

Banka Kombetare Tregtare sh.a.

**Independent Accountants' Report
and
Interim Financial Statements as of
30 June 2005**

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Contents

	Page
INDEPENDENT ACCOUNTANTS' REPORT	3
INTERIM FINANCIAL STATEMENTS:	
INTERIM BALANCE SHEETS	4
INTERIM STATEMENTS OF INCOME	5
INTERIM STATEMENTS OF CHANGES IN EQUITY	6
INTERIM STATEMENTS OF CASH FLOWS	7
NOTES TO THE INTERIM FINANCIAL STATEMENTS	8 – 34

INDEPENDENT ACCOUNTANTS' REPORT

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

We have reviewed the accompanying interim balance sheet of Banka Kombetare Tregtare sh.a. (the "Bank") as at June 30, 2005, and the related interim statements of income, changes in equity and cash flows for the six-month period then ended. These interim financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these interim financial statements based on our review.

We conducted our review in accordance with International Standard on Review Engagements ("ISRE") 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of bank personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

As explained in Note 3.2, the Bank has treated its share capital issued in United States Dollars as a monetary item in the financial statements and recognised the revaluation difference during the six-month period ended June 30, 2005 in the profit and loss account which is not in accordance with International Accounting Standard 21, "The Effects of Changes in Foreign Exchange Rates". Share capital should be treated as a non-monetary item and carried at the exchange rate at the date of transaction. Accordingly, although this has no effect on total shareholders' equity, if share capital had been treated as a non-monetary item, the reported net profit for the six-month period ended June 30, 2005 would be higher by USD 1,514,097 and balance of translation reserve as at June 30, 2005 would be lower by USD 1,514,097.

Based on our review, except for the effect on the interim financial statements of the matter referred to in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

DELOITTE & TOUCHE D.O.O.

Ljubljana, July 29, 2005

Banka Kombetare Tregtare Sh.A.

Interim Balance sheets as at 30 June 2005 and 31 December 2004

(amounts in USD, unless otherwise stated)

	Notes	30 June 2005	31 December 2004
Assets			
Cash and balances with Central Bank	4	60,402,330	65,338,886
Placement and balances with banks	5	63,076,289	71,298,527
Treasury bills held-to-maturity	6	252,511,512	254,681,395
Investment securities held-to-maturity	7	49,283,089	30,731,107
Loans and advances to customers	8	92,210,933	69,724,672
Property and equipment	9	9,197,678	10,082,719
Intangible assets	10	247,077	279,063
Deferred tax assets	11	113,698	88,497
Other assets	12	<u>3,394,995</u>	<u>1,523,057</u>
Total assets		<u>530,437,601</u>	<u>503,747,923</u>
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	13	490,597,939	472,212,104
Due to banks	14	4,916,854	994,225
Due to third parties	15	1,764,391	828,530
Accruals and other liabilities	16	<u>4,965,154</u>	<u>4,433,452</u>
Total liabilities		502,244,338	478,468,311
Shareholders' equity			
Share capital		14,644,250	14,644,250
Translation difference		(185,101)	535,713
Reserves	17	1,563,975	1,032,741
Retained earnings		8,023,996	3,964,427
Net profit for the period		<u>4,146,143</u>	<u>5,102,481</u>
Total shareholders' equity		<u>28,193,263</u>	<u>25,279,612</u>
Total liabilities and shareholders' equity		<u>530,437,601</u>	<u>503,747,923</u>

The financial statements were authorised for release by the Board of Directors on 29 July 2005.

See accompanying notes to the interim financial statements

Banka Kombetare Tregtare Sh.A.

Interim Statements of income for the six-month and three-month periods ended 30 June 2005 and 2004

(amounts in USD, unless otherwise stated)

	Notes	Six-month period ended 30 June 2005	Three-month period ended 30 June 2005	Six-month period ended 30 June 2004	Three-month period ended 30 June 2004
Interest					
Interest income	18	17,150,920	8,806,984	13,587,125	6,889,016
Interest expense	19	<u>(8,077,083)</u>	<u>(3,963,873)</u>	<u>(7,363,290)</u>	<u>(3,682,912)</u>
Net interest margin		9,073,837	4,843,111	6,223,835	3,206,104
Non-interest income, net					
Fees and commissions, net	20	1,023,676	551,054	791,582	447,182
Foreign exchange revaluation gain (loss), net	21	303,870	219,538	(18,616)	(12,857)
Profit from FX trading activities, net		538,761	280,157	457,312	236,713
Other income, net	22	<u>42,471</u>	<u>29,059</u>	<u>80,120</u>	<u>31,978</u>
Total non-interest income, net		1,908,778	1,079,808	1,310,398	703,016
Operating expenses					
Personnel	23	(2,653,592)	(1,214,282)	(1,663,067)	(818,067)
Administrative	24	(2,043,210)	(1,100,948)	(1,675,938)	(953,368)
Depreciation and amortization	9, 10	<u>(889,872)</u>	<u>(449,923)</u>	<u>(705,369)</u>	<u>(354,194)</u>
Total operating expenses		(5,586,674)	(2,765,153)	(4,044,374)	(2,125,629)
Impairment of loans	8	<u>(143,544)</u>	<u>(98,932)</u>	<u>(80,648)</u>	<u>(49,945)</u>
Profit before taxes		5,252,397	3,058,834	3,409,211	1,733,546
Income tax expense	25	<u>(1,106,254)</u>	<u>(640,029)</u>	<u>(833,450)</u>	<u>(426,758)</u>
Net profit for the period		<u>4,146,143</u>	<u>2,418,805</u>	<u>2,575,761</u>	<u>1,306,788</u>

See accompanying notes to the interim financial statements

Banka Kombetare Tregtare Sh.A.

Interim Statements of changes in equity for the six-month period ended 30 June 2005 and year ended 31 December 2004

(amounts in USD, unless otherwise stated)

	Notes	Share Capital	Translation Difference	Reserves	Retained Earnings	Net profit for the period	Total
Balance at 1 January 2004		14,644,250	495,400	-	(114,096)	3,962,265	18,987,819
Appropriation of prior year net profit		-	-	-	3,962,265	(3,962,265)	-
Adjustment of RE with 2004 Year end exchange rate		-	-	-	653,599	-	653,599
Appropriation of retained earnings into reserves		-	-	1,032,741	(1,032,741)	-	-
Net profit for the year		-	-	-	-	5,102,481	5,102,481
Appropriation of 2003 year translation difference		-	(495,400)	-	495,400	-	-
Translation difference for the year		-	535,713	-	-	-	535,713
Balance at 31 December 2004		14,644,250	535,713	1,032,741	3,964,427	5,102,481	25,279,612
Appropriation of prior year net profit		-	-	-	5,102,481	(5,102,481)	-
Adjustment of RE with 2005 June end exchange rate		-	-	-	(945,685)	-	(945,685)
Adjustment of Reserves with 2005 June end exchange rate		-	-	(101,706)	-	-	(101,706)
Appropriation of retained earnings into reserves	18	-	-	632,940	(632,940)	-	-
Net profit for the period		-	-	-	-	4,146,143	4,146,143
Appropriation of 2004 year translation difference		-	(535,713)	-	535,713	-	-
Translation difference for the period		-	(185,101)	-	-	-	(185,101)
Balance at 30 June 2005		14,644,250	(185,101)	1,563,975	8,023,996	4,146,143	28,193,263

See accompanying notes to the interim financial statements

Banka Kombetare Tregtare Sh.A.

