

Banka Kombetare Tregtare sh.a.

**Independent Auditors' Report and
Financial Statements as of and
for the years ended 31 December 2005 and 2004**

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Contents

	Page
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS:	
BALANCE SHEET	4
STATEMENT OF OPERATIONS	5
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	6
STATEMENT OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8 – 34

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Banka Kombetare Tregtare sh.a. (the "Bank") as at December 31, 2005 and 2004, and the related statements of operations, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 audits provides a reasonable basis for our 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 year ended December 31, 2005 in the profit and loss account which is not in accordance with International Accounting Standard 21, "The Effects of Changes in Foreign Exchange Rates". Share capital should be treated as a non-monetary item and carried at the exchange rate at the date of transaction. Accordingly, although this has no effect on total shareholders' equity, if share capital had been treated as a non-monetary item, the reported net profit for the year ended December 31, 2005 would be higher by USD 1,976,849, balance of translation reserve accumulated by December 31, 2005 would be higher by USD 5,254,071 and accumulated retained earnings would be lower by USD 7,230,920.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2005, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards.

DELOITTE & TOUCHE D.O.O.

Ljubljana,

January 30, 2006

Banka Kombetare Tregtare Sh.A.

Balance sheet as of 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

	Notes	31 December 2005	31 December 2004
Assets			
Cash and balances with Central Bank	4	69,911,636	65,338,886
Placement and balances with banks	5	72,737,414	71,298,527
Treasury bills held-to-maturity	6	234,781,917	254,681,395
Investment securities available-for-sale	7	8,112,500	-
Investment securities held-to-maturity	8	65,732,227	30,731,107
Loans and advances to customers	9	125,542,176	69,724,672
Property and equipment	10	8,836,714	10,082,719
Intangible assets	11	639,776	279,063
Deferred tax assets	12	108,631	88,497
Other assets	13	<u>3,814,004</u>	<u>1,523,057</u>
Total assets		<u>590,216,995</u>	<u>503,747,923</u>
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	14	551,131,662	472,212,104
Due to banks	15	968,364	994,225
Due to third parties		-	828,530
Accruals and other liabilities	16	<u>5,483,915</u>	<u>4,433,452</u>
Total liabilities		557,583,941	478,468,311
Shareholders' equity			
Share capital		24,644,250	14,644,250
Translation difference		(277,955)	535,713
Reserves	17	208,927	1,032,741
Retained earnings	18	(337,717)	3,964,427
Net profit for the year		<u>8,395,549</u>	<u>5,102,481</u>
Total shareholders' equity		<u>32,633,054</u>	<u>25,279,612</u>
Total liabilities and shareholders' equity		<u>590,216,995</u>	<u>503,747,923</u>

The financial statements were authorized for release by the Board of Directors on 25 January 2006.

The accompanying notes 1 to 34 are an integral part of these financial statements

Banka Kombetare Tregtare Sh.A.

Statement of operations for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

	Notes	Year ended 31 December 2005	Year ended 31 December 2004
Interest			
Interest income	19	35,638,812	28,769,813
Interest expense	20	<u>(16,037,638)</u>	<u>(15,419,531)</u>
Net interest margin		19,601,174	13,350,282
Non-interest income, net			
Fees and commissions, net	21	2,097,753	1,709,378
Foreign exchange revaluation gain (loss), net	22	188,959	(184,624)
Profit from FX trading activities, net		1,198,934	1,021,683
Other income, net	23	<u>112,925</u>	<u>126,686</u>
Total non-interest income, net		3,598,571	2,673,123
Operating expenses			
Personnel	24	(5,249,484)	(3,856,828)
Administrative	25	(4,773,597)	(3,293,700)
Depreciation and amortization	10, 11	<u>(1,821,403)</u>	<u>(1,479,237)</u>
Total operating expenses		(11,844,484)	(8,629,765)
Impairment of loans	9	<u>(394,829)</u>	<u>(343,506)</u>
Profit before taxes		10,960,432	7,050,134
Income tax expense	26	<u>(2,564,883)</u>	<u>(1,947,653)</u>
Net profit for the year		<u>8,395,549</u>	<u>5,102,481</u>

The accompanying notes 1 to 34 are an integral part of these financial statements

Banka Kombetare Tregtare Sh.A.

