Construction	296,638	1%	22,379	1%
Call Loan	2,592,073	13%	781,623	20%
Shop Purchase	299,597	2%	-	-
Overdraft and Credit Cards	231,297	1%	-	-
Car Purchase	212,021	1%	85,419	2%
	20,080,745	**100%**	**3,887,353**	**100%**

9. Property and equipment

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

(In EUR)	Buildings	Motor vehicles	Computers and electronic equipment	Furniture and equipment	Total
Gross value					
At 1 January 2008	**298,648**	**102,495**	**99,100**	**71,067**	**571,310**
Additions	424,350	310,788	456,926	52,610	1,244,674
At 31 December 2008	**722,998**	**413,283**	**556,026**	**123,677**	**1,815,984**
At 1 January 2009	**722,998**	**413,283**	**556,026**	**123,677**	**1,815,984**
Additions	359,054	187,012	491,161	56,048	1,093,275
At 31 December 2009	**1,082,052**	**600,295**	**1,047,187**	**179,725**	**2,909,259**
Accumulated depreciation					
At 1 January 2008	**(4,977)**	**(6,713)**	**(6,414)**	**(4,738)**	**(22,842)**
Charge for the year	(19,626)	(41,009)	(39,321)	(15,163)	(115,119)
At 31 December 2008	**(24,603)**	**(47,722)**	**(45,735)**	**(19,901)**	**(137,961)**
At 1 January 2009	**(24,603)**	**(47,722)**	**(45,735)**	**(19,901)**	**(137,961)**
Charge for the year	(49,733)	(111,781)	(130,043)	(30,636)	(322,193)
At 31 December 2009	**(74,336)**	**(159,503)**	**(175,778)**	**(50,537)**	**(460,154)**
Net book value					
At 1 January 2008	**293,671**	**95,782**	**92,686**	**66,329**	**548,468**
At 31 December 2008	**698,395**	**365,561**	**510,291**	**103,776**	**1,678,023**
At 31 December 2009	**1,007,716**	**440,792**	**871,409**	**129,188**	**2,449,105**

10. Other assets

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

	31 December 2009	31 December 2008
Prepaid expenses	18,067	34,035
Advances to suppliers	36,404	92,928
Other debtors, net	2,066	1,630
	56,537	**128,593**

11. Customer deposits

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

	31 December 2009	31 December 2008
Current accounts:		
Individuals	6,623,036	1,449,945
Private enterprises	4,542,418	1,160,367
State owned entities	467,407	462,051
	11,632,861	**3,072,363**
Term Deposits:		
Individuals	2,464,000	1,424,710
Private enterprises	5,712,058	2,873,087
State owned entities	18,100,314	1,017,995
	26,276,372	**5,315,792**
	37,909,233	**8,388,155**

Current accounts and deposits can be further analysed as follows:

	31 December 2009			31 December 2008		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	**11,407,560**	**225,301**	**11,632,861**	**2,978,212**	**94,151**	**3,072,363**
Term Deposits	**25,823,302**	**453,070**	**26,276,372**	**4,634,207**	**681,585**	**5,315,792**
One month	2,050,587	8,025	2,058,612	1,038,539	5,042	1,043,581
Three months	178,978	7,362	186,340	93,326	16,818	110,144
Six months	963,348	23,861	987,209	1,352,031	625	1,352,656
Twelve months	22,572,142	371,601	22,943,743	1,756,222	659,100	2,415,322
Two years and over	58,247	42,221	100,468	394,089	-	394,089
Total deposits	**37,230,862**	**678,371**	**37,909,233**	**7,612,419**	**775,736**	**8,388,155**

The five largest depositors of the Bank at 31 December 2009 comprise approximately 55% of total deposits.

12. Due to banks

Due to banks as at 31 December 2009 represent a borrowing denominated in Euro that Kosovo Branch obtained from a resident bank:

Bank	Principal	Accrued interest	Total deposit	Maturity date
NLB Prishtina	3,000,000	2	3,000,002	06 January 2010
	3,000,000	**2**	**3,000,002**	

13. Accruals and other liabilities

	31 December 2009	31 December 2008
Accrued expenses payable	10,512	10,842
Accounts payable	31,500	29,413
Guarantees deposits received	14,834	5,586
	56,846	**45,841**

“Accrued expenses payable” relates mainly to administrative expenses payable during January.

“Accounts payable” is mainly related to tax and social insurance payable by 15 January.

“Guarantees deposits received” represents guarantees received from suppliers based on contracts with them.