Interim Statements of cash flows for the six-month periods ended 30 June 2005 and 2004

(amounts in USD, unless otherwise stated)

	Six-month period ended 30 June 2005	Six-month period ended 30 June 2004
Cash flows from operating activities:		
Net profit after tax	4,146,143	2,575,761
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	889,872	705,369
Gain on sale of property and equipment	(35,926)	(189)
Deferred tax asset	(35,607)	-
Gain on sale of treasury bills	(5,487)	(3,096)
Write-off of property and equipment	19,314	-
Impairment of loans	<u>143,544</u>	<u>80,648</u>
Cash flows from operating profits before changes in operating assets and liabilities	5,121,853	3,358,493
(Increase)/decrease in operating assets:		
Placements and balances with banks	1,260,483	3,794,805
Loans and advances to customers	(30,959,869)	(19,456,359)
Other assets	<u>(2,122,739)</u>	<u>(466,009)</u>
	(31,822,125)	(16,127,563)
Increase/(decrease) in operating liabilities:		
Due to customers	68,125,408	37,262,029
Due to third parties	1,068,184	2,536,245
Accruals and other liabilities	<u>1,016,594</u>	<u>(450,459)</u>
	70,210,186	39,347,815
Net cash flows from operating activities	43,509,914	26,578,745
Cash flows from investing activities		
Purchases of investment securities	(22,654,275)	(3,620,045)
Purchases of treasury bills	(24,481,235)	(22,518,980)
Purchases of property and equipment	(1,018,771)	(79,882)
Proceeds from sale of property and equipment	36,933	189
Proceeds from sale of treasury bills	<u>432,793</u>	<u>931,784</u>
Net cash used in investing activities	(47,684,555)	(25,286,934)
Cash flows from financing activities		
Proceeds from due to banks	<u>4,220,994</u>	<u>572,718</u>
Net cash from financing activities	4,220,994	572,718
Net increase in cash and cash equivalents	46,353	1,864,529
Translation difference	(4,982,909)	1,583,965
Cash and cash equivalents at the beginning of the period	<u>65,338,886</u>	<u>44,824,327</u>
Cash and cash equivalents at the end of the period	<u>60,402,330</u>	<u>48,272,821</u>

See accompanying notes to the interim financial statements

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

1. General

Banka Kombetare Tregtare Sh.A. (BKT or the Bank) was registered on 11 December 1998 with the Bank of Albania (BoA) to operate as a bank in the Republic of Albania and is subject to Law no. 8269 "On the Bank of Albania" dated December 1997 and Law no. 8565 "On the Banking System in Albania", dated July 1998.

BKT completed its privatisation process in the year 2000. The sale contract between the Republic of Albania and a Group of International Investors was approved by the Albanian Parliament on 6 July 2000 with the Law no. 8634 "On the approval of the sale contract of the Shares of Banka Kombetare Tregtare between the Republic of Albania and KentBank, International Finance Corporation (IFC) and European Bank for Reconstruction and Development (EBRD).

The transfer of ownership became effective on 17 October 2000. The par value per share was USD 10 and composition of capital after privatisation was as follows:

	<i>No. of shares</i>	<i>%</i>	<i>Total USD</i>
Kent Bank	600,002	60	6,000,020
EBRD	199,999	20	1,999,990
IFC	<u>199,999</u>	<u>20</u>	<u>1,999,990</u>
	<u>1,000,000</u>	<u>100</u>	<u>10,000,000</u>

During 2001, ownership of Kent Bank passed to the Savings Deposit Insurance Fund owned by the Turkish Government. The present shareholders are in the process of identifying a new shareholder to acquire the shareholding of Kent Bank during 2005.

In March 2003, based on a Shareholders Decision taken on 25 February 2003, the Bank increased its paid-up capital by USD 4,644,250 by allocation of the balance of retained earnings of Lek 621,121,995 as at 31 December 2002 translated into USD with the exchange rate announced by the Bank of Albania as at 31 December 2002 (1USD=133.74 Lek). As a result, 464,425 shares were issued to the existing shareholders with a nominal value of USD 10 per share. The total number of issued and paid-up shares of the Bank following the this increase in capital is 1,464,425, and the composition is as follows:

	<i>No. of shares</i>	<i>%</i>	<i>Total USD</i>
Kent Bank	878,657	60	8,786,570
EBRD	292,884	20	2,928,840
IFC	<u>292,884</u>	<u>20</u>	<u>2,928,840</u>
	<u>1,464,425</u>	<u>100</u>	<u>14,644,250</u>

The increase in the paid-up capital was registered in the Tirana Court on 6 March 2003 (Decision No. 17469/5).

BKT is a commercial bank, which provides banking services to state and privately owned enterprises and to individuals in the Republic of Albania. The main source of funding for the Bank are deposits, which the Bank accepts in various forms including current accounts, demand and term deposits, in both Lek and foreign currency. It also invests in government securities and takes part in the local and international inter-bank market.

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

1. General (continued)

At present the Bank is also operating as an agent for the Albanian government in the following activities:

- Cash acceptance for payments to the State budget and;
- Administration and implementation of specific loans to state owned entities utilising credit lines received from international donors.

The headquarters of BKT is located in Tirana. Currently the Bank has a network of 19 branches, six of them in Tirana, and the others located in Durrës, Elbasan, Korçë, Gjirokastër, Vlora, Lushnjë, Shkodër, Fier, Berat, Pogradec Saranda, Lezha and Peshkopi. Five of these branches were opened during 2003 (Laprakë in Tirana, Fier, Berat, Pogradec and Saranda), while Kombinat and Medrese (in Tirana), Lezha and Peshkopi branches started their activity in the second quarter of this year. Additionally three agencies, one in Tirana (M.Shyri) and two custom agencies in Kakavija and Kapshtica were opened in the first half of 2005. The Bank had 359 employees as at 30 June 2005.

2. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and with interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

3. Summary of accounting principles

3.1 Basis of preparation

The financial statements are presented in US Dollars. The measurement currency used in preparing the financial statements is Albanian Lek (ALL). They are prepared on the historical cost basis.

These condensed interim financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting*. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004. Costs that are incurred evenly during the financial year are anticipated or deferred in the interim report only if it would be also appropriate to anticipate or defer such costs at the end of the financial year. These condensed interim financial statements should be read in conjunction with the 2004 annual financial statements

3.2 Foreign currency

Presentation currency

The Bank has chosen to present its financial statements in US Dollars, 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.

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

3.2 Foreign currency (continued)

a) Foreign currency transaction

Transactions in foreign currencies are translated into the measurement currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are booked at historical cost on the transaction date, are translated at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement in “Foreign exchange revaluation gain (loss), net”. 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 between the Bank’s shareholders and the Republic of Albania on the Bank’s privatisation. Furthermore, the Operating Policy Guidelines of the Bank require that the share capital be hedged by USD assets and it is therefore treated as a monetary item, with the revaluation difference being taken to the profit and loss account together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

b) Translation of financial statements from measurement currency to presentation currency

The Bank applies *SIC 30 – Reporting Currency – Translation from Measurement Currency to Presentation Currency* as detailed below:

- Assets and liabilities for all balance sheets presented (including comparatives) are translated at the closing rate existing at the date of each balance sheet presented;
- Income and expense items for all periods presented (including comparatives) are translated at the closing rate existing at the date of the transaction or a rate that approximates the actual exchange rates;
- Equity items other than the net profit for the period and share capital are translated at the closing rate existing at the date of each balance sheet presented.
- Share capital has been translated as described in paragraph 3.2 a) above; and
- Exchange differences resulting from the translations described above are recognised directly in equity in the “Translation difference” account.