Statement of changes in shareholders' equity for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

	Share Capital	Translation Difference	Reserves	Retained Earnings	Net profit for the period	Total
Balance at 1 January 2004	14,644,250	495,400	-	(114,096)	3,962,265	18,987,819
Appropriation of prior year net Profit	-	-	-	3,962,265	(3,962,265)	-
Adjustment of retained earnings with 2004 year end exchange rate	-	-	-	653,599	-	653,599
Appropriation of retained earnings into reserves	-	-	1,032,741	(1,032,741)	-	-
Net profit for the year	-	-	-	-	5,102,481	5,102,481
Appropriation of 2003 year translation difference	-	(495,400)	-	495,400	-	-
Translation difference for the year	-	535,713	-	-	-	535,713
Balance at 31 December 2004	14,644,250	535,713	1,032,741	3,964,427	5,102,481	25,279,612
Appropriation of prior year net Profit	-	-	-	5,102,481	(5,102,481)	-
Adjustment of retained earnings with 2005 December end exchange rate	-	-	-	(705,093)	-	(705,093)
Adjustment of reserves with 2005 December end exchange rate	-	-	(59,059)	-	-	(59,059)
Appropriation of retained earnings into reserves	-	-	627,929	(627,929)	-	-
Capitalization of retained earnings into share capital	8,607,316	-	-	(8,607,316)	-	-
Capitalization of reserves into share capital	1,392,684	-	(1,392,684)	-	-	-
Net profit for the year	-	-	-	-	8,395,549	8,395,549
Appropriation of 2004 year Translation difference	-	(535,713)	-	535,713	-	-
Translation difference for the year	-	(277,955)	-	-	-	(277,955)
Balance at 31 December 2005	24,644,250	(277,955)	208,927	(337,717)	8,395,549	32,633,054

The accompanying notes 1 to 34 are an integral part of these financial statements

Banka Kombetare Tregtare Sh.A.

Statement of cash flows for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

	Year ended 31 December 2005	Year ended 31 December 2004
Cash flows from operating activities:		
Net profit after tax	8,395,549	5,102,481
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,821,403	1,479,237
Gain on sale of property and equipment	(57,594)	(9,945)
Deferred tax asset/liabilities	(30,579)	26,311
Gain on sale of treasury bills available-for-sale	(6,321)	(5,026)
Write-off of property and equipment	40,841	14,274
Impairment of loans	394,829	343,506
Reversal of impairment for loan losses	-	(9,873)
Write-off of small inventory	485	-
Cash flows from operating profits before changes in operating assets and liabilities	10,558,613	6,940,965
(Increase)/decrease in operating assets:		
Placements and balances with banks	(9,303,483)	(6,414,534)
Loans and advances to customers	(65,930,228)	(32,103,855)
Other assets	(2,543,631)	(304,008)
	(77,777,342)	(38,822,397)
Increase/(decrease) in operating liabilities:		
Due to customers	133,591,911	83,456,790
Due to third parties	(768,626)	19,225
Accruals and other liabilities	1,575,295	(544,294)
	134,398,580	82,931,721
Net cash flows from operating activities	67,179,851	51,050,289
Cash flows from investing activities		
Purchases of investment securities	(48,086,392)	(2,666,685)
Purchases of treasury bills	(11,125,809)	(34,893,373)
Purchases of property and equipment	(2,079,668)	(765,795)
Proceeds from sale of property and equipment	58,121	9,732
Proceeds from sale of treasury bills available-for-sale	3,871,700	1,141,375
Net cash used in investing activities	(57,362,048)	(37,174,746)
Cash flows from financing activities		
Proceeds from due to banks	82,096	545,051
Net cash from financing activities	82,096	545,051
Net increase in cash and cash equivalents	9,899,899	14,420,594
Translation difference	(5,327,149)	6,093,965
Cash and cash equivalents at the beginning of the year	65,338,886	44,824,327
Cash and cash equivalents at the end of the year	69,911,636	65,338,886

The accompanying notes 1 to 34 are an integral part of these financial statements

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 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>
	<u>1,000,000</u>	<u>100</u>	<u>10,000,000</u>

During 2001, ownership of Kent Bank passed to the Savings Deposit Insurance Fund owned by the Turkish Government.

On 19 December 2005, the Bank convened an extraordinary general meeting of shareholders to transfer the 60 per cent of the Bank's shares to Calik/Seker Investment Consortium. The transfer will be finalized, following the approvals by the Bank of Albania and Competition Authority.

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 this increase in capital is 1,464,425, and the composition is as follows:

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

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

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

1. General (continued)

Lastly, the Bank, upon the Shareholders Decision taken on 7 September 2005, increased its paid-up capital by USD 10,000,000 by allocation of the whole balance of retained earnings of Lek 859,526,584 and a part of reserves of Lek 139,073,416 as at 31 August 2005 translated into USD with the exchange rate announced by Bank of Albania as of 7 September 2005 (1USD=99.86 Lek). As a result 1,000,000 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 this increase in capital is 2,464,425, and the composition is as follows:

	<i>No. of shares</i>	<i>%</i>	<i>Total USD</i>
Kent Bank	1,478,657	60	14,786,570
EBRD	492,884	20	4,928,840
IFC	<u>492,884</u>	<u>20</u>	<u>4,928,840</u>
	<u>2,464,425</u>	<u>100</u>	<u>24,644,250</u>

The increase of Paid-up Capital was registered in the Tirana Court on 19 September 2005 (Decision No. 17469/6).

