

**Banka Kombetare Tregtare sh.a.**

**Independent Accountants' Report  
and  
Interim Financial Statements as of  
30 June 2004**

**Independent Accountants' Report  
and  
Interim Financial Statements as of  
30 June 2004**

**Contents**

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



Deloitte & Touche d.o.o.  
Dunajska 9  
1000 Ljubljana  
Slovenija

Tel: +386 (0) 1 3072 800  
Fax: +386 (0) 1 3072 900  
[www.deloitte.com/Slovenia](http://www.deloitte.com/Slovenia)

## 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, 2004, 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. The financial statements of the Bank as of December 31, 2003 were audited by other independent accountants whose report dated March 25, 2004, expressed a qualified opinion due to a departure from International Accounting Standard 21, "The Effects of Changes in Foreign Exchange Rates".

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, 2004 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, 2004 would be lower by USD 704,544 and balance of translation reserve as at June 30, 2004 would be higher by USD 704,544.

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.

The accompanying financial information for the three and six-month periods ended March 31 and June 30, 2003, respectively, was not audited or reviewed by us and, accordingly, we do not express an opinion or any other form of assurance on it.

Ljubljana, July 19, 2004

**Audit. Tax. Consulting. Financial Advisory.**

Member of  
Deloitte Touche Tohmatsu

## **Banka Kombetare Tregtare Sh.A.**

### Interim Balance sheets as at 30 June 2004 and 31 December 2003

(amounts in USD, unless otherwise stated)

	Notes	30 June 2004	31 December 2003
<b>Assets</b>			
Cash and balances with Central Bank	5	48,272,821	44,824,327
Placement and balances with banks	6	54,296,426	55,468,012
Treasury bills	7	220,737,627	188,826,705
Investment securities	8	29,114,960	24,140,812
Loans and advances to customers	9	51,633,346	29,976,575
Property and equipment	10	9,164,466	9,235,171
Intangible assets	11	375,538	472,715
Deferred tax assets	12	107,407	102,287
Other assets	13	<u>1,567,144</u>	<u>1,030,767</u>
<b>Total assets</b>		<b><u>415,269,735</u></b>	<b><u>354,077,371</u></b>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Customer deposits	14	385,271,348	329,991,970
Due to banks	15	614,314	17,635
Due to third parties	16	3,375,189	701,629
Accruals and other liabilities	17	<u>4,128,839</u>	<u>4,378,318</u>
<b>Total liabilities</b>		393,389,690	335,089,552
<b>Shareholders' equity</b>			
Share capital		14,644,250	14,644,250
Translation difference		99,072	495,400
Reserves	18	942,593	-
Retained earnings		3,618,369	(114,096)
Net profit for the period		<u>2,575,761</u>	<u>3,962,265</u>
<b>Total shareholders' equity</b>		<b><u>21,880,045</u></b>	<b><u>18,987,819</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>415,269,735</u></b>	<b><u>354,077,371</u></b>

The financial statements were authorised for release by the Board of Directors on 23 July 2004.

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 2004 and 2003

(amounts in USD, unless otherwise stated)

	Notes	Six-month period ended 30 June 2004	Three-month period ended 30 June 2004	Six-month period ended 30 June 2003	Three-month period ended 30 June 2003
Interest					
Interest income	19	13,587,125	6,889,016	10,457,050	5,521,000
Interest expense	20	<u>(7,363,290)</u>	<u>(3,682,912)</u>	<u>(6,219,769)</u>	<u>(3,327,048)</u>
Net interest margin		<b>6,223,835</b>	<b>3,206,104</b>	<b>4,237,281</b>	<b>2,193,952</b>
Non-interest income, net					
Fees and commissions, net	21	791,582	447,182	578,302	344,818
Foreign exchange revaluation gain (loss), net	22	(18,616)	(12,857)	(499,795)	(360,729)
Profit from FX trading activities, net		457,312	236,713	57,416	(63,210)
Other income, net	23	<u>80,120</u>	<u>31,978</u>	<u>3,077</u>	<u>28,472</u>
Total non-interest income, net		<b>1,310,398</b>	<b>703,016</b>	<b>139,000</b>	<b>(50,649)</b>
Operating expenses					
Personnel	24	(1,663,067)	(818,067)	(1,167,831)	(614,094)
Administrative	25	(1,675,938)	(953,368)	(1,021,411)	(568,339)
Depreciation and amortization	10, 11	<u>(705,369)</u>	<u>(354,194)</u>	<u>(469,939)</u>	<u>(236,387)</u>
Total operating expenses		<b>(4,044,374)</b>	<b>(2,125,629)</b>	<b>(2,659,181)</b>	<b>(1,418,820)</b>
Impairment of loans	9	<u>(80,648)</u>	<u>(49,945)</u>	<u>(325,876)</u>	<u>(244,992)</u>
<b>Profit before taxes</b>		<b>3,409,211</b>	<b>1,733,546</b>	<b>1,391,224</b>	<b>479,491</b>
Income tax expense	26	<u>(833,450)</u>	<u>(426,758)</u>	<u>(551,369)</u>	<u>(252,422)</u>
<b>Net profit for the period</b>		<b><u>2,575,761</u></b>	<b><u>1,306,788</u></b>	<b><u>839,855</u></b>	<b><u>227,069</u></b>

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 2004 and year ended 31 December 2003

(amounts in USD, unless otherwise stated)

