



Banka Kombetare Tregtare Sh.A.

Financial Statements as of
31 December 2001
(with audit report thereon)



Audit report

To the shareholders of Banka Kombetare Tregtare Sh.A.

We have audited the accompanying balance sheet of Banka Kombetare Tregtare Sh.A. (the Bank) as of 31 December 2001 and the related statements of income and cash flows for the year then ended. The financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in note 3 to the financial statements, this is the first year of presentation of the Bank's financial statements in US Dollars and therefore comparative figures for the respective period of the previous year are not available for the income statement, statement of cash flows and shareholders' equity.

In our opinion, except for the effect on the financial statements of the matter described to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2001, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards as issued by the International Accounting Standards Committee.

Milan, XX XXXX 2002

KPMG S.p.A.



Banka Kombetare Tregtare Sh.A.

Balance sheets as at 31 December 2001 and 2000

(amounts in USD, unless otherwise stated)

	Notes	31 December 2001	31 December 2000
Assets:			
Cash and balances with Central Bank	4	35,681,046	27,014,659
Treasury bills	5	109,330,707	77,733,567
Placement and balances with banks	6	63,862,142	65,360,477
Investment in Securities	7	4,829,620	-
Loans and advances to customers	8	700,307	-
Fixed assets	9	8,568,322	6,719,671
Other assets	10	<u>808,873</u>	<u>3,124,320</u>
Total assets		<u>223,781,017</u>	<u>179,952,694</u>
Liabilities and shareholders' equity:			
Liabilities:			
Customer deposits	11	207,755,735	158,127,475
Due to third parties for cash collected on their behalf	12	-	3,142,529
Accruals and other liabilities	13	<u>2,829,934</u>	<u>5,849,886</u>
Total liabilities		210,585,669	167,119,890
Shareholders' equity:			
Capital		10,000,000	10,000,000
Other reserve	14	969,133	969,133
Retained earnings		1,863,671	-
Current profit		<u>362,544</u>	<u>1,863,671</u>
Total shareholders' equity		<u>13,195,348</u>	<u>12,832,804</u>
Total liabilities and shareholders' equity		<u>223,781,017</u>	<u>179,952,694</u>

See accompanying notes to the financial statements



Banka Kombetare Tregtare Sh.A.

Income statements for the year ended 31 December 2001 and three months ended 31 December 2001

(amounts in USD, unless otherwise stated)

	Notes	Year ended 31 December 2001	Three months ended 31 December 2001
Interest:			
Interest income	15	12,723,020	3,257,648
Interest expense	16	<u>(7,729,642)</u>	<u>(2,004,682)</u>
Net interest margin		4,993,378	1,252,966
Fees and commissions, net	17	785,428	263,699
Foreign exchange revaluation gain (loss), net	18	(634,013)	(349,013)
Profit from trading activities, net		578,000	193,794
Operating expenses:			
Personnel	19	(2,463,210)	(719,210)
Administrative	20	(1,639,704)	(629,704)
Depreciation	9	<u>(710,905)</u>	<u>(387,905)</u>
Total operating expenses		(4,813,819)	(1,736,819)
Provision for loan losses, net		(12,527)	(6,527)
Restructure write-off	21	(466,521)	(466,521)
Other, net		<u>117,192</u>	<u>38,192</u>
Profit (loss) before taxes		547,118	(810,229)
Taxes on income	3.9	(184,574)	126,426
Net profit (loss)		<u>362,544</u>	<u>(683,803)</u>

See accompanying notes to the financial statements



Banka Kombetare Tregtare Sh.A.

Statement of cash flows for the year ended 31 December 2001

(amounts in USD, unless otherwise stated)

	Year ended 31 December 2001
Cash flows from operating activities:	
Net profit	362,544
Adjustments to reconcile change in net assets to net Cash provided by operating activities:	
Depreciation	710,905
Write-off of fixed assets	466,521
Write-off of small inventory	119,000
Provision for loan losses	12,527
Other provisions	<u>19,749</u>
	1,691,246
Decrease/(increase) of operating assets:	
Increase in treasury bills	(31,597,140)
Decrease in placement and balances with banks	1,498,335
Increase of loans and advances to customers	(712,834)
Decrease in other assets	<u>2,176,698</u>
	(28,634,941)
Increase/(decrease) of operating liabilities:	
Increase in due to customers	49,628,260
Decrease in cash due to third parties	(3,142,529)
Decrease of accruals other liabilities	<u>(3,019,952)</u>
	43,465,779
Cash flows from operating activities	16,522,084
Cash flows from investing activities	
Increase in investment in securities	(4,829,620)
Increase/decrease of tangible assets	<u>(3,026,077)</u>
Net cash from investing activities	(7,855,697)
Net increase in cash and cash equivalents	8,666,387
Cash and bank at the beginning of the year	<u>27,014,659</u>
Cash and bank at the end of the year	<u>35,681,046</u>

See accompanying notes to the financial statements



Banka Kombetare Tregtare Sh.A.