3.3 Financial instruments

(i) Classification

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor. Originated loans and receivables comprise loans and advances to customers and credit institutions.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

3.3 Financial instruments (continued)

(ii) Recognition

Held-to-maturity assets and originated loans and receivables are recognised on the day they are transferred to the Bank.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs. Subsequent to initial recognition all non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised to income through interest income in the income statement based on the effective interest rate of the instrument, when applicable.

(iv) Specific instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and cash deposited with the Central Bank.

Placements and balances with banks

Placements and balances with banks include inter-bank placements and current account balances.

Treasury bills Available-for-sale

Treasury bills available-for-sale after initial recognition are re-measured at fair value. Gains and losses arising from change in the fair value of such available-for-sale investments are recognised directly in equity. The total amount of the available-for-sale portfolio is not exceeding 1% of the total held-to-maturity portfolio of Treasury Bills.

Treasury Bills Held-to-maturity

Treasury Bills are considered to be investments held-to-maturity as the Bank has the intent and ability to do so.

Investment securities

Investment securities are debt investments that the Bank has the intent and ability to hold to maturity. As a result they are classified as held-to-maturity assets.

Loans and advances to customers

Loans and advances originated by the Bank are classified as originated loans and receivables. Loans and advances are reported net of provisions for loan losses to reflect the estimated recoverable amounts (refer to accounting policy 3.4).

(v) Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

3.4 Loans and advances to customers

Loans and advances to customers originated by the Bank are classified as originated loans. Loans and advances to customers are reported at amortised cost net of allowances to reflect the estimated recoverable amounts.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans. Expected cash flows are estimated based on previous experience of customers' repayment history and any late payments of interest or penalties. Changes in the allowance amount are recognised in the income statement.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down of the allowance is reversed through the income statement.

3.5 Interest income and expense

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

3.6 Fees and commissions income

Fees and commissions income arises on financial services provided by the Bank such as funds transfers, account maintenance fees, lending and trade finance activities.

Fees and commissions income are generally recognized on an accrual basis when the service has been provided. Loan origination fees, which are drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan.

3.7 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 as off balance sheet items on the trade date and recorded in the financial statements on the settlement date.

As at the balance sheet date the outstanding spot foreign exchange transactions are marked to market with the resulting gain or loss recognised in the profit and loss account.

3.8 Repurchase agreements

Securities purchased from the Central Bank under agreements to resell ('reverse repos') within a short period of time (usually 1 week) are recorded as amounts due from the Central Bank. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective yield method.

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

3.9 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of income and expenditures except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.10 Pension plan

The Bank has created a fully employer sponsored pension plan fund (refer to note 16 “Reserve fund for retiring employees”) during 2002. The amount to be charged to this fund is decided upon at the beginning of the year as 5% of budgeted personnel expenses. During the year, the amount accrued is charged to the income statement and to the fund on a monthly basis.

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

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

3.11 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of items of property and equipment. Depreciation is calculated in accordance with the following rates:

Buildings	5%
Motor vehicles	20%
Office equipment	20%
Computers and electronic equipment	25%

3.12 Intangible assets

Intangible assets comprise of software acquired by the Bank. Intangibles assets are stated at cost less accumulated amortization and impairment losses. Amortization is charged to the income statement on a straight-line basis over the estimated useful life of the intangible asset. Software is amortized at an annual rate of 25%.

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended

30 June 2005

(amounts in USD, unless otherwise stated)

3.13 Leases

To date, the leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

3.15 Impairment

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether any indication of impairment exists. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

4. Cash and balances with the Central Bank

Cash and balances with the Central Bank as at 30 June 2005 and 31 December 2004, are detailed as follows:

	<i>30 June 2005</i>	<i>31 December 2004</i>
<i>Cash</i>	6,555,914	17,750,665
<i>Bank of Albania</i>		
Current account	547,621	2,921,922
Statutory reserve	47,653,802	44,666,299
Repurchase agreement	<u>5,644,993</u>	<u>-</u>
	<u>53,846,416</u>	<u>47,588,221</u>
	<u>60,402,330</u>	<u>65,338,886</u>

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 with the Bank of Albania as a statutory reserve account.

"Repurchase agreement" represents securities purchased from the Central Bank under agreements to resell ("reverse repos") within a week.

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

5. Placements and balances with banks

Placements and balances with banks at 30 June 2005 and 31 December 2004 consisted as follows:

	<i>30 June 2005</i>	<i>31 December 2004</i>
Placements	61,345,500	70,211,866
Cash collateral held by correspondent banks	1,396,228	595,973
Current accounts	<u>334,561</u>	<u>490,688</u>
	<u>63,076,289</u>	<u>71,298,527</u>

Placements are held with non-resident banks from OECD countries and have contractual maturities from 7 days to 3 months. Current accounts represent balances with correspondent banks in the OECD countries.

Cash collateral represents collateral held by correspondent banks against letters of credit issued to the Bank's clients by the correspondent banks and as a cash deposit for the security of risks, which might raise from the new credit card project of the Bank.

6. Treasury bills held-to-maturity

Treasury bills bear interest at market rates ranging from 5.15% p.a. to 11.20% p.a. on a compound basis and are all denominated in Lek. Treasury bills by original maturity are presented as follows:

	<i>30 June 2005</i>			<i>31 December 2004</i>		
	Purchase Value	Amortised discount	Amortised cost	Purchase Value	Amortised discount	Amortised cost
3 months	15,519,788	99,186	15,618,974	8,053,271	81,466	8,134,737
6 months	48,561,742	950,620	49,512,362	42,774,277	765,169	43,539,446
12 months	<u>180,310,490</u>	<u>7,069,686</u>	<u>187,380,176</u>	<u>195,689,197</u>	<u>7,318,015</u>	<u>203,007,212</u>
	<u>244,392,020</u>	<u>8,119,492</u>	<u>252,511,512</u>	<u>246,516,745</u>	<u>8,164,650</u>	<u>254,681,395</u>

As at 30 June 2005, the fair value of the Treasury bills portfolio was USD 253,654,860, which exceeds the carrying value by USD 1,143,348, while as at 31 December 2004, the fair value of the Treasury bills portfolio was USD 255,280,627, which exceeded the carrying value by USD 599,232.

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

7. Investment securities held-to-maturity

Investment securities comprise USD, EUR and Lek denominated bonds at 30 June 2005 as follows:

Issuer	Nominal Value	Premium/ (Discount)	30 June 2005		S & P* Bond
			Net Value	Maturity Date	
<i>USD Denominated Bonds</i>					
Republic of Turkey	5,000,000	(104,139)	4,895,861	15 June 2010	BB-
Republic of Brazil	2,500,000	85,275	2,585,275	11 January 2006	BB-
Republic of Hungary	2,000,000	63,946	2,063,946	19 April 2006	A-
Republic of Egypt	2,500,000	91,264	2,591,264	11 July 2006	BB+
Republic of South Africa	3,000,000	173,826	3,173,826	17 October 2006	BBB
	<u>15,000,000</u>	<u>310,172</u>	<u>15,310,172</u>		
<i>EUR Denominated Bonds</i>					
Malaysia	1,808,875	27,071	1,835,946	24 November 2005	A-
Republic of South Africa	1,808,875	55,358	1,864,233	19 May 2006	BBB
	<u>3,617,750</u>	<u>82,429</u>	<u>3,700,179</u>		
<i>Lek Denominated Bonds</i>					
Government of Albania	1,946,283	82	1,946,365	17 July 2005	
Government of Albania	324,380	8	324,388	17 October 2005	
Government of Albania	97,314	63	97,377	18 November 2005	
Government of Albania	486,571	240	486,811	19 January 2006	
Government of Albania	1,946,283	-	1,946,283	18 March 2006	
Government of Albania	4,865,707	37,663	4,903,370	17 September 2006	
Government of Albania	5,157,649	20,615	5,178,264	17 December 2006	
Government of Albania	973,141	3,421	976,562	17 January 2007	
Government of Albania	973,141	7,975	981,116	18 February 2007	
Government of Albania	8,758,272	-	8,758,272	18 March 2007	
Government of Albania	2,238,225	-	2,238,225	18 April 2007	
Government of Albania	1,946,282	1,675	1,947,957	18 May 2007	
Government of Albania	486,571	1,177	487,748	05 April 2008	
	<u>30,199,819</u>	<u>72,919</u>	<u>30,272,738</u>		
	<u>48,817,569</u>	<u>465,520</u>	<u>49,283,089</u>		

* These are Standard & Poor's long-term credit ratings by issuers for sovereign and supranational bonds issued in foreign currency.

As at 30 June 2005, the fair value of the bond portfolio was USD 50,526,340, which exceeds the carrying value by USD 1,243,251, while as at 31 December 2004, the fair value of the bond portfolio was USD 32,103,490, which exceeded the carrying value by USD 1,372,383. Three of the USD bonds and six of the Lek bonds issued by the Government of Albania have been purchased during 2005 totalling to a face value of USD 23.4 million, while are matured during the year three EUR denominated bonds amounting to a nominal value of USD 2.6 million.

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

8. Loans and advances to customers

Loans and advances to customers consisted of the following:

	<i>30 June 2005</i>	<i>31 December 2004</i>
Loans and advances to customers, gross	92,691,133	70,105,666
Less allowances for impairment on loans and advances	<u>(480,200)</u>	<u>(380,994)</u>
	<u>92,210,933</u>	<u>69,724,672</u>

Movements in the allowance for impairment on loans and advances:

	<i>2005</i>	<i>2004</i>
At 1 January	380,994	9,518
Impairment charge for the period	143,544	343,506
Reversals during the period	-	(9,873)
Translation difference	<u>(44,338)</u>	<u>37,843</u>
At the end of the period	<u>480,200</u>	<u>380,994</u>

At 30 June 2005, the Bank's loans in arrears for more than 30 days totalled USD 1,151,414 (2004: USD 371,904). All loans are secured by mortgages and personal guarantees.

BKT began extending loans to private enterprises and individuals in 2001. As at 30 June 2005 the breakdown of the loan portfolio is as follows:

Private Enterprises	56%
Individuals	44%

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

All the loans are in US Dollar, Euro and Lek and bear interest at the following rates:

Loans in USD	3.60% to 14.58%
Loans in Euro	4.00% to 13.33%
Loans in Lek	6.00% to 18.12%

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

8. Loans and advances to customers (continued)

The classification of loans is as follows:

Corporate loans by industry	30 June 2005		31 December 2004	
	USD	%	USD	%
Wholesale and Retail Trade	22,102,509	31%	18,112,353	34%
Construction	8,764,491	12%	6,866,325	13%
Hotels and Restaurants	8,410,289	12%	4,598,686	9%
Manufacturing of Other Non-metallic Products	6,067,182	8%	2,974,996	6%
Personal Needs	5,244,234	7%	2,793,799	5%
Other Community, Social and Personal Activities	3,894,556	5%	2,941,274	5%
Manufacture of Wood and Wood Products	2,628,148	4%	1,871,283	3%
Manufacture of Food Products, Beverages and Tobacco	2,542,944	4%	2,127,064	4%
Manufacturing of Basic Metallic	2,171,180	3%	1,688,688	3%
Real Estate, Renting and Business Activity	1,591,650	2%	1,873,334	3%
Financial Intermediation	1,211,055	2%	1,381,159	3%
Manufacture of Rubber and Plastic Products	1,178,474	2%	523,302	1%
Agriculture, Hunting and Forestry	1,012,617	1%	554,767	1%
Manufacture of Textile and Textile Products	957,119	1%	929,831	2%
Manufacture of Pulp, Paper & Paper Products	778,948	1%	504,360	1%
Education	655,312	1%	821,778	2%
Transport, Storage and Communication	473,834	1%	571,041	1%
Manufacture of Furniture	432,060	1%	526,954	1%
Other Sectors	<u>1,286,017</u>	<u>2%</u>	<u>1,419,448</u>	<u>3%</u>
	<u>71,402,619</u>	<u>100%</u>	<u>53,080,442</u>	<u>100%</u>
Retail loans by type	30 June 2005		31 December 2004	
	USD	%	USD	%
Home purchase	10,353,194	49%	7,942,281	47%
Home advances	3,169,321	15%	2,795,343	16%
Home improvement	2,562,293	12%	2,788,953	16%
Shop purchase	1,859,347	9%	1,343,708	8%
Home reconstruction	1,688,809	8%	393,907	2%
Car purchase	1,136,956	5%	1,231,399	7%
Technical equipment	268,891	1%	321,843	2%
Other types	<u>249,703</u>	<u>1%</u>	<u>207,790</u>	<u>2%</u>
	<u>21,288,514</u>	<u>100%</u>	<u>17,025,224</u>	<u>100%</u>

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

9. Property and equipment

Property and equipment at 30 June 2005 and 31 December 2004 are composed as follows:

(In USD)	Land and buildings	Plant and equipment	IT Equipment	Office equipment	Work in progress	Total
Gross value						
At 31 December 2004	11,603,992	1,371,052	3,519,531	436,820	-	16,931,395
Additions	1,696	320,293	511,627	11,001	-	844,617
Disposals / transfers	-	(49,968)	(25,638)	-	-	(75,606)
Translation difference	<u>(1,142,783)</u>	<u>(135,025)</u>	<u>(346,609)</u>	<u>(43,019)</u>	-	<u>(1,667,436)</u>
At 30 June 2005	<u>10,462,905</u>	<u>1,506,352</u>	<u>3,658,911</u>	<u>404,802</u>	-	<u>16,032,970</u>
Accumulated depreciation						
At 31 December 2004	(3,294,031)	(913,033)	(2,368,818)	(272,794)	-	(6,848,676)
Charge for the period	(228,377)	(88,276)	(397,653)	(39,296)	-	(753,602)
Disposals / deductions	-	31,934	24,821	-	-	56,755
Translation difference	<u>335,325</u>	<u>94,001</u>	<u>252,162</u>	<u>28,743</u>	-	<u>710,231</u>
At 30 June 2005	<u>(3,187,083)</u>	<u>(875,374)</u>	<u>(2,489,488)</u>	<u>(283,347)</u>	-	<u>(6,835,292)</u>
Net book value						
At 30 June 2005	<u>7,275,822</u>	<u>630,978</u>	<u>1,169,423</u>	<u>121,455</u>	-	<u>9,197,678</u>
At 31 December 2004	<u>8,309,961</u>	<u>458,019</u>	<u>1,150,713</u>	<u>164,026</u>	-	<u>10,082,719</u>

10. Intangible assets

Intangible assets at 30 June 2005 and 31 December 2004 are composed as follows:

(In USD)	Software
Gross value	
At 31 December 2004	1,059,135
Additions	125,292
Translation difference	<u>(104,306)</u>
At 30 June 2005	<u>1,080,121</u>
Accumulated depreciation	
At 31 December 2004	(780,072)
Charge for the period	(136,270)
Translation difference	<u>83,298</u>
At 30 June 2005	<u>(833,044)</u>
Net book value	
At 31 December 2004	<u>279,063</u>
At 30 June 2005	<u>247,077</u>

Software represents the Bank's operating and accounting system implemented during 2001.