	Notes	Share Capital	Translation Difference	Reserves	Retained Earnings	Net profit for the period	Total
<b>Balance at 1 January 2003</b>		<b>10,000,000</b>	<b>94,943</b>	-	<b>2,553,022</b>	<b>1,905,360</b>	<b>14,553,325</b>
Appropriation of prior year net Profit		-	-	-	1,905,360	(1,905,360)	-
Adjustment of RE with 2003 year end exchange rate		-	-	-	(23,171)	-	(23,171)
Increase in share capital		4,644,250	-	-	-	-	4,644,250
Capitalisation of retained earnings into share capital		-	-	-	(4,644,250)	-	(4,644,250)
Net profit for the year		-	-	-	-	3,962,265	3,962,265
Appropriation of 2002 year translation difference		-	(94,943)	-	94,943	-	-
Translation difference for the year		-	495,400	-	-	-	495,400
<b>Balance at 31 December 2003</b>		<b>14,644,250</b>	<b>495,400</b>	-	<b>(114,096)</b>	<b>3,962,265</b>	<b>18,987,819</b>
Appropriation of prior year net profit		-	-	-	3,962,265	(3,962,265)	-
Adjustment of RE with 2004 June end exchange rate		-	-	-	217,393	-	217,393
Creation of reserves	18	-	-	942,593	-	-	942,593
Appropriation of retained earnings into reserves		-	-	-	(942,593)	-	(942,593)
Net profit for the period		-	-	-	-	2,575,761	2,575,761
Appropriation of 2003 year translation difference		-	(495,400)	-	495,400	-	-
Translation difference for the period		-	99,072	-	-	-	99,072
<b>Balance at 30 June 2004</b>		<b>14,644,250</b>	<b>99,072</b>	<b>942,593</b>	<b>3,618,369</b>	<b>2,575,761</b>	<b>21,880,045</b>

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 2004 and 2003

(amounts in USD, unless otherwise stated)

	<b>Six-month period ended 30 June 2004</b>	<b>Six-month period ended 30 June 2003</b>
<b>Cash flows from operating activities:</b>		
Net profit after tax	2,575,761	839,855
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	705,369	469,939
Gain on sale of property and equipment	(189)	(5,324)
Deferred tax asset	-	(9,059)
Gain on sale of treasury bills	(3,096)	(324)
Write-off of property and equipment	-	15,833
Impairment of loans	<u>80,648</u>	<u>325,876</u>
Cash flows from operating profits before changes in operating assets and liabilities	3,358,493	1,636,796
(Increase)/decrease in operating assets:		
Placements and balances with banks	3,794,805	(5,594,645)
Loans and advances to customers	(19,456,359)	(11,212,682)
Other assets	<u>(466,009)</u>	<u>(679,224)</u>
	(16,127,563)	(17,486,551)
Increase/(decrease) in operating liabilities:		
Due to customers	37,262,029	54,591,278
Due to third parties	2,536,245	1,080,230
Accruals and other liabilities	<u>(450,459)</u>	<u>(30,555)</u>
	39,347,815	55,640,953
Net cash flows from operating activities	26,578,745	39,791,198
<b>Cash flows from investing activities</b>		
Purchases of investment securities	(3,620,045)	(2,212,308)
Purchases of treasury bills	(22,518,980)	(34,729,522)
Purchases of property and equipment	(79,882)	(163,644)
Proceeds from sale of property and equipment	189	5,324
Proceeds from sale of treasury bills	<u>931,784</u>	<u>54,514</u>
Net cash used in investing activities	(25,286,934)	(37,045,636)
<b>Cash flows from financing activities</b>		
Proceeds from due to banks	<u>572,718</u>	<u>1,783,084</u>
Net cash from financing activities	572,718	1,783,084
<b>Net increase in cash and cash equivalents</b>	<b>1,864,529</b>	<b>4,528,646</b>
Translation difference	1,583,965	-
<b>Cash and cash equivalents at the beginning of the period</b>	<u><b>44,824,327</b></u>	<u><b>28,174,857</b></u>
<b>Cash and cash equivalents at the end of the period</b>	<u><b>48,272,821</b></u>	<u><b>32,703,503</b></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 2004**

*(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>
	<b><u>1,000,000</u></b>	<b><u>100</u></b>	<b><u>10,000,000</u></b>

During 2001, ownership of Kent Bank passed to the Turkish Government. The present shareholders are in the process of identifying a new shareholder to acquire the shareholding of Kent Bank during 2004.

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>
	<b><u>1,464,425</u></b>	<b><u>100</u></b>	<b><u>14,644,250</u></b>

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 2004**

*(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 15 branches, four of them in Tirana, and the others located in Durrës, Elbasan, Korçë, Gjirokastër, Vlora, Lushnjë, Shkodër, Fier, Berat, Pogradec and Sarandë. Five of these branches were opened during 2003 (Lapraçka in Tirana, Fier, Berat, Pogradec and Sarandë) and started their activity in August. The Bank had 274 employees as at 30 June 2004.

### **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**

#### **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.

The accounting policies have been consistently applied by the Bank and, except for the changes in accounting policy (refer note 4), are consistent with those used in the previous year.

#### **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 2004**

*(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.

## **Banka Kombetare Tregtare Sh.A**

---

### **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

*(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*

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.

#### **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.

## **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

*(amounts in USD, unless otherwise stated)*

### **3.4 Loans and advances to customers (continued)**

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 2004**

*(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.

### **Pension plan**

The Bank has created a fully employer sponsored pension plan fund (refer to note 17 “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 2004**

*(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. Changes in accounting policy**

As at 31 December 2003, the Bank changed its measurement currency from US Dollar (USD) to the domestic currency, the Albanian Lek (ALL). Management have referred to Standing Interpretation 19 (SIC-19) Reporting Currency - Measurement and Presentation of Financial Statements under IAS 21 and IAS 29, in identifying the Bank's measurement currency. In particular, as the Bank is financed from customer deposits denominated mainly in Lek; invests and conducts financing activities mostly in Lek; incurs labour, materials and other costs of providing services denominated and settled in Lek and performs the majority of its transactions on a Lek basis, which reflects the operating environment in Albania.

#### **Cash and balances with the Central Bank**

Cash and balances with the Central Bank as at 30 June 2004 and 31 December 2003, are detailed as follows:

	<i>30 June 2004</i>	<i>31 December 2003</i>
<i>Cash</i>	10,387,500	11,410,595
<i>Bank of Albania</i>		
Current account	1,387,050	1,120,562
Statutory reserve	36,498,271	31,353,843
Repurchase agreement	-	939,327
	<u>37,885,321</u>	<u>33,413,732</u>
	<u>48,272,821</u>	<u>44,824,327</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 2004**

*(amounts in USD, unless otherwise stated)*

#### **5. Placements and balances with banks**

Placements and balances with banks at 30 June 2004 and 31 December 2003 consisted as follows:

	<i>30 June 2004</i>	<i>31 December 2003</i>
Placements	52,003,711	53,837,312
Cash collateral held by correspondent banks	2,685,300	670,347
Current accounts	<u>(392,585)</u>	<u>960,353</u>
	<b><u>54,296,426</u></b>	<b><u>55,468,012</u></b>

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.