Statement of changes in equity for the year ended 31 December 2001

(amounts in USD, unless otherwise stated)

	Share Capital	Reserve	Retained earnings	Profit of the year	Total
Balance at 31 December 2000	10,000,000	969,133	-	1,863,671	12,832,804
Destination of prior year profit			1,863,671	(1,863,671)	-
Profit of the year				362,544	362,544
Balance at 31 December 2001	10,000,000	969,133	1,863,671	362,544	13,195,348

See accompanying notes to the financial statements



Banka Kombetare Tregtare Sh.A.

Notes to the financial statements - 31 December 2001

(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 composition of capital after privatisation is 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, to meet the International Monetary Fund requirements, ownership of Kent Bank passed to the Turkish Government. The EBRD and IFC expect to identify a new long-term strategic shareholder to replace Kent Bank during 2002.

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 interbank market.

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 the BKT is located in Tirana. Currently the Bank has a network of 10 branches, three of them in Tirana, and the others located in Durrës, Elbasan, Korça, Gjirokastër, Vlora, Lushnjë, and Shkodra. The Bank employed 227 staff as at 31 December 2001.



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Notes to the financial statements - 31 December 2001

(Amounts in USD, unless otherwise stated)

The financial statements were authorised for release by the Board of Directors on 18 April 2002.

2. Statement of compliance

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

3. Summary of accounting principles

3.1 Basis of preparation

The financial statements are presented in US Dollars, rounded to the nearest thousand. The measurement currency used in preparing the financial statements is the US Dollar (USD). 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, the Bank performs the majority of its transactions on a USD basis and negotiates the majority of its supplier contracts on a USD basis, reflecting the operating environment in Albania.

The financial statements are prepared on the historic cost basis, except for those financial assets and liabilities for which a reliable measure of fair value is available, as detailed in note 23.

The Bank has published annual audited IAS financial statements since 1997. 2001 is the first full year that the Bank has used the US Dollar as its measurement currency and has presented its financial statements in US Dollars. Management are of the opinion that restating the financial statements prior to the privatisation date is impractical. As such, balance sheet comparative figures for the previous year represent audited financial statements in Lek, converted into US Dollars using the year-end 2000 exchange rate. Comparative figures for the income statement, cash flow statement and the statement of shareholders' equity are not presented. The only adjustment reflected in the previous year as a result of the change in measurement currency is that of the carrying value of fixed assets as detailed in notes 9 and 14.

3.2 Foreign currency transactions

Transactions in foreign currencies are translated 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. Non-monetary assets and liabilities



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denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction.

3.3 Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and cash deposited with central bank.

3.4 Treasury bills

Treasury bills are classified as held-to-maturity assets and are recorded at cost plus accrued interest with purchases accounted for at auction date. Treasury Bills are considered to be investments held to maturity as the Bank has the intent and ability to do so.

3.5 Loans and advances to customers

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

3.6 Investment securities

Investment securities are classified as held-to-maturity assets and are recorded at cost plus accrued interest with purchases accounted for at value date. Investment securities are considered to be investments held-to-maturity only when the Bank has the intent and ability to do so.

3.7 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.

3.8 Fee and commission income

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

Fee and commission income is recognized when the corresponding service is provided.

3.9 Taxation

Income taxes are accounted for in accordance with IAS 12. The Bank determines taxation at the end of the year in accordance with the Albanian tax legislation. In 2001, tax on profit is equal to 25% of the taxable income. Taxable income is calculated by



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adjusting the statutory profit before taxes for certain income and expenditure items as required under the Albanian law.

A deferred tax asset is recognised only to the extent that it is possible that future taxable profits will be available against which the asset can be utilised.