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

11. Deferred tax assets

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 23% (2004: 25%). The movement on the deferred income tax account is as follows:

	<i>30 June 2005</i>	<i>31 December 2004</i>
Balance at 1 January	88,497	102,287
Income statement benefit/(expense)	35,607	(26,311)
Exchange differences	<u>(10,406)</u>	<u>12,521</u>
Balance at the end of the period	<u>113,698</u>	<u>88,497</u>

Deferred income tax assets are attributable to the following items:

	<i>30 June 2005</i>	<i>31 December 2004</i>
Deferred income on fees on loans	221,011	190,677
Allowance for loan impairment	(200,847)	(228,235)
Decelerated depreciation	48,770	67,177
Start up costs written off	<u>44,764</u>	<u>58,878</u>
	<u>113,698</u>	<u>88,497</u>

12. Other assets

Other assets, net at 30 June 2005 and 31 December 2004 are as follows:

	<i>30 June 2005</i>	<i>31 December 2004</i>
Cheques for collection	175,139	33,369
Inventory	32,334	46,309
Accrued interest on bank placements, bonds, deposits with Central Bank and on loans to customers	1,863,365	1,310,671
Spot transactions revaluation gain	1,040	177
Accrual of customer accounts maintenance commission	135,173	-
Other debtors, net	<u>1,187,944</u>	<u>132,531</u>
	<u>3,394,995</u>	<u>1,523,057</u>

“Cheques for collection” represent customers’ cheques and drafts drawn on other banks that are in the process of being collected.

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

Other debtors is composed as follows:

	<i>30 June 2005</i>	<i>31 December 2004</i>
Other debtors	1,195,830	143,381
Provision	<u>(7,886)</u>	<u>(10,850)</u>
	<u>1,187,944</u>	<u>132,531</u>

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

12. Other assets (continued)

“Other debtors” are composed of three items. The first item of USD 48,307 (2004: 50,060) is the remaining amount after the write off performed in 2003 of the balances inherited from transactions prior to the Bank’s privatisation, which are provisioned for the whole amount, except for the amount of USD 24,153, which is fully cash collateralised and for the amount of USD 12,904, which are continuously recoverable from the credit clients of the bank. The other two items represent advance payments to suppliers (due to opening of new branches and banking software upgrade) and bank personnel of USD 1,059,897 (2004: USD 64,352) and prepaid expenses of USD 87,626 (2004: USD 28,969).

Movements in the provisions for other debtors’ losses were as follows:

	2005	2004
At 1 January	10,850	11,296
Additions during the period	-	-
Reversals during the period	(2,199)	(1,623)
Translation difference	<u>(765)</u>	<u>1,177</u>
At the end of the period	<u>7,886</u>	<u>10,850</u>

The translation difference is included in “Foreign exchange revaluation gain (loss), net” in the income statement.

13. Customer deposits

Customer deposits at 30 June 2005 and 31 December 2004 are composed as follows:

	30 June 2005	31 December 2004
Current accounts:		
Individuals	8,704,141	9,492,736
Private enterprises	39,899,878	42,535,143
State owned entities	<u>43,064,083</u>	<u>28,458,180</u>
	91,668,102	80,486,059
Deposits:		
Individuals	355,133,510	358,725,181
Private enterprises	19,786,013	16,968,053
State owned entities	<u>15,449,734</u>	<u>7,923,476</u>
	390,369,257	383,616,710
Other customer accounts:		
Individuals	1,817,615	2,050,649
Private enterprises	6,073,839	5,314,267
State owned entities	<u>669,126</u>	<u>744,419</u>
	8,560,580	8,109,335
	<u>490,597,939</u>	<u>472,212,104</u>

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

13. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

	30 June 2005			31 December 2004		
	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>
Current accounts	60,750,634	30,917,469	91,668,102	48,316,954	32,169,105	80,486,059
Deposits						
On demand	46,465	82,189	128,654	75,468	331,985	407,453
One month	12,082,134	35,768,188	47,850,322	11,188,636	38,888,403	50,077,039
Three months	53,533,261	33,173,683	86,706,944	50,560,218	31,289,370	81,849,588
Six months	80,771,814	20,295,341	101,067,155	83,121,171	17,657,977	100,779,148
Twelve months and over	123,545,302	25,359,800	148,905,102	122,681,267	21,990,706	144,671,973
Accrued interest on deposits	<u>5,244,137</u>	<u>466,943</u>	<u>5,711,080</u>	<u>5,538,976</u>	<u>292,533</u>	<u>5,831,509</u>
Total deposits	<u>275,223,113</u>	<u>115,146,144</u>	<u>390,369,257</u>	<u>273,165,736</u>	<u>110,450,974</u>	<u>383,616,710</u>
Other customer accounts	<u>4,526,026</u>	<u>4,034,554</u>	<u>8,560,580</u>	<u>4,835,914</u>	<u>3,273,421</u>	<u>8,109,335</u>
Total customer deposits	<u>340,499,772</u>	<u>150,098,167</u>	<u>490,597,939</u>	<u>326,318,604</u>	<u>145,893,500</u>	<u>472,212,104</u>

Other customer accounts are composed as follows:

	30 June 2005			31 December 2004		
	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>
Deposits from liquidation of Xhaferi Foundation	879,780	23,207	902,987	979,426	23,525	1,002,951
Deposit guarantees for letters of credit	-	1,274,988	1,274,988	-	457,477	457,477
Escrow accounts	3,187,713	1,816,386	5,004,099	3,257,889	1,687,107	4,944,996
Bank drafts	-	6,114	6,114	-	6,291	6,291
Payment orders to be executed	85,138	284,723	369,861	18,586	284,242	302,828
Other	<u>373,395</u>	<u>629,136</u>	<u>1,002,531</u>	<u>580,013</u>	<u>814,779</u>	<u>1,394,792</u>
	<u>4,526,026</u>	<u>4,034,554</u>	<u>8,560,580</u>	<u>4,835,914</u>	<u>3,273,421</u>	<u>8,109,335</u>

“Deposits from the liquidation of the Xhaferi Foundation” represent non-interest bearing escrow accounts given by the Government. “Deposit guarantee for letters of credit” represent the cash collateral held by BKT against similar collateral provided by BKT to correspondent banks for letters of credit opened on behalf of its customers.

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

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

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

14. Due to banks

Due to banks at 30 June 2005 and 31 December 2004 consisted as follows:

	<i>30 June 2005</i>	<i>31 December 2004</i>
Deposits from resident banks	3,892,832	676,687
Current accounts of non resident banks	1,011,559	303,071
Current accounts of resident banks	<u>12,463</u>	<u>14,467</u>
	<u>4,916,854</u>	<u>994,225</u>

The Bank as at 30 June 2005, has borrowed for one day from two resident banks in Lek. The contractual maturities and their balances are detailed as follows:

Bank	Principal	Accrued Interest	Total Deposit	Maturity Date
Raiffeisen Bank	2,919,424	200	2,919,624	01 July 2005
Banka Popullore	<u>973,141</u>	<u>67</u>	<u>973,208</u>	01 July 2005
	<u>3,892,565</u>	<u>267</u>	<u>3,892,832</u>	

15. Due to third parties

The Bank acts as an agent for the tax authorities in the collection of taxes. In return, the Bank charges a commission to the taxpayers for the service rendered. The balance as at 30 June 2005 represents the amount collected from the taxpayers, which has not yet been transferred to the tax authorities account.