#### **Treasury bills**

Treasury bills bear interest at market rates ranging from 7.13% p.a. to 13.05% p.a. on a compound basis and are all denominated in Lek. Treasury bills by original maturity are presented as follows:

	<i>30 June 2004</i>			<i>31 December 2003</i>		
	Purchase Value	Amortised discount	Amortised cost	Purchase Value	Amortised discount	Amortised cost
3 months	16,002,791	203,929	16,206,720	-	-	-
6 months	20,557,784	513,006	21,070,790	7,192,470	36,558	7,229,028
12 months	<u>174,452,916</u>	<u>9,007,201</u>	<u>183,460,117</u>	<u>172,412,913</u>	<u>9,184,764</u>	<u>181,597,677</u>
	<b><u>211,013,491</u></b>	<b><u>9,724,136</u></b>	<b><u>220,737,627</u></b>	<b><u>179,605,383</u></b>	<b><u>9,221,322</u></b>	<b><u>188,826,705</u></b>

As at 30 June 2004, the fair value of the Treasury bills portfolio was USD 221,633,181, which exceeds the carrying value by USD 895,554, while as at 31 December 2003, the fair value of the Treasury bills portfolio was USD 189,706,084, which exceeded the carrying value by USD 879,379.

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

(amounts in USD, unless otherwise stated)

#### **6. Investment securities**

Investment securities comprise USD, EUR and Lek denominated bonds at 30 June 2004 as follows:

Issuer	Nominal Value	Premium/ (Discount)	30 June 2004		S & P* Bond Ratings
			Net Value	Maturity Date	
<i>USD Denominated Bonds</i>					
Republic of Turkey	5,000,000	(124,300)	4,875,700	15 June 2010	B+
Republic of Portugal	2,000,000	9,507	2,009,507	21 September 2004	AA
Republic of Finland	1,000,000	1,151	1,001,151	28 July 2004	AAA
Kingdom of Denmark	2,000,000	5,589	2,005,589	02 September 2004	AAA
Government of Canada	1,000,000	9,515	1,009,515	30 November 2004	AAA
European Investment Bank	1,000,000	2,726	1,002,726	08 September 2004	AAA
Inter-American Development Bank	2,000,000	14,186	2,014,186	20 October 2004	AAA
Republic of Hungary	2,000,000	143,707	2,143,707	19 April 2006	A-
	<b>16,000,000</b>	<b>62,081</b>	<b>16,062,081</b>		
<i>EUR Denominated Bonds</i>					
Republic of Lithuania	1,818,621	63,630	1,882,251	22 February 2005	A-
Republic of South Africa	1,818,621	119,519	1,938,140	19 May 2006	BBB
Malaysia	1,818,621	98,489	1,917,110	24 November 2005	A-
Republic of Slovenia	263,094	7,351	270,445	27 May 2005	AA-
Republic of Slovenia	503,152	13,896	517,048	27 May 2005	AA-
	<b>6,222,109</b>	<b>302,885</b>	<b>6,524,994</b>		
<i>Lek Denominated Bonds</i>					
Government of Albania	1,642,069	639	1,642,708	18 December 2004	
Government of Albania	1,970,443	24,331	1,994,774	17 July 2005	
Government of Albania	328,408	37	328,445	17 October 2005	
Government of Albania	98,522	131	98,653	18 November 2005	
Government of Albania	492,611	251	492,862	19 January 2006	
Government of Albania	1,970,443	-	1,970,443	18 March 2006	
	<b>6,502,496</b>	<b>25,389</b>	<b>6,527,885</b>		
	<b>28,724,605</b>	<b>390,355</b>	<b>29,114,960</b>		

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

As at 30 June 2004, the fair value of the bond portfolio was USD 29,786,550, which exceeds the carrying value by USD 671,590, while as at 31 December 2003, the fair value of the bond portfolio was USD 26,007,752, which exceeded the carrying value by USD 1,866,940. All of the Euro bonds and two of the Lek bonds issued by the Government of Albania have been purchased during 2004.

## **Banka Kombetare Tregtare Sh.A**

---

### **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

*(amounts in USD, unless otherwise stated)*

#### **9. Loans and advances to customers**

Loans and advances to customers consisted of the following:

	<i><b>30 June 2004</b></i>	<i><b>31 December 2003</b></i>
Loans and advances to customers, gross	51,717,244	29,986,093
Less allowances for impairment on loans and advances	<u>(83,898)</u>	<u>(9,518)</u>
	<u><b>51,633,346</b></u>	<u><b>29,976,575</b></u>

Movements in the allowance for impairment on loans and advances:

	<i><b>2004</b></i>	<i><b>2003</b></i>
At 1 January	9,518	303,889
Impairment charge for the period	80,648	8,321
Reversals during the period	-	(319,390)
Translation difference	<u>(6,268)</u>	<u>16,698</u>
At the end of the period	<u><b>83,898</b></u>	<u><b>9,518</b></u>

At 30 June 2004, the Bank's loans in arrears for more than 30 days totalled USD 371,904 (2003: USD 123,734). All loans are secured by mortgages and personal guarantees.

BKT began extending loans to private enterprises and individuals in 2001. As at 30 June 2004 the breakdown of the loan portfolio is as follows:

Private Enterprises	72%
Individuals	28%

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	2.50% to 13.00%
Loans in Euro	4.50% to 13.00%
Loans in Lek	8.00% to 18.12%

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

(amounts in USD, unless otherwise stated)

#### **9. Loans and advances to customers (continued)**

The classification of loans is as follows:

<b>Corporate loans by industry</b>	<b>30 June 2004</b>		<b>31 December 2003</b>	
	<b>USD</b>	<b>%</b>	<b>USD</b>	<b>%</b>
Wholesale and Retail Trade	13,546,162	33%	6,943,138	30%
Hotels and Restaurants	5,975,305	15%	3,401,320	14%
Construction	5,066,569	12%	2,552,927	11%
Manufacturing of Other Non-metallic Products	2,430,991	6%	2,423,549	10%
Personal Needs	2,078,013	5%	1,234,101	5%
Manufacture of Food Products, Beverages	1,809,489	5%	1,643,596	7%
Real Estate, Renting and Business Activity	1,775,456	4%	-	-
Manufacturing of Basic Metallic	1,483,061	4%	1,298,176	6%
Financial Intermediation	1,317,636	3%	-	-
Manufacture of Wood and Wood Products	978,170	2%	817,400	3%
Manufacture of Rubber and Plastic Products	601,280	2%	391,920	2%
Manufacture of Textile and Textile Products	540,096	1%	185,202	1%
Manufacture of Furniture	499,297	1%	311,244	1%
Manufacture of Pulp, Paper & Paper Products	442,668	1%	461,859	2%
Education	406,779	1%	405,177	2%
Agriculture, Hunting and Forestry	387,177	1%	419,476	2%
Other Sectors	<u>1,667,960</u>	<u>4%</u>	<u>977,173</u>	<u>4%</u>
	<b><u>41,006,109</u></b>	<b><u>100%</u></b>	<b><u>23,466,258</u></b>	<b><u>100%</u></b>

  

<b>Retail loans by type</b>	<b>30 June 2004</b>		<b>31 December 2003</b>	
	<b>USD</b>	<b>%</b>	<b>USD</b>	<b>%</b>
Home purchase	5,635,504	53%	3,369,992	52%
Home improvement	2,183,504	20%	1,659,416	25%
Home advances	1,773,393	17%	799,292	12%
Car purchase	784,222	7%	485,594	8%
Technical equipment	238,037	2%	149,956	2%
Education support	1,403	0%	4,050	0%
Other types	<u>95,072</u>	<u>1%</u>	<u>51,535</u>	<u>1%</u>
	<b><u>10,711,135</u></b>	<b><u>100%</u></b>	<b><u>6,519,835</u></b>	<b><u>100%</u></b>

# Banka Kombetare Tregtare Sh.A

## Notes to the Interim Financial Statements for the six-month period ended 30 June 2004

(amounts in USD, unless otherwise stated)

### 10. Property and equipment

Property and equipment at 30 June 2004 and 31 December 2003 are composed as follows:

(In USD)	Land and buildings	Plant and equipment	IT Equipment	Office equipment	Work in progress	Total
<b>Gross value</b>						
At 31 December 2003	10,086,262	1,130,623	2,627,466	386,803	-	14,231,154
Additions	-	11,029	68,457	396	-	79,882
Disposals / transfers	-	-	-	(426)	-	(426)
Translation difference	504,810	56,587	131,502	19,359	-	712,258
At 30 June 2004	<u>10,591,072</u>	<u>1,198,239</u>	<u>2,827,425</u>	<u>406,132</u>	-	<u>15,022,868</u>
<b>Accumulated depreciation</b>						
At 31 December 2003	(2,443,923)	(717,160)	(1,661,566)	(173,334)	-	(4,995,983)
Charge for the period	(211,650)	(65,994)	(274,916)	(36,631)	-	(589,191)
Disposals / deductions	-	38	87	426	-	551
Translation difference	(130,803)	(38,534)	(94,298)	(10,144)	-	(273,779)
At 30 June 2004	<u>(2,786,376)</u>	<u>(821,650)</u>	<u>(2,030,693)</u>	<u>(219,683)</u>	-	<u>(5,858,402)</u>
<b>Net book value</b>						
At 31 December 2003	<u>7,642,339</u>	<u>413,463</u>	<u>965,900</u>	<u>213,469</u>	-	<u>9,235,171</u>
At 30 June 2004	<u>7,804,696</u>	<u>376,589</u>	<u>796,732</u>	<u>186,449</u>	-	<u>9,164,466</u>

### 11. Intangible assets

Intangible assets at 30 June 2004 and 31 December 2003 are composed as follows:

(In USD)	Software
<b>Gross value</b>	
At 31 December 2003	920,607
Additions	-
Translation difference	46,076
At 30 June 2004	<u>966,683</u>
<b>Accumulated depreciation</b>	
At 31 December 2003	(447,892)
Charge for the period	(116,178)
Translation difference	(27,075)
At 30 June 2004	<u>(591,145)</u>
<b>Net book value</b>	
At 31 December 2003	<u>472,715</u>
At 30 June 2004	<u>375,538</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 2004**

(amounts in USD, unless otherwise stated)

#### **12. Deferred tax assets**

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

	<b>30 June 2004</b>	<b>31 December 2003</b>
Balance at 1 January	102,287	126,554
Income statement benefit	-	(56,517)
Translation difference	<u>5,120</u>	<u>32,250</u>
Balance at the end of the period	<b><u>107,407</u></b>	<b><u>102,287</u></b>

Deferred income tax assets are attributable to the following items:

	<b>30 June 2004</b>	<b>31 December 2003</b>
Deferred income on fees on loans	76,378	72,738
Allowance for loan impairment	(85,283)	(81,218)
Decelerated depreciation	53,617	51,061
Start up costs written off	<u>62,695</u>	<u>59,706</u>
	<b><u>107,407</u></b>	<b><u>102,287</u></b>

#### **13. Other assets**

Other assets, net at 30 June 2004 and 31 December 2003 are as follows:

	<b>30 June 2004</b>	<b>31 December 2003</b>
Cheques for collection	186,179	158,928
Inventory	49,878	50,647
Accrued interest on bank placements, bonds, deposits with Central Bank and on loans to customers	1,098,247	721,374
Spot transactions revaluation gain	-	4,112
Accrual of customer accounts maintenance commission	118,043	-
Other debtors, net	<u>114,797</u>	<u>95,706</u>
	<b><u>1,567,144</u></b>	<b><u>1,030,767</u></b>

“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:

	<b>30 June 2004</b>	<b>31 December 2003</b>
Other debtors	126,013	107,002
Provision	<u>(11,216)</u>	<u>(11,296)</u>
	<b><u>114,797</u></b>	<b><u>95,706</u></b>

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

(amounts in USD, unless otherwise stated)

#### **13. Other assets (continued)**

“Other debtors” are composed of three items. The first item of USD 49,889 (2003: 40,501) is the remaining amount after the write off performed last year 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 24,453, which is fully cash collateralised and for the amount of USD 13,944, which are continuously recoverable from the credit clients of the bank. The other two items represent advance payments to suppliers of USD 15,982 (2003: USD 14,540) and prepaid expenses of USD 60,142 (2003: USD 51,961).