3.10 Tangible fixed assets

Property, plant and equipment are stated at cost less accumulated depreciation. The depreciation for tangible fixed assets is calculated on a straight-line basis over the estimated useful lives of the assets. Depreciation is calculated in accordance with the following rates:

Building and Leasehold improvement	5%
Furniture and equipment	20%
Vehicles	20%
Electronic & Computer equipment	25%

Work in progress represents assets under construction or being developed for future use by the Bank and is stated at cost until the construction or development is complete, at which time the assets are reclassified into the relevant fixed asset categories.

3.11 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 Central Bank

Cash and Central Bank are considered to be highly liquid. At 31 December 2001 and 2000, their balances are detailed as follows:

	<i>31 December 2001</i>	<i>31 December 2000</i>
<i>Cash</i>	17,182,454	4,814,399
<i>Bank of Albania</i>		
Current Account	11,704,475	16,566,701
Compulsory Reserve	<u>6,794,117</u>	<u>5,633,559</u>
	<u>18,498,592</u>	<u>22,200,260</u>



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35,681,046

27,014,659

Starting from September 2000, according to a decision of the Bank of Albania, the compulsory reserve is an interest bearing account. Cash at 31 December 2001 was exceptionally high due to the euro-conversion.

5. Treasury bills

Treasury bills bear interest at market rates ranging from 9.21% p.a. to 11.50% p.a. on a compound basis and are all denominated in Lek. A detail of treasury bills by original maturity is presented as follows:

	31 December 2001			31 December 2000		
	Purchase Value	Accrued interest	Net book value	Purchase Value	Accrued interest	Net book value
6 months	82,007,560	2,360,813	84,368,373	72,071,242	638,048	72,709,290
12 months	<u>24,259,439</u>	<u>702,895</u>	<u>24,962,334</u>	<u>4,837,360</u>	<u>186,917</u>	<u>5,024,277</u>
	<u>106,266,999</u>	<u>3,063,708</u>	<u>109,330,707</u>	<u>76,908,602</u>	<u>824,965</u>	<u>77,733,567</u>

6. Placements and balances with banks

Placements and balances with banks at 31 December 2001 and 2000 consisted as follows:

	31 December 2001	31 December 2000
Placements	58,696,946	63,561,396
Cash collateral held by correspondent banks	4,665,158	646,045
Current Accounts	<u>500,038</u>	<u>1,153,036</u>
	<u>63,862,142</u>	<u>65,360,477</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 the correspondent banks that represent prime international financial institutions. Cash collateral represents collateral held by correspondent banks against issued letters of credit.

7. Investment securities

Investment securities consist of a Eurobond issued by the Republic of Turkey with a nominal value of USD 5,000,000 and maturing in 2010. As at 31 December 2001, the market value of the Eurobond was USD 4,915,500, which exceeds the carrying value in



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Notes to the financial statements - 31 December 2001

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the accounts by USD 85,880. In accordance with the Bank's accounting policy, the profit from the market appreciation has not been recognized in the income statement.

Loans and advances to customers

In 2001 BKT began extending loans to private enterprises and individuals. As at 31 December 2001 the breakdown of the loan portfolio is as follows:

Private Enterprise	74%
Individuals	26%

Loans to individuals and loans to private enterprises are secured by mortgages and shareholders' personal guarantees. The entire loan portfolio is in the category of "Standard loans" as defined by the Bank of Albania. The Bank of Albania requires setting a loan loss provision of 2% against "standard loans", however BKT has adopted a more conservative loan loss provisions policy based on impairment reviews of each loan.

The classification of loans by industry is as follows:

Loans to individuals fully secured	26%
Construction of Private Buildings	21%
Printing	14%
Civil Engineering	11%
Hotels and Restaurants	11%
Wholesale and Retail Trade	10%
Manufacturing of Plastic Products	4%
Wood Products	3%

The above loans are in US Dollar, Euro and Lek and bear interest rates as follows:

Loans in US\$	11% to 12%
Loans in Euro	13%
Loans in Lek	14% to 18%

Gross loans at 31 December 2001 were USD 713,367 with a gross loan loss provision of USD 13,060 (USD 12,527, net) giving a net value of USD 700,307.



Banka Kombetare Tregtare Sh.A.