16. Accruals and other liabilities

A breakdown of accruals and other liabilities at 30 June 2005 and 31 December 2004 is presented as follows:

	<i>30 June 2005</i>	<i>31 December 2004</i>
Creditors	1,838,872	1,842,831
Transit account	271,245	291,208
Due to tax authorities	280,312	355,907
Reserve fund for retiring employees	406,900	325,300
Social insurance	67,492	59,361
Accrued expenses	611,426	332,048
Other	<u>1,488,907</u>	<u>1,226,797</u>
	<u>4,965,154</u>	<u>4,433,452</u>

“Creditors” represent balances from old transactions that the Albanian Government is keeping with the Bank, pending the determination of the rightful owner of these amounts.

“Transit account” represents the undefined customer accounts that are cleared within a couple of days after the end of the period.

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

16. Accruals and other liabilities (continued)

“Reserve fund for retiring employees” represents a specific fund created in 2002 by the Bank, which will be paid to staff on their retirement. Also refer note 3.10.

“Accrued expenses” among other items, also include USD 225,408 (2004: USD 197,764) of deposit insurance premium due for the second quarter of 2005 according to the new Law no. 8873 “On the Insurance of Deposits” dated 29 March 2002, that provides insurance coverage to individual depositors against bank failures. Accrued expenses for personnel is another important item amounting at USD 251,557 (2004: nil), which represent mostly the accrued amounts of summer holidays salary and year end planned bonuses given to the bank’s staff.

“Other” consists of three items. The first item of USD 960,918 (2004: USD 762,707), represents deferred income from fee and commissions raised on lending activity; the second of USD 522,943 (2004: USD 462,890) are payments due to construction companies in relation to semi finished home loans and the last item of USD 5,046 (2004: USD 1,200) represents cash guarantees received from the suppliers.

17. Reserves

Reserves represent the balances created by using the previous year statutory profit, in accordance with the local legislation, in order to provide for coverage for possible losses that can arise during the normal course of the business.

18. Interest income

Interest income is composed as follows:

	<i>Six-month period ended 30 June 2005</i>	<i>Six-month period ended 30 June 2004</i>
Treasury bills and investment securities	11,268,170	10,332,732
Placements with banks and balances with Central Bank	1,994,760	1,195,670
Loans and advances to customers	<u>3,887,990</u>	<u>2,058,723</u>
	<u>17,150,920</u>	<u>13,587,125</u>

19. Interest expense

Interest expense is composed as follows:

	<i>Six-month period ended 30 June 2005</i>	<i>Six-month period ended 30 June 2004</i>
Due to banks	27,143	25,003
Customer deposits	<u>8,049,940</u>	<u>7,338,287</u>
	<u>8,077,083</u>	<u>7,363,290</u>

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

20. Fees and commissions, net

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

	<i>Six-month period ended 30 June 2005</i>	<i>Six-month period ended 30 June 2004</i>
<i>Fee and commission income</i>		
Lending activity	443,824	309,888
Inter bank transactions	14,632	8,372
Cash transactions with clients	91,917	80,722
Customer accounts' maintenance	148,965	123,785
Payment services to clients	345,860	295,974
Other fees and commissions	<u>18,203</u>	<u>15,095</u>
	<u>1,063,401</u>	<u>833,836</u>
<i>Fee and commission expense</i>		
Inter bank transactions	3,243	5,053
Customer accounts' maintenance	35,018	35,061
Payment services to clients	1,464	2,140
	<u>39,725</u>	<u>42,254</u>
Fees and commissions, net	<u>1,023,676</u>	<u>791,582</u>

21. Foreign exchange revaluation gain/(loss)

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 3.2 it also includes the revaluation of the Bank's share capital. The revaluation loss (2004: gain) on this item for the six-month period ended 30 June 2005 is USD 1,514,097 (2004: USD 1,986,772).

22. Other income, net

Other income and expenses are composed as follows:

	<i>Six-month period ended 30 June 2005</i>	<i>Six-month period ended 30 June 2004</i>
<i>Other income</i>		
Reversal of loan loss provisions	-	9,608
Reversal of other debtors provisions	2,199	497
Gain on sale of fixed assets	35,926	189
Sundry	<u>29,395</u>	<u>69,826</u>
	<u>67,520</u>	<u>80,120</u>
<i>Other expense</i>		
Loss on sale or write off of fixed assets	19,314	-
Sundry	<u>5,735</u>	<u>-</u>
	<u>25,049</u>	<u>-</u>
Other income, net	<u>42,471</u>	<u>80,120</u>

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

23. Personnel expenses

Personnel expenses are composed as follows:

	<i>Six-month period ended 30 June 2005</i>	<i>Six-month period ended 30 June 2004</i>
Salaries	1,736,217	1,271,752
Performance bonus	388,850	19,984
Social insurance	302,043	210,393
Training	141,412	82,525
Reserve fund for retiring employees	81,946	65,883
Life insurance	2,122	1,334
Other	<u>1,002</u>	<u>11,196</u>
	<u>2,653,592</u>	<u>1,663,067</u>

24. Administrative expenses

Administrative expenses are composed as follows:

	<i>Six-month period ended 30 June 2005</i>	<i>Six-month period ended 30 June 2004</i>
Telephone, electricity and IT expenses	510,062	393,253
Deposit insurance expense	473,461	347,086
Security expenses	260,478	218,209
Marketing expenses	228,529	145,607
Transportation and business related travel	152,846	130,484
Lease payments	111,497	68,908
Office stationery and supplies	92,325	58,743
Repairs and maintenance	89,163	75,124
Other external services (including external audit fees)	31,948	38,708
Representation expenses	30,702	8,812
Credit/debit cards expenses	20,821	-
Taxes other than tax on profits	12,256	179,060
Sundry	<u>29,122</u>	<u>11,944</u>
	<u>2,043,210</u>	<u>1,675,938</u>

25. Income tax expense

Income tax expense is comprised of:

	<i>Six-month period ended 30 June 2005</i>	<i>Six-month period ended 30 June 2004</i>
Current tax expense	1,141,861	833,450
Deferred tax expense / (benefit) (note 11)	<u>(35,607)</u>	<u>-</u>
	<u>1,106,254</u>	<u>833,450</u>

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

25. Income tax expense (continued)

Income tax in Albania is assessed at the rate of 23% (2004: 25%) of taxable income. The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	<i>Six-month period ended 30 June 2005</i>	<i>Six-month period ended 30 June 2004</i>
Profit (loss) before taxes	5,252,397	3,409,211
Computed tax using applicable tax rate	1,208,051	852,303
Non tax deductible expenses	71,672	46,936
Start up costs amortized for tax purposes	(46,995)	(55,961)
Foreign exchange difference	<u>(126,474)</u>	<u>(9,828)</u>
Tax expense (benefit)	<u>1,106,254</u>	<u>833,450</u>

26. Financial risk management

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 discussed below.

(a) Credit Risk:

Credit risk is the risk of financial loss arising from the failure of a customer to settle financial obligations to the Bank as they fall due. It is the traditional or “natural risk” associated with the banking industry. The Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over USD 500,000 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.

(b) 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. The Bank has in place procedures for the independent checking of open foreign currency positions. The Bank’s net open foreign currency position at 30 June 2005 is shown in note 29.