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

	<b>2004</b>	<b>2003</b>
At 1 January	11,296	3,079,473
Additions during the period	-	1,999
Reversals during the period	(497)	(7,656)
Write off of debtors	-	(3,388,065)
Translation difference	<u>417</u>	<u>325,545</u>
At the end of the period	<u><b>11,216</b></u>	<u><b>11,296</b></u>

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

#### **14. Customer deposits**

Customer deposits at 30 June 2004 and 31 December 2003 are composed as follows:

	<b>30 June 2004</b>	<b>31 December 2003</b>
<b>Current accounts:</b>		
Individuals	5,727,768	3,578,445
Private enterprises	35,846,513	31,910,146
State owned entities	<u>28,719,868</u>	<u>24,053,761</u>
	<b>70,294,149</b>	<b>59,542,352</b>
<b>Deposits:</b>		
Individuals	283,315,160	241,209,973
Private enterprises	13,018,311	12,455,044
State owned entities	<u>8,437,109</u>	<u>7,617,539</u>
	<b>304,770,580</b>	<b>261,282,556</b>
<b>Other customer accounts:</b>		
Individuals	1,747,154	1,242,629
Private enterprises	7,688,786	7,158,996
State owned entities	<u>770,679</u>	<u>765,437</u>
	<u><b>10,206,619</b></u>	<u><b>9,167,062</b></u>
	<u><b>385,271,348</b></u>	<u><b>329,991,970</b></u>

## Banka Kombetare Tregtare Sh.A

### Notes to the Interim Financial Statements for the six-month period ended 30 June 2004

(amounts in USD, unless otherwise stated)

#### 14. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

	30 June 2004			31 December 2003		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
<b>Current accounts</b>	40,607,634	29,686,515	70,294,149	32,480,334	27,062,018	59,542,352
<b>Deposits</b>						
On demand	70,845	188,700	259,545	55,566	228,103	283,669
One month	9,603,786	31,733,664	41,337,450	7,304,037	25,536,387	32,840,424
Three months	47,131,103	25,563,670	72,694,773	45,458,542	23,220,536	68,679,078
Six months	70,416,264	11,373,477	81,789,741	58,128,771	9,885,113	68,013,884
Twelve months and over	89,538,704	14,040,298	103,579,002	74,385,703	12,267,775	86,653,478
Accrued interest on deposits	4,945,276	164,793	5,110,069	4,678,226	133,797	4,812,023
<b>Total deposits</b>	<b>221,705,978</b>	<b>83,064,602</b>	<b>304,770,580</b>	<b>190,010,845</b>	<b>71,271,711</b>	<b>261,282,556</b>
<b>Other customer accounts</b>	<b>4,790,626</b>	<b>5,415,993</b>	<b>10,206,619</b>	<b>5,752,896</b>	<b>3,414,166</b>	<b>9,167,062</b>
<b>Total customer deposits</b>	<b>267,104,238</b>	<b>118,167,110</b>	<b>385,271,348</b>	<b>228,244,075</b>	<b>101,747,895</b>	<b>329,991,970</b>

Other customer accounts are composed as follows:

	30 June 2004			31 December 2003		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Deposits from liquidation of Xhaferi Foundation	893,931	22,021	915,952	2,384,151	124,367	2,508,518
Deposit guarantees for letters of credit	-	2,729,303	2,729,303	-	820,225	820,225
Escrow accounts	3,284,746	1,915,621	5,200,367	3,043,249	1,842,426	4,885,675
Bank drafts	-	6,040	6,040	-	6,147	6,147
Payment orders to be executed	77,130	271,882	349,012	35,954	273,686	309,640
Other	534,819	471,126	1,005,945	289,541	347,316	636,857
	<b>4,790,626</b>	<b>5,415,993</b>	<b>10,206,619</b>	<b>5,752,895</b>	<b>3,414,167</b>	<b>9,167,062</b>

“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.

“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 2004**

*(amounts in USD, unless otherwise stated)*

#### **15. Due to banks**

Due to banks at 30 June 2004 and 31 December 2003 consisted as follows:

	<i>30 June 2004</i>	<i>31 December 2003</i>
Deposits from resident banks	598,648	-
Current accounts of resident banks	<u>15,666</u>	<u>17,635</u>
	<u><b>614,314</b></u>	<u><b>17,635</b></u>

The Bank as at 30 June 2004, has borrowed from one resident bank in Lek. The contractual maturity and its balance is detailed as follows:

<b>Bank</b>	<b>Principal</b>	<b>Accrued Interest</b>	<b>Total Deposit</b>	<b>Maturity Date</b>
Banka Popullore	591,133	7,515	598,648	05 November 2004

#### **16. 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 2004 represents the amount collected from the taxpayers, which has not yet been transferred to the tax authorities account.

#### **17. Accruals and other liabilities**

A breakdown of accruals and other liabilities at 30 June 2004 and 31 December 2003 is presented as follows:

	<i>30 June 2004</i>	<i>31 December 2003</i>
Creditors	1,857,770	1,785,698
Transit account	553,463	1,174,725
Due to tax authorities	223,340	367,063
Reserve fund for retiring employees	259,300	193,300
Social insurance	64,238	44,786
Accrued expenses	314,148	379,172
Other	<u>856,580</u>	<u>433,574</u>
	<u><b>4,128,839</b></u>	<u><b>4,378,318</b></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 2004**

*(amounts in USD, unless otherwise stated)*

#### **17. 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 180,501 (2003: USD 136,193) of deposit insurance premium due for the second quarter of 2004 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.

“Other” consists of four items. The first item of USD 537,606 (2003: USD 290,951), represents deferred income from fee and commissions raised on lending activity; the second of USD 312,822 (2003: USD 138,440) are payments due to construction companies in relation to semi finished home loans, the third item of USD 4,070 (2003: USD 4,183) represents cash guarantees received from the suppliers and the last item of USD 2,082 (2003: nil) represents spot transactions revaluation loss.