Notes to the financial statements - 31 December 2001

(Amounts in USD, unless otherwise stated)

9. Fixed assets

Fixed assets at 31 December 2001 and 2000 are composed as follows:

(In USD '000)	Intangible assets	Land and buildings	Plant and equipment	IT equipment	Office equipment	Work in progress	Total
Gross value							
At 31 December 2000	-	6,494,692	944,756	772,844	358,700	-	8,570,992
Revaluation difference	-	1,175,904	-	-	-	-	1,175,904
At 31 December 2000 at USD historic rates	-	7,670,596	944,756	772,844	358,700	-	9,746,896
Additions	626,285	1,073,044	265,051	589,711	116,504	355,482	3,026,077
Disposals / write-offs	-	(355,067)	(501,627)	(256,902)	(328,938)	-	(1,442,534)
At 31 December 2001	<u>626,285</u>	<u>8,388,573</u>	<u>708,180</u>	<u>1,105,653</u>	<u>146,266</u>	<u>355,482</u>	<u>11,330,439</u>
Accumulated depreciation							
At 31 December 2000	-	(1,033,854)	(918,218)	(653,382)	(215,000)	-	(2,820,454)
Revaluation difference	-	(206,771)	-	-	-	-	(206,771)
At 31 December 2000 at USD historic rates	-	(1,240,625)	(918,218)	(653,382)	(215,000)	-	(3,027,225)
Additions (*)	(16,730)	(313,779)	(55,035)	(244,721)	(80,640)	-	(710,905)
Disposals / deductions	-	113,566	482,127	160,898	219,422	-	976,013
At 31 December 2001	<u>(16,730)</u>	<u>(1,440,838)</u>	<u>(491,126)</u>	<u>(737,205)</u>	<u>(76,218)</u>	<u>-</u>	<u>(2,762,117)</u>
Net book value							
At 31 December 2000	-	<u>6,429,971</u>	<u>26,538</u>	<u>119,462</u>	<u>143,700</u>	-	<u>6,719,671</u>
At 31 December 2001	<u>609,555</u>	<u>6,947,735</u>	<u>217,054</u>	<u>368,448</u>	<u>70,048</u>	<u>355,482</u>	<u>8,568,322</u>

The Bank's fixed assets increased substantially during 2001 due to the ongoing renovation and refurbishment of the Bank's premises and increased IT investment including the purchase of new banking software.

As described in note 3, the Bank has changed its reporting and measurement currency from the Albanian Lek to the US Dollar. As a result, the land and buildings have been restated at their historic US Dollar cost and accumulated depreciation. For land and buildings, the historic US Dollar values were available from independent appraisal reports.

The above exercise has created a new reserve of USD 969,133 as described in note 14. The effect of changing the reporting currency for the remaining fixed assets is insignificant and therefore no adjustment was deemed necessary.



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Notes to the financial statements - 31 December 2001

(Amounts in USD, unless otherwise stated)

(*). Includes an adjustment in the fourth quarter to reflect reversal of a decision of management during 2001 to calculate depreciation using a declining balance method. Actual run rate is approximately USD 73,000 per month.



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Notes to the financial statements - 31 December 2001

(Amounts in USD, unless otherwise stated)

10. Other assets

Other assets, net at 31 December 2001 and 2000 are as follows:

	<i>31 December 2001</i>	<i>31 December 2000</i>
Interbranch account, net	-	2,709,460
Checks for Collection	252,718	-
Inventory, net	143,798	306,809
Accrued interest on bank placements, bonds, deposits with Central Bank and on Loans to customers	175,336	106,284
Other debtors, net	<u>237,021</u>	<u>1,767</u>
	<u>808,873</u>	<u>3,124,320</u>

Checks for collection represent customers' checks and drafts drawn on other banks that are in the process of being collected.

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

Other debtors is composed as follows:

	<i>31 December 2001</i>	<i>31 December 2000</i>
Other debtors	3,253,985	3,009,898
Provision	<u>(3,016,964)</u>	<u>(3,008,131)</u>
	<u>237,021</u>	<u>1,767</u>

"Other debtors" are composed of four items. The first item of USD 3,043,858 is related to old balances inherited from past transactions prior to the Bank's privatisation. A provision has been made for substantially the whole amount. The second item represents the surplus of prepaid taxes over the final tax charge for the year of USD 108,359. The final two items represent advance payment to suppliers of USD 92,124 and other receivables of USD 9,644.