(c) 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. Refer to note 30.

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

26. Financial risk management (continued)

(d) Liquidity risk:

Liquidity risk is the risk that the Bank will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Bank's liquidity position is monitored and managed by the Treasury Department by daily tracking of cash availability at the branches and ensuring, based on expected cash inflows and outflows, adequate liquidity in the branches as well as meeting its other obligations. Also, as part of its operating policy guidelines, the Banks procedure is to maintain total assets maturing within 90 days at least at 70% of total liabilities with a similar maturity. An analysis of the Bank's expected timing of cash flows is shown in note 28.

27. Estimation of fair value

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Placements and balances with Banks

Placements and balances with banks include inter-bank placements and items in the course of collection. As all the placements and overnight deposits are short term and at floating rates their fair value is considered to be equal to their carrying amount.

Treasury bills

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

As at 30 June 2005, the fair value of the Treasury bills portfolio was USD 253,654,860 (2004: USD 255,280,627), which exceeds the carrying amount by USD 1,143,348 (2004: USD 599,232).

Investment securities

Investment securities include only interest-bearing assets held to maturity. Fair value 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.

As at 30 June 2005, the fair value of the entire bond portfolio was USD 50,526,340 (2004: USD 32,103,490), which exceeds the carrying amount by USD 1,243,251 (2004: USD 1,372,383).

Loans and advances to customers

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

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

27. Estimation of fair value (continued)

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The time deposits have an estimated fair value approximately equal to their carrying amount, because of either their short-term nature and underlying interest rates, which approximate market rates.

28. Liquidity risk

At 30 June 2005, the Bank's assets, liabilities and shareholders' equity have remaining contractual maturities as follows:

	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 year</i>	Total
Assets						
Cash and balances with Central Bank	60,402,330	-	-	-	-	60,402,330
Placement and balances with banks	49,189,936	7,112,902	6,773,451	-	-	63,076,289
Treasury bills held-to-maturity	13,357,151	66,563,825	172,590,536	-	-	252,511,512
Investment securities held-to-maturity	-	1,946,365	11,204,258	36,132,466	-	49,283,089
Loans and advances to customers	4,133,246	9,077,864	21,941,257	43,457,840	13,600,726	92,210,933
Property and equipment	-	-	-	1,727,231	7,470,447	9,197,678
Intangible assets	-	-	-	247,077	-	247,077
Deferred tax asset	-	-	-	113,698	-	113,698
Other assets	<u>1,590,905</u>	<u>122,058</u>	<u>645,840</u>	<u>946,853</u>	<u>89,339</u>	<u>3,394,995</u>
Total assets	<u>128,673,568</u>	<u>84,823,014</u>	<u>213,155,342</u>	<u>82,625,165</u>	<u>21,160,512</u>	<u>530,437,601</u>
Liabilities and shareholders' equity						
Customer deposits	197,152,968	133,023,536	152,882,064	7,539,371	-	490,597,939
Due to banks	4,916,854	-	-	-	-	4,916,854
Due to third parties	1,764,391	-	-	-	-	1,764,391
Accruals and other liabilities	3,597,062	8,327	44,024	491,986	823,755	4,965,154
Shareholders' equity	-	-	-	-	<u>28,193,263</u>	<u>28,193,263</u>
Total liabilities and shareholders' equity	<u>207,431,275</u>	<u>133,031,863</u>	<u>152,926,088</u>	<u>8,031,357</u>	<u>29,017,018</u>	<u>530,437,601</u>
Net Position	<u>(78,757,707)</u>	<u>(48,208,849)</u>	<u>60,229,254</u>	<u>74,593,808</u>	<u>(7,856,506)</u>	<u>-</u>
Cumulative Net Position	<u>(78,757,707)</u>	<u>(126,966,556)</u>	<u>(66,737,302)</u>	<u>7,856,506</u>	<u>-</u>	<u>-</u>

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

28. Liquidity risk (continued)

At 31 December 2004, the Bank's assets, liabilities and shareholders' equity have remaining contractual maturities as follows

	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 year</i>	Total
Assets						
Cash and balances with Central Bank	65,338,886	-	-	-	-	65,338,886
Placement and balances with banks	53,491,419	11,714,087	6,093,021	-	-	71,298,527
Treasury bills held-to-maturity	26,424,943	49,020,566	179,235,886	-	-	254,681,395
Investment securities held-to-maturity	-	2,061,161	5,629,888	18,154,589	4,885,469	30,731,107
Loans and advances to customers	2,635,865	5,940,888	19,032,464	35,609,649	6,505,806	69,724,672
Property and equipment	-	-	-	1,772,759	8,309,960	10,082,719
Intangible assets	-	-	-	279,063	-	279,063
Deferred tax asset	-	-	-	88,497	-	88,497
Other assets	<u>276,927</u>	<u>210,224</u>	<u>332,680</u>	<u>631,001</u>	<u>72,225</u>	<u>1,523,057</u>
Total assets	<u>148,168,040</u>	<u>68,946,926</u>	<u>210,323,939</u>	<u>56,535,558</u>	<u>19,773,460</u>	<u>503,747,923</u>
Liabilities and shareholders' equity						
Customer deposits	196,557,862	109,953,408	162,807,160	2,893,674	-	472,212,104
Due to banks	317,538	-	676,687	-	-	994,225
Due to third parties	828,530	-	-	-	-	828,530
Accruals and other liabilities	3,254,352	182,795	208,852	462,153	325,300	4,433,452
Shareholders' equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,279,612</u>	<u>25,279,612</u>
Total liabilities and shareholders' equity	<u>200,958,282</u>	<u>110,136,203</u>	<u>163,692,699</u>	<u>3,355,827</u>	<u>25,604,912</u>	<u>503,747,923</u>
Net Position	<u>(52,790,242)</u>	<u>(41,189,277)</u>	<u>46,631,240</u>	<u>53,179,731</u>	<u>(5,831,452)</u>	<u>-</u>
Cumulative Net Position	<u>(52,790,242)</u>	<u>(93,979,519)</u>	<u>(47,348,279)</u>	<u>5,831,452</u>	<u>-</u>	<u>-</u>

With the exception of investment securities, the Bank's financial assets and liabilities all face variable interest rates or have a maturity or re-pricing date of less than one year. Refer to note 30.

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

29. Foreign currency risk

The following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency at 30 June 2005 and 31 December 2004 in accordance with the Bank of Albania foreign currency disclosure requirements:

<i>2005</i>	<i>Lek</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
Assets					
Cash and balances with Central Bank	41,520,075	8,344,519	10,190,585	347,151	60,402,330
Placements and balances with banks	1,946,283	46,771,243	5,983,252	8,375,511	63,076,289
Treasury bills held-to-maturity	252,511,512	-	-	-	252,511,512
Investment securities held-to-maturity	30,272,738	15,310,172	3,700,179	-	49,283,089
Loans and advances to customers	17,219,533	18,695,790	56,295,610	-	92,210,933
Property and equipment	9,197,678	-	-	-	9,197,678
Intangible assets	247,077	-	-	-	247,077
Deferred tax assets	113,698	-	-	-	113,698
Other assets	<u>1,295,430</u>	<u>1,144,746</u>	<u>909,249</u>	<u>45,570</u>	<u>3,394,995</u>
Total assets	<u>354,324,024</u>	<u>90,266,470</u>	<u>77,078,875</u>	<u>8,768,232</u>	<u>530,437,601</u>
Off balance sheet items	1,195,626	815,654	795,905	-	2,807,185
Liabilities and shareholders' equity					
Customer deposits	340,499,772	68,131,255	73,276,878	8,690,034	490,597,939
Due to banks	3,899,833	203,241	811,932	1,848	4,916,854
Due to third parties	1,764,391	-	-	-	1,764,391
Accruals and other liabilities	1,200,045	2,525,255	1,214,582	25,272	4,965,154
Shareholders' equity	<u>13,549,013</u>	<u>14,644,250</u>	<u>-</u>	<u>-</u>	<u>28,193,263</u>
Total liabilities and shareholders' equity	<u>360,913,054</u>	<u>85,504,001</u>	<u>75,303,392</u>	<u>8,717,154</u>	<u>530,437,601</u>
Off balance sheet items	722,151	1,222,216	862,818	-	2,807,185
Net position	<u>(6,115,555)</u>	<u>4,355,907</u>	<u>1,708,570</u>	<u>51,078</u>	<u>-</u>
<i>2004</i>	<i>Lek</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
Assets					
Cash and balances with Central Bank	36,595,051	9,811,202	18,460,925	471,708	65,338,886
Placements and balances with banks	-	51,211,937	12,047,036	8,039,554	71,298,527
Treasury bills held-to-maturity	254,681,395	-	-	-	254,681,395
Investment securities held-to-maturity	16,546,570	6,989,533	7,195,004	-	30,731,107
Loans and advances to customers	14,730,321	17,675,805	37,318,546	-	69,724,672
Property and equipment	10,082,719	-	-	-	10,082,719
Intangible assets	279,063	-	-	-	279,063
Deferred tax assets	88,497	-	-	-	88,497
Other assets	<u>690,881</u>	<u>287,576</u>	<u>518,595</u>	<u>26,005</u>	<u>1,523,057</u>
Total assets	<u>333,694,497</u>	<u>85,976,053</u>	<u>75,540,106</u>	<u>8,537,267</u>	<u>503,747,923</u>
Off balance sheet items	434,801	1,782,386	915,729	-	3,132,916
Liabilities and shareholders' equity					
Customer deposits	326,318,604	66,854,206	70,659,516	8,379,778	472,212,104
Due to banks	1,230	686,000	305,103	1,892	994,225
Due to third parties	828,530	-	-	-	828,530
Accruals and other liabilities	1,020,907	2,530,636	864,390	17,519	4,433,452
Shareholders' equity	<u>10,635,362</u>	<u>14,644,250</u>	<u>-</u>	<u>-</u>	<u>25,279,612</u>
Total liabilities and shareholders' equity	<u>338,804,633</u>	<u>84,715,092</u>	<u>71,829,009</u>	<u>8,399,189</u>	<u>503,747,923</u>
Off balance sheet items	407,006	505,741	2,100,757	119,412	3,132,916
Net position	<u>(5,082,341)</u>	<u>2,537,606</u>	<u>2,526,069</u>	<u>18,666</u>	<u>-</u>

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

30. Interest rate risk

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 30 June 2005 were as follows:

	<i>Lek</i>	<i>USD</i>	<i>Euro</i>
Assets			
Cash and balances with Central Bank	3.50%	2.16%	1.47%
Placement and balances with banks	5.00%	3.28%	2.07%
Treasury bills held-to-maturity	7.43%	N/A	N/A
Investment securities held-to-maturity	9.01%	4.76%	2.97%
Loans and advances to customers	13.82%	9.42%	8.77%
Liabilities			
Customer deposits	3.85%	1.53%	1.30%
Due to banks	1.16%	0.10%	0.10%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2004 were as follows:

	<i>Lek</i>	<i>USD</i>	<i>Euro</i>
Assets			
Cash and balances with Central Bank	3.68%	1.69%	1.52%
Placement and balances with banks	N/A	2.31%	2.07%
Treasury bills held-to-maturity	8.42%	N/A	N/A
Investment securities held-to-maturity	9.56%	5.24%	2.79%
Loans and advances to customers	15.84%	9.75%	9.20%
Liabilities			
Customer deposits	5.07%	1.15%	1.17%
Due to banks	1%	2.04%	0.10%

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 30 June 2005 were as follows:

	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 year</i>	<i>Total</i>
Assets						
Cash and balances with Central Bank	60,402,330	-	-	-	-	60,402,330
Placement and balances with banks	49,189,936	7,112,902	6,773,451	-	-	63,076,289
Treasury bills held-to-maturity	13,357,151	66,563,825	172,590,536	-	-	252,511,512
Investment securities held-to-maturity	-	1,946,365	11,204,258	36,132,466	-	49,283,089
Loans and advances to customers	2,935,136	6,822,678	80,409,824	1,471,273	572,022	92,210,933
Total	125,884,553	82,445,770	270,978,069	37,603,739	572,022	517,484,153
Liabilities						
Customer deposits	197,152,968	133,023,536	152,882,064	7,539,371	-	490,597,939
Due to banks	4,916,854	-	-	-	-	4,916,854
Accruals and other liabilities	3,597,062	8,327	44,024	491,986	823,755	4,965,154
Total	205,666,884	133,031,863	152,926,088	8,031,357	823,755	500,479,947

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

31. Related party transactions

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

Identity of related parties

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

Transactions with shareholders

The Bank did not have any related party transactions during 2005.

Transactions with directors and executive officers

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

	<i>Six-month period ended 30 June 2005</i>	<i>Year ended 31 December 2004</i>
Directors	21,168	39,996
Executive officers	<u>388,126</u>	<u>726,377</u>
	<u>409,294</u>	<u>766,373</u>

32. Contingencies and commitments including off-balance sheets items

Guarantees

	<i>30 June 2005</i>	<i>31 December 2004</i>
Guarantees in favour of customers	6,264,792	5,816,433
Guarantees received from credit institutions	1,250,535	857,524
Letters of credit issued to customers	1,261,588	446,480

These guarantees are counter guaranteed by other financial institutions or fully cash collateralised.

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

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2005

(amounts in USD, unless otherwise stated)

32. Contingencies and commitments including off-balance sheets items (continued)

Other

	<i>30 June 2005</i>	<i>31 December 2004</i>
Undrawn credit commitments	-	376,332
Outstanding cheques of non-resident banks	218,618	148,450
Spot foreign currency contract	2,807,185	3,132,916
Collaterals for loan portfolio	203,631,774	151,330,765

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 at 30 June 2005.

Lease commitments

Such commitments for the six-month period ended 30 June 2005 and for the year ended 31 December 2004 are composed as follows:

	<i>30 June 2005</i>	<i>31 December 2004</i>
Not later than 1 year	219,060	178,920
Later than 1 year and not later than 5 years	850,356	693,720
Later than 5 years	<u>563,751</u>	<u>462,713</u>
Total	<u>1,633,167</u>	<u>1,335,353</u>

During 2000 the Bank has entered into lease commitments for the buildings of the branches: Tirana 2, Shkodra and Gjirokastra, while in year 2002, the Bank has entered into a lease commitment for space dedicated to off site disaster recovery.

In addition in year 2003, the Bank has rented the buildings of five new branches opened in Lapraka (Tirana), Fier, Berat, Pogradec and Saranda.

During 2004, the Bank has rented the buildings of four new branches in Kombinat (Tirana), Lezhe, Peshkopi, Kukes and of two agencies in Kakavija and Kapshtica. Furthermore, in the first half of 2005, were rented the buildings of Medrese branch and Myslym Shyri agency in Tirana and of Bilisht agency near Korca.

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