#### **18. 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.

#### **19. Interest income**

Interest income is composed as follows:

	<i>Six-month period ended 30 June 2004</i>	<i>Six-month period ended 30 June 2003</i>
Treasury bills and investment securities	10,332,732	8,557,536
Placements with banks and balances with Central Bank	1,195,670	1,053,055
Loans and advances to customers	<u>2,058,723</u>	<u>846,459</u>
	<b><u>13,587,125</u></b>	<b><u>10,457,050</u></b>

#### **20. Interest expense**

Interest expense is composed as follows:

	<i>Six-month period ended 30 June 2004</i>	<i>Six-month period ended 30 June 2003</i>
Due to banks	25,003	8,737
Customer deposits	<u>7,338,287</u>	<u>6,211,032</u>
	<b><u>7,363,290</u></b>	<b><u>6,219,769</u></b>

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

(amounts in USD, unless otherwise stated)

#### **21. Fees and commissions, net**

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

	<i>Six-month period ended 30 June 2004</i>	<i>Six-month period ended 30 June 2003</i>
<i>Fee and commission income</i>		
Lending activity	309,888	244,497
Inter bank transactions	8,372	4,922
Cash transactions with clients	80,722	91,153
Customer accounts' maintenance	123,785	9,248
Payment services to clients	295,974	247,434
Other fees and commissions	<u>15,095</u>	<u>13,239</u>
	<u>833,836</u>	<u>610,493</u>
<i>Fee and commission expense</i>		
Inter bank transactions	5,053	3,472
Customer accounts' maintenance	35,061	28,104
Payment services to clients	2,140	589
Other fees and commissions	<u>-</u>	<u>26</u>
	<u>42,254</u>	<u>32,191</u>
<b>Fees and commissions, net</b>	<b><u>791,582</u></b>	<b><u>578,302</u></b>

#### **22. 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 gain on this item for the six-month period ended 30 June 2004 is USD 704,544 (2003: USD 3,262,285).

#### **23. Other income, net**

Other income and expenses are composed as follows:

	<i>Six-month period ended 30 June 2004</i>	<i>Six-month period ended 30 June 2003</i>
<i>Other income</i>		
Reversal of loan loss provisions	10,105	-
Gain on sale of fixed assets	189	6,661
Sundry	<u>69,826</u>	<u>13,690</u>
	<u>80,120</u>	<u>20,351</u>
<i>Other expense</i>		
Loss on sale or write off of fixed assets	-	14,854
Provision on other assets	-	2,008
Sundry	<u>-</u>	<u>412</u>
	<u>-</u>	<u>17,274</u>
<b>Other income, net</b>	<b><u>80,120</u></b>	<b><u>3,077</u></b>

## **Banka Kombetare Tregtare Sh.A**

---

### **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

*(amounts in USD, unless otherwise stated)*

#### **24. Personnel expenses**

Personnel expenses are composed as follows:

	<i>Six-month period ended 30 June 2004</i>	<i>Six-month period ended 30 June 2003</i>
Salaries	1,271,752	936,760
Social insurance	210,393	128,711
Training	82,525	39,350
Reserve fund for retiring employees	65,883	51,064
Performance bonus	19,984	3,833
Life insurance	1,334	3,815
Other	11,196	4,298
	<u><b>1,663,067</b></u>	<u><b>1,167,831</b></u>

#### **25. Administrative expenses**

Administrative expenses are composed as follows:

	<i>Six-month period ended 30 June 2004</i>	<i>Six-month period ended 30 June 2003</i>
Telephone, electricity and IT expenses	393,253	286,084
Deposit insurance expense	347,086	228,968
Security expenses	218,209	139,171
Taxes other than tax on profits	179,060	4,765
Marketing expenses	145,607	81,525
Transportation and business related travel	130,484	82,501
Repairs and maintenance	75,124	61,595
Lease payments	68,908	51,517
Office stationery and supplies	58,743	39,091
Other external services (including external audit fees)	38,708	28,449
Sundry	20,756	17,745
	<u><b>1,675,938</b></u>	<u><b>1,021,411</b></u>

#### **26. Income tax expense**

Income tax expense is comprised of:

	<i>Six-month period ended 30 June 2004</i>	<i>Six-month period ended 30 June 2003</i>
Current tax expense	833,450	560,428
Deferred tax benefit	-	(9,059)
	<u><b>833,450</b></u>	<u><b>551,369</b></u>

## **Banka Kombetare Tregtare Sh.A**

---

### **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

*(amounts in USD, unless otherwise stated)*

#### **26. Income tax expense (continued)**

Income tax in Albania is assessed at the rate of 25% (2003: 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 2004</i>	<i>Six-month period ended 30 June 2003</i>
Profit (loss) before taxes	3,409,211	1,391,224
Computed tax using applicable tax rate	852,303	347,806
Non tax deductible expenses	46,936	95,237
Start up costs amortized for tax purposes	(55,961)	(49,986)
Foreign exchange difference	<u>(9,828)</u>	<u>158,312</u>
<b>Tax expense (benefit)</b>	<b><u>833,450</u></b>	<b><u>551,369</u></b>

#### **27. 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 250,000 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 2004 is shown in note 30.

##### ***(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 31.

## **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

*(amounts in USD, unless otherwise stated)*

### **27. 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 29.

### **28. 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 2004, the fair value of the Treasury bills portfolio was USD 221,633,181 (2003: USD 189,706,084), which exceeds the carrying amount by USD 895,554 (2003: USD 879,379).

#### *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 2004, the fair value of the entire bond portfolio was USD 29,786,550 (2003: USD 26,007,752), which exceeds the carrying amount by USD 671,590 (2003: USD 1,866,940).