11. Customer deposits

Customer deposits at 31 December 2001 and 2000 are composed as follows:

	<i>31 December 2001</i>	<i>31 December 2000</i>
Current accounts:		
Private individuals and enterprises	17,750,942	14,877,762
State owned entities	<u>25,767,650</u>	<u>30,072,652</u>
	43,518,592	44,950,414
Deposits:		
Private individuals and enterprises	118,673,177	94,803,323
State owned entities	<u>32,062,452</u>	<u>7,566,132</u>



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Notes to the financial statements - 31 December 2001

(Amounts in USD, unless otherwise stated)

	150,735,629	102,369,455
Other:		
Private individuals and enterprises	12,174,849	10,807,606
State owned entities	<u>1,326,665</u>	<u>-</u>
	13,501,514	10,807,606
	<u>207,755,735</u>	<u>158,127,475</u>

Customer deposits could be further analysed as follows:

	<i>31 December 2001</i>			<i>31 December 2000</i>		
	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>
Current accounts	22,894,680	20,623,912	43,518,592	20,869,980	24,080,434	44,950,414
Deposits :						
On demand	427,976	1,415,794	1,843,770	538,201	1,514,190	2,052,391
One month	1,787,289	14,451,702	16,238,991	-	6,743,130	6,743,130
Three months	40,469,025	22,562,794	63,031,819	46,257,550	16,430,475	62,688,025
Six months	24,476,000	7,586,452	32,062,452	7,213,320	2,998,416	10,211,736
Twelve months	29,709,738	5,661,161	35,370,899	16,047,238	3,191,209	19,238,447
Accrued interest on deposits	<u>1,991,238</u>	<u>196,460</u>	<u>2,187,698</u>	<u>1,220,639</u>	<u>215,087</u>	<u>1,435,726</u>
	98,861,266	51,874,363	150,735,629	71,276,948	31,092,507	102,369,455



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Notes to the financial statements - 31 December 2001

(Amounts in USD, unless otherwise stated)

	31 December 2001			31 December 2000		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Other:						
Deposits from liquidation of Xhaferi Foundation	1,868,979	85,958	1,954,937	2,765,038	87,668	2,852,706
Deposits at guarantee for letters of credit	-	4,690,905	4,690,905	-	854,683	854,683
Escrow accounts	3,187,332	1,906,063	5,093,395	3,249,418	2,277,180	5,526,598
Bank drafts	6,459	49,927	56,386	769,272	312,725	1,081,997
P/O to be executed	72,545	339,257	411,802	8,974	256,806	265,780
Other	159,120	1,047,121	1,206,241	43,081	46,789	89,870
Accrued interest on other deposits	<u>38,652</u>	<u>49,196</u>	<u>87,848</u>	<u>135,972</u>	<u>-</u>	<u>135,972</u>
Total Other	<u>5,333,087</u>	<u>8,168,427</u>	<u>13,501,514</u>	<u>6,971,755</u>	<u>3,835,852</u>	<u>10,807,607</u>
	<u>127,089,033</u>	<u>80,666,702</u>	<u>207,755,735</u>	<u>99,118,683</u>	<u>59,008,792</u>	<u>158,127,475</u>

“Deposits from the liquidation of the Xhaferi Foundation” represent non-interest bearing deposits given to investors in exchange for their investment in the liquidated organisations. “Deposits at guarantee for letters of credit” represent the cash collateral held by BKT against a similar collateral provided by BKT to correspondent banks for letters of credit opened on behalf of our customers.

“Other” consists of two items. The first, approximately USD 1,163,928, represents deposits that, as a result of conversion of certain branches to the new banking software on 31 December 2001, were pending to being reclassified into the correct deposit category the next business day; and the second of USD 42,314 representing inactive customer accounts.

12. Due to third parties for cash collected on their behalf

This item refers to liabilities to the tax authorities in connection with the service that the Bank renders to the tax authorities for the collection of taxes. The bank acts as an agent taking commission from taxpayers for the service performed. At the end of 2001 the amount collected was transferred to the Ministry of Finance and therefore there were no balances to report.