14. Share capital

At 31 December 2009 the authorised share capital was EUR 7,000,000 (2008: EUR 7,000,000).

15. Interest income

Interest income is composed as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Balances with Central Bank	14,584	154,592
Investment securities	88,604	-
Loans and advances to customers	2,178,883	216,680
	2,282,071	**371,272**

16. Interest expense

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

	Year ended 31 December 2009	Year ended 31 December 2008
Due to banks	2	-
Customer deposits	735,450	183,989
	735,452	**183,989**

17. Fees and commissions, net

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

	Year ended 31 December 2009	**Year ended 31 December 2008**
Fee and commission income		
Lending activity	27,325	100,021
Payment services to clients	133,885	35,261
Customer accounts' maintenance	7,034	4,317
Cash transactions with clients	6,732	946
	174,976	**140,545**
Fee and commission expense		
Inter bank transactions	(28,776)	(5,028)
	(28,776)	**(5,028)**
Fees and commissions, net	**146,200**	**135,517**

18. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2009	**Year ended 31 December 2008**
Salaries	956,158	397,773
Performance bonus	-	22,244
Social insurance	43,982	17,165
Training	10,198	29,606
Other	7,000	2,780
	1,017,338	**469,568**

The increase in expenses for salaries in comparison to the year 2008 is related to the expansion of the activity of the Bank. The majority of personnel were hired during the year 2008 and the related personnel costs were incurred for a part of that year only.

19. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2009	**Year ended 31 December 2008**
Marketing expenses	192,422	129,685
Telephone, electricity and IT expenses	160,510	70,074
Security and insurance expenses	117,535	31,453
Repairs and maintenance	24,750	9,997
Lease payments	356,631	105,721
Credit/debit card expenses	50,288	-
Office stationery and supplies	24,362	12,555
Other external services	21,813	28,312
Representation expenses	8,490	8,030
Taxes other than tax on profits	8,412	5,101
Sundry expenses	74,505	43,920
	1,039,718	**444,848**

Administrative expenses increased in comparison to the year 2008, due to the increase in the number of branches and the volume of business starting from the end of year 2008.

20. Related party transactions

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

The Bank has a related party relationship with Banka Kombetare Tregtare Sh.a. (the “Head Office”), and with its directors and executive officers. The aggregate value of transactions and outstanding balances relating to these related parties were as follows:

	31 December 2009	31 December 2008
Due to Head Office	10,440,442	3,222,016
Total	**10,440,442**	**3,222,016**

An amount due of EUR 8,516,002 at 31 December 2009, relates to the transfer of the Irish Bond from the Head Office to Kosovo branch (see Note 7).

Given the start up position and small size of the Bank, several functions are centralised in the Head Office. The balances due to and due from Head Office include transfers of funds on behalf of the Bank or its customers, management of foreign currency positions performed by the Head Office, and other inter-company balances.

	Year ended 31 December 2009	Year ended 31 December 2008
Administrative expenses		
Head Office	47,026	48,312
Salaries and bonuses		
Administrators	74,127	112,479
Total	**121,153**	**160,791**

21. Contingencies and commitments including off-balance sheets items

Guarantees and letters of credit

	31 December 2009	31 December 2008
Guarantees in favour of customers	352,014	2,000,000
Guarantees received from credit institutions	-	1,920,000
Letters of credit issued to customers	175,578	-

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

Other

	31 December 2009	31 December 2008
Undrawn credit commitments	4,270,107	-
Collaterals for loan portfolio	177,275,974	32,404,098

Legal

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

Lease commitments

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

	31 December 2009	31 December 2008
Not later than 1 year	366,620	246,960
Later than 1 year and not later than 5 years	1,466,478	987,840
Later than 5 years	1,211,995	998,692
Total	**3,045,093**	**2,233,492**

The Bank has entered into lease commitments with duration up to ten years. The Bank may cancel these leases upon giving three months notice.

22. Income tax

The tax on the Bank's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Banks as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Loss before tax	(740,155)	(706,632)
Tax calculated at tax rate 10% (2008: 20%)	(74,016)	(141,326)
Expenses not deductible for tax purposes	8,118	18,696
Deferred tax assets not recognised for tax losses	65,898	61,315
Effect of changes in tax rates	-	61,315
Tax charge	-	-

Deferred tax is calculated based on the enacted tax rate of 10% (2008: 10%). The carry forward period for any tax losses in accordance with the existing laws in Kosovo is five years. The Bank did not recognize deferred tax assets relating to temporary differences, due to the fact that it is not certain that the deferred tax asset will be utilized.

23. Subsequent events

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