#### *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 2004

(amounts in USD, unless otherwise stated)

#### 28. 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.

#### 29. Liquidity risk

At 30 June 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>	<b>Total</b>
<b>Assets</b>						
Cash and balances with Central Bank	48,272,821	-	-	-	-	48,272,821
Placement and balances with banks	50,799,012	2,997,414	500,000	-	-	54,296,426
Treasury bills	18,436,980	54,692,661	147,607,986	-	-	220,737,627
Investment securities	1,001,151	5,017,822	7,336,152	10,884,135	4,875,700	29,114,960
Loans and advances to customers	1,882,358	5,668,248	13,318,226	27,045,519	3,718,995	51,633,346
Property and equipment	-	-	-	1,359,770	7,804,696	9,164,466
Intangible assets	-	-	-	375,538	-	375,538
Deferred tax asset	-	-	-	107,407	-	107,407
Other assets	929,289	39,668	212,274	362,497	23,416	1,567,144
<b>Total assets</b>	<b><u>121,321,611</u></b>	<b><u>68,415,813</u></b>	<b><u>168,974,638</u></b>	<b><u>40,134,866</u></b>	<b><u>16,422,807</u></b>	<b><u>415,269,735</u></b>
<b>Liabilities and shareholders' equity</b>						
Customer deposits	166,576,288	94,479,571	124,193,724	21,765	-	385,271,348
Due to banks	15,666	-	598,648	-	-	614,314
Due to third parties	3,375,189	-	-	-	-	3,375,189
Accruals and other liabilities	3,351,531	59,018	138,671	320,319	259,300	4,128,839
Shareholders' equity	-	-	-	-	21,880,045	21,880,045
<b>Total liabilities and shareholders' equity</b>	<b><u>173,318,674</u></b>	<b><u>94,538,589</u></b>	<b><u>124,931,043</u></b>	<b><u>342,084</u></b>	<b><u>22,139,345</u></b>	<b><u>415,269,735</u></b>
<b>Net Position</b>	<b><u>(51,997,063)</u></b>	<b><u>(26,122,776)</u></b>	<b><u>44,043,595</u></b>	<b><u>39,792,782</u></b>	<b><u>(5,716,538)</u></b>	<b><u>-</u></b>
<b>Cumulative Net Position</b>	<b><u>(51,997,063)</u></b>	<b><u>(78,119,839)</u></b>	<b><u>(34,076,244)</u></b>	<b><u>5,716,538</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

(amounts in USD, unless otherwise stated)

#### **29. Liquidity risk (continued)**

At 31 December 2003, 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>	<b>Total</b>
<b>Assets</b>						
Cash and balances with Central Bank	44,824,327	-	-	-	-	44,824,327
Placement and balances with banks	54,207,738	1,260,274	-	-	-	55,468,012
Treasury bills	21,469,072	27,408,511	139,949,122	-	-	188,826,705
Investment securities	-	-	14,773,771	4,500,523	4,866,518	24,140,812
Loans and advances to customers	1,710,671	2,960,162	8,530,389	15,228,788	1,546,565	29,976,575
Property and equipment	-	-	-	1,592,832	7,642,339	9,235,171
Intangible assets	-	-	-	472,715	-	472,715
Deferred tax asset	-	-	-	102,287	-	102,287
Other assets	<u>727,964</u>	<u>23,167</u>	<u>56,408</u>	<u>213,081</u>	<u>10,147</u>	<u>1,030,767</u>
<b>Total assets</b>	<b><u>122,939,772</u></b>	<b><u>31,652,114</u></b>	<b><u>163,309,690</u></b>	<b><u>22,110,226</u></b>	<b><u>14,065,569</u></b>	<b><u>354,077,371</u></b>
<b>Liabilities and shareholders' equity</b>						
Customer deposits	142,205,018	83,174,979	104,611,973	-	-	329,991,970
Due to banks	17,635	-	-	-	-	17,635
Due to third parties	701,629	-	-	-	-	701,629
Accruals and other liabilities	3,703,560	190,507	116,480	174,471	193,300	4,378,318
Shareholders' equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,987,819</u>	<u>18,987,819</u>
<b>Total liabilities and shareholders' equity</b>	<b><u>146,627,842</u></b>	<b><u>83,365,486</u></b>	<b><u>104,728,453</u></b>	<b><u>174,471</u></b>	<b><u>19,181,119</u></b>	<b><u>354,077,371</u></b>
<b>Net Position</b>	<b><u>(23,688,070)</u></b>	<b><u>(51,713,372)</u></b>	<b><u>58,581,237</u></b>	<b><u>21,935,755</u></b>	<b><u>(5,115,550)</u></b>	<b><u>-</u></b>
<b>Cumulative Net Position</b>	<b><u>(23,688,070)</u></b>	<b><u>(75,401,442)</u></b>	<b><u>(16,820,205)</u></b>	<b><u>5,115,550</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

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 31.

## Banka Kombetare Tregtare Sh.A

### Notes to the Interim Financial Statements for the six-month period ended 30 June 2004

(amounts in USD, unless otherwise stated)

#### 30. Foreign currency risk

The following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency at 30 June 2004 and 31 December 2003 in accordance with the Bank of Albania foreign currency disclosure requirements:

<i>2004</i>	<i>Lek</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
<b>Assets</b>					
Cash and balances with Central Bank	29,357,007	8,002,651	10,480,538	432,625	48,272,821
Placements and balances with banks	-	41,990,690	6,950,464	5,355,272	54,296,426
Treasury bills	220,737,627	-	-	-	220,737,627
Investment securities	6,527,885	16,062,081	6,524,994	-	29,114,960
Loans and advances to customers	10,946,685	16,622,575	24,064,086	-	51,633,346
Property and equipment	9,164,466	-	-	-	9,164,466
Intangible assets	375,538	-	-	-	375,538
Deferred tax assets	107,407	-	-	-	107,407
Other assets	717,932	553,797	291,265	4,150	1,567,144
<b>Total assets</b>	<b><u>277,934,547</u></b>	<b><u>83,231,794</u></b>	<b><u>48,311,347</u></b>	<b><u>5,792,047</u></b>	<b><u>415,269,735</u></b>
Off balance sheet items	441,946	1,004,906	300,679	217,040	1,964,571
<b>Liabilities and shareholders' equity</b>					
Customer deposits	267,104,239	65,980,606	46,506,395	5,680,108	385,271,348
Due to banks	599,765	9,308	3,563	1,678	614,314
Due to third parties	3,375,189	-	-	-	3,375,189
Accruals and other liabilities	961,504	2,417,467	677,928	71,940	4,128,839
Shareholders' equity	7,136,723	14,743,322	-	-	21,880,045
<b>Total liabilities and shareholders' equity</b>	<b><u>279,177,420</u></b>	<b><u>83,150,703</u></b>	<b><u>47,187,886</u></b>	<b><u>5,753,726</u></b>	<b><u>415,269,735</u></b>
Off balance sheet items	194,028	623,825	945,682	201,036	1,964,571
<b>Net position</b>	<b><u>(994,955)</u></b>	<b><u>462,172</u></b>	<b><u>478,458</u></b>	<b><u>54,325</u></b>	<b><u>-</u></b>
<i>2003</i>	<i>Lek</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
<b>Assets</b>					
Cash and balances with Central Bank	25,351,727	6,381,901	12,664,142	426,557	44,824,327
Placements and balances with banks	-	33,958,282	18,345,744	3,163,986	55,468,012
Treasury bills	188,826,705	-	-	-	188,826,705
Investment securities	3,882,762	20,258,050	-	-	24,140,812
Loans and advances to customers	6,729,121	13,327,612	9,919,842	-	29,976,575
Property and equipment	9,235,171	-	-	-	9,235,171
Intangible assets	472,715	-	-	-	472,715
Deferred tax assets	102,287	-	-	-	102,287
Other assets	441,123	521,268	66,326	2,050	1,030,767
<b>Total assets</b>	<b><u>235,041,611</u></b>	<b><u>74,447,113</u></b>	<b><u>40,996,054</u></b>	<b><u>3,592,593</u></b>	<b><u>354,077,371</u></b>
Off balance sheet items	-	2,194,561	-	-	2,194,561
<b>Liabilities and shareholders' equity</b>					
Customer deposits	228,244,074	58,874,072	39,370,475	3,503,349	329,991,970
Due to banks	534	11,592	3,702	1,807	17,635
Due to third parties	701,629	-	-	-	701,629
Accruals and other liabilities	1,746,726	2,346,281	251,118	34,193	4,378,318
Shareholders' equity	3,848,169	15,139,650	-	-	18,987,819
<b>Total liabilities and shareholders' equity</b>	<b><u>234,541,132</u></b>	<b><u>76,371,595</u></b>	<b><u>39,625,295</u></b>	<b><u>3,539,349</u></b>	<b><u>354,077,371</u></b>
Off balance sheet items	300,760	-	1,877,808	15,993	2,194,561
<b>Net position</b>	<b><u>199,719</u></b>	<b><u>270,079</u></b>	<b><u>(507,049)</u></b>	<b><u>37,251</u></b>	<b><u>-</u></b>

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

(amounts in USD, unless otherwise stated)

#### **31. Interest rate risk**

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 30 June 2004 were as follows:

	<i>Lek</i>	<i>USD</i>	<i>Euro</i>
<b>Assets</b>			
Cash and balances with Central Bank	4.03%	0.92%	1.45%
Placement and balances with banks	N/A	1.16%	2.02%
Treasury bills	9.36%	N/A	N/A
Investment securities	11.63%	4.00%	2.92%
Loans and advances to customers	16.91%	9.25%	9.33%
<b>Liabilities</b>			
Customer deposits	5.77%	0.57%	1.23%
Due to banks	7.82%	0.10%	0.10%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2003 were as follows:

	<i>Lek</i>	<i>USD</i>	<i>Euro</i>
<b>Assets</b>			
Cash and balances with Central Bank	4.98%	0.77%	1.35%
Placement and balances with banks	N/A	1.06%	2.13%
Treasury bills	10.71%	N/A	N/A
Investment securities	12.48%	2.59%	N/A
Loans and advances to customers	18.40%	10.09%	10.09%
<b>Liabilities</b>			
Customer deposits	6.16%	0.53%	1.04%
Due to banks	1.5%	0.10%	0.10%

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 30 June 2004 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>
<b>Assets</b>						
Cash and balances with Central Bank	48,272,821	-	-	-	-	48,272,821
Placement and balances with banks	50,799,012	2,997,414	500,000	-	-	54,296,426
Treasury bills	18,436,980	54,692,661	147,607,986	-	-	220,737,627
Investment securities	1,001,151	5,017,822	7,336,152	10,884,135	4,875,700	29,114,960
Loans and advances to customers	1,476,235	4,881,962	40,688,620	4,049,293	537,236	51,633,346
<b>Total</b>	<b>119,986,199</b>	<b>67,589,859</b>	<b>196,132,758</b>	<b>14,933,428</b>	<b>5,412,936</b>	<b>404,055,180</b>
<b>Liabilities</b>						
Customer deposits	166,576,288	94,479,571	124,193,724	21,765	-	385,271,348
Due to banks	15,666	-	598,648	-	-	614,314
Accruals and other liabilities	3,367,197	59,018	138,671	320,319	259,300	4,144,505
<b>Total</b>	<b>169,959,151</b>	<b>94,538,589</b>	<b>124,931,043</b>	<b>342,084</b>	<b>259,300</b>	<b>390,030,167</b>

## **Banka Kombetare Tregtare Sh.A**

---

### **Notes to the Interim Financial Statements for the six-month period ended 30 June 2004**

*(amounts in USD, unless otherwise stated)*

#### **32. Related party transactions**

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

##### **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 2004.

##### **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 2004</i>	<i>Year ended 31 December 2003</i>
Directors	19,998	42,336
Executive officers	<u>332,868</u>	<u>724,068</u>
	<b><u>352,866</u></b>	<b><u>766,404</u></b>

#### **33. Contingencies and commitments including off-balance sheets items**

##### **Guarantees**

	<i>30 June 2004</i>	<i>31 December 2003</i>
Guarantees in favour of customers	5,615,342	5,236,148
Guarantees received from credit institutions	441,546	410,706
Letters of credit issued to customers	2,740,371	824,503

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 2004**

*(amounts in USD, unless otherwise stated)*

#### **33. Contingencies and commitments including off-balance sheets items (continued)**

##### **Other**

	<i>30 June 2004</i>	<i>31 December 2003</i>
Undrawn credit commitments	509,400	626,027
Outstanding cheques of non-resident banks	241,460	429,387
Spot foreign currency contract	1,964,571	2,194,561
Collaterals for loan portfolio	108,042,161	72,296,640

##### **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 2004.

##### **Lease commitments**

Such commitments for the six-month period ended 30 June 2004 and for the year ended 31 December 2003 are composed as follows:

	<i>30 June 2004</i>	<i>31 December 2003</i>
Not later than 1 year	132,636	132,636
Later than 1 year and not later than 5 years	514,044	518,544
Later than 5 years	<u>302,305</u>	<u>364,123</u>
<b>Total</b>	<b><u>948,985</u></b>	<b><u>1,015,303</u></b>

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 4), Fier, Berat, Pogradec and Saranda.

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