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Notes to the financial statements - 31 December 2001

(Amounts in USD, unless otherwise stated)

13. Accruals and other liabilities

A breakdown of accruals and other liabilities at 31 December 2001 and 2000 is presented as follows:

	<i>31 December 2001</i>	<i>31 December 2000</i>
Accruals for reimbursement to foreign donors	67,261	3,722,514
Sundry	<u>2,762,673</u>	<u>2,127,372</u>
	<u>2,829,934</u>	<u>5,849,886</u>

Since 1996, BKT has been acting as an agent between the Albanian Government and foreign donors. In its role, BKT administers the disbursement of loans and credit lines in accordance with the loan agreements in place, and earns a fixed commission rate on the loan tranches disbursed.

The item "Sundry" is detailed as follows:

	<i>31 December 2001</i>	<i>31 December 2000</i>
Creditors	1,788,992	1,765,023
Suspense account	632,776	95,282
Personnel	124,224	168,057
Due to tax authorities	57,078	65,703
Due to banks	11,249	9,337
Social insurance	18,087	11,589
Accrued expenses	<u>130,267</u>	<u>12,381</u>
	<u>2,762,673</u>	<u>2,127,372</u>

"Creditors" are mainly represented by amounts from old transactions that the Albanian Government is keeping with the Bank, pending the determination of the rightful owner of these amounts.

"Suspense account" represents the bridge to handle interbranch activity. Generally these balances are cleared within a couple of days of the period end.

14. Other reserve

Prior to the change of ownership, as detailed in note 3, the Bank's measurement currency was the Albanian Lek. Under this previous system of accounting, the Bank's fixed assets register was maintained in Lek and the carrying value of the "Land and Building" figure



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reflected the Lek equivalent of the historic US Dollar value as per independent appraisals.

The restatement of land and buildings to their historic US Dollar values (as opposed to the Lek equivalent thereof) has resulted in the creation of a reserve of USD 969 thousand. This is explained by the movement of the Lek/US Dollar exchange rates, particularly during 1997 when the Lek depreciated by approximately 40% against the US Dollar.

15. Interest income

Interest income is composed as follows:

	<i>Year ended 31 December 2001</i>	<i>Three months ended 31 December 2001</i>
Treasury bills and investment securities	9,473,554	2,550,237
Placements with banks and deposits with Central Bank	3,239,685	699,844
Loans to customers	9,782	7,567
	<u>12,723,020</u>	<u>3,257,648</u>

16. Interest expense

Interest expense is composed as follows:

	<i>Year ended 31 December 2001</i>	<i>Three months ended 31 December 2001</i>
Banks	50,357	46,141
Customers	7,679,285	1,958,341
	<u>7,729,642</u>	<u>2,004,482</u>

17. Fees and commissions, net

Fees and commissions received for the year ended as of 31 December 2001 are mainly commissions associated with transfers and remittances.

18. Foreign exchange revaluation gain/(loss)

Losses from foreign exchange revaluations include the Bank's losses incurred on Turkish Lira assets of USD 389,324.

19. Personnel

Personnel expenses are composed as follows:

<i>Year ended 31 December 2001</i>	<i>Three months ended 31 December 2001</i>
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Salaries	2,199,162	668,755
Social insurance	203,966	46,564
Training	38,559	-
Other	<u>21,523</u>	<u>4,253</u>
	<u>2,463,210</u>	<u>719,572</u>

20. Administrative expenses

Administrative expenses are composed as follows:

	<i>Year ended 31 December 2001</i>	<i>Three months ended 31 December 2001</i>
Lease payments	246,889	55,960
Security expenses	284,915	68,404
Telephone, electricity and IT expenses	395,277	117,930
Other external services (including external audit fees)	227,358	110,566
Transportation and business related travel	154,390	52,479
Office Stationary and supplies	102,665	46,419
W.O. of small printed stationary	119,002	119,002
Taxes other than tax on profits	44,093	2,950
Repairs and Maintenance	31,888	22,608
Sundry	13,477	13,476
Depreciation on small inventory	<u>19,750</u>	<u>19,750</u>
	<u>1,639,704</u>	<u>629,544</u>

21. Restructuring write-offs

As a result of the restructuring involving the renovation and refurbishment of premises and furniture & equipment, assets with a net book value of USD 466,521 were written off during 2001. This does not include the additional write-off of small printed material, including old checks, of approximately USD 119,000 that is included in administrative expenses.

22. Risk Management

There are a number of risks to which the Bank is exposed that are an inherent part of traditional banking activities. The following paragraphs outline these risks and how they are managed throughout the Bank:

(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 Credit Committee approves requests for credits. There is a continuous focus on the quality of credits extended both at the time of



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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 the appropriate procedures for the independent checking of mark-to-market trading positions. In fact, in most cases the Bank's internal guidelines are stricter than those of the Bank of Albania.

(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 repricing or reallocation decisions with the approval of the Asset and Liability Committee.

(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 tracking on a daily basis, at least, 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 the its operating policy guidelines, the Bank insures that total assets maturing within 90 days are at least 70% of the total liabilities with a similar maturity.

23. Estimation of fair value

Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgements regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors.

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. Significant assets and liabilities that are not considered financial instruments include: fixed assets and core deposits.

In general, the Bank's balance sheet financial instruments have an estimated fair value approximately equal to their book value due to either their short-term nature or underlying interest rates, which approximate market rates. The majority of financial monetary instruments are either at floating rates of interest or are subject to re-pricing within a year.



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24. Maturity analysis

At 31 December 2001, the monetary assets and liabilities have remaining contractual maturities as follows:

	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>Over 1 year</i>	Total
Assets					
Cash and balances with Central Bank	35,681,046	-	-	-	35,681,046
Treasury bills	42,353,904	8,631,933	58,344,870	-	109,330,707
Placement and balances with banks	61,917,109	1,945,033	-	-	63,862,142
Investment securities	-	-	-	4,829,620	4,829,620
Loans and advances to customers	183,061	45,837	161,904	309,505	700,307
Fixed assets	-	-	-	8,568,322	8,568,322
Other assets	<u>723,471</u>	<u>15,147</u>	<u>42,367</u>	<u>27,888</u>	<u>808,873</u>
Total assets	<u>140,858,591</u>	<u>10,637,950</u>	<u>58,549,141</u>	<u>13,735,335</u>	<u>223,781,017</u>
Liabilities					
Customer deposits	100,061,740	63,085,811	44,608,184	-	207,755,735
Accruals and other liabilities	2,829,934	-	-	-	2,829,934
Shareholders' equity	-	-	-	13,195,348	13,195,348
Total liabilities	<u>102,891,674</u>	<u>63,085,811</u>	<u>44,608,184</u>	<u>13,195,348</u>	<u>223,781,017</u>
Net Position	<u>37,966,917</u>	<u>(52,447,861)</u>	<u>13,940,957</u>	<u>539,987</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 repricing date of less than one year.



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25. Assets and liabilities denominated in foreign currencies

The following table presents the equivalent amount of assets and liabilities by currency at 31 December 2001:

	<i>USD</i>	<i>Euro currencies</i>	<i>Lek</i>	<i>Other</i>	<i>Total</i>
Assets					
Cash and balances with Central Bank	5,883,962	17,001,097	12,666,716	129,271	35,681,046
Treasury bills	-	-	109,330,707	-	109,330,707
Placements and balances with banks	48,851,018	14,860,180	727	150,217	63,862,142
Investment securities	4,829,620	-	-	-	4,829,620
Loans and advances to customers	272,498	21,437	406,372	-	700,307
Fixed assets	8,568,322	-	-	-	8,568,322
Other assets	<u>189,302</u>	<u>46,061</u>	<u>570,290</u>	<u>3,220</u>	<u>808,873</u>
Total assets	68,594,722	31,928,775	122,974,812	282,708	223,781,017
Liabilities					
Customer deposits	50,217,609	30,183,759	127,089,033	265,334	207,755,735
Accruals and other liabilities	2,033,065	89,555	700,028	7,286	2,829,934
Shareholders' equity	<u>13,195,348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,195,348</u>
Total liability and equity	<u>65,446,022</u>	<u>30,273,314</u>	<u>127,789,061</u>	<u>272,620</u>	<u>223,781,017</u>
Net position	<u>3,148,700</u>	<u>1,655,461</u>	<u>(4,814,249)</u>	<u>10,088</u>	<u>-</u>

26. Related party transactions

The Bank has not had any significant related party transactions during 2001.

27. Contingencies and commitments including off-balance sheets items

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 for their lines of credits. The balance is composed as follows:

	<i>31 December 2001</i>	<i>31 December 2000</i>
Guarantees in favour of customers	835,000	644,000
Guarantees received from credit institutions	835,000	644,000

As at 31 December 2001, the Bank had a commitment of approximately 2 million euro representing the value of Euro notes and coins held by the Bank at 31 December 2001, but not recognised in the balance sheet until 3 January 2002.