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.

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 utilizing credit lines received from international donors.

The headquarters of BKT is located in Tirana. Currently the Bank has a network of 20 branches, six of them in Tirana, and the others located in Durres, Elbasan, Korca, Gjirokastr, Vlora, Lushnje, Shkodra, Fier, Berat, Pogradec, Saranda, Lezha, Kukes and Peshkopi. Five of these branches were opened during 2003 (Lapraka in Tirana, Fier, Berat, Pogradec and Saranda), while other five new branches Kombinat and Medrese (in Tirana), Lezha, Peshkopi and Kukes started their activity within July of this year. Additionally five agencies, one in Tirana (M.Shyri), Bilisht, Kamza and two custom agencies in Kakavija and Kapshtica were opened in 2005. The Bank had 375 employees as of 31 December 2005.

2. Statement of compliance

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

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

3. Summary of accounting principles

3.1 Basis of preparation

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

The accounting policies applied by the Bank, are consistent with those used in the annual financial statements for the year ended 31 December 2004.

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.

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 functional currency to presentation currency

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

- assets and liabilities for each balance sheet presented (including comparatives) are translated at the closing rate at the date of that balance sheet.
- income and expenses for each income statement (including comparatives) are translated at exchange rates at the dates of the transactions;
- Share capital has been translated as described in paragraph 3.2 a) above; and
- all resulting exchange differences are recognised as a separate component of equity in the "Translation difference" account

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

3.3 Financial instruments

(i) Classification

Loans and receivables are 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.

(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, loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised to income through interest income in the income statement based on the effective interest rate of the instrument, when applicable.

(iv) Specific instruments

Cash and cash equivalents

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

Placements and balances with banks

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

Treasury bills Available-for-sale

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

Treasury bills Held-to-maturity

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

Investment securities Available-for-sale

Investment securities available-for-sale after initial recognition are re-measured at fair value. Gains and losses arising from change in the fair value of such available-for-sale investments are recognised directly in equity.

Investment securities Held-to-maturity

Investment securities held-to-maturity, 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.

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

3.3 Financial instruments (continued)

Loans and advances to customers

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

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

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

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.

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.

3.9 Taxation

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

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

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

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

3.10 Pension plan

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

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

The amount due to employees based on the above plan will be grossed up by the interest that will accrue from the date the employees leave the Bank until their retirement. It will be paid to employees only when they reach the Albanian statutory retirement age, in monthly instalments equal to 75% or maximum 100% of their state monthly pension.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

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%.

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 recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

4. Cash and balances with the Central Bank

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

	<i>31 December 2005</i>	<i>31 December 2004</i>
<i>Cash in hand</i>	13,058,514	17,750,665
<i>Bank of Albania</i>		
Current account	4,921,292	2,921,922
Statutory reserve	<u>51,931,830</u>	<u>44,666,299</u>
	<u>56,853,122</u>	<u>47,588,221</u>
	<u>69,911,636</u>	<u>65,338,886</u>

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits with the Bank of Albania as a statutory reserve account.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004 (amounts in USD, unless otherwise stated)

5. Placements and balances with banks

Placements and balances with banks as of 31 December 2005 and 31 December 2004 consisted as follows:

	<i>31 December 2005</i>	<i>31 December 2004</i>
Placements	71,598,579	70,211,866
Cash collateral held by correspondent banks	367,382	595,973
Current accounts	<u>771,453</u>	<u>490,688</u>
	<u>72,737,414</u>	<u>71,298,527</u>

Placements are held with non-resident banks from OECD countries and have contractual maturities from 7 days to 3, 6 and 12 months. Current accounts represent balances with correspondent banks in the OECD countries.

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

6. Treasury bills held-to-maturity

Treasury bills bear interest at market rates ranging from 5.50% p.a. to 11.14% p.a. on a compound basis and are all denominated in Lek. Treasury bills by original maturity are presented as follows:

	<u><i>31 December 2005</i></u>			<u><i>31 December 2004</i></u>		
	Purchase Value	Amortized discount	Amortized cost	Purchase Value	Amortized discount	Amortized cost
3 months	10,307,395	61,804	10,369,199	8,053,271	81,466	8,134,737
6 months	55,641,796	874,622	56,516,418	42,774,277	765,169	43,539,446
12 months	<u>162,398,154</u>	<u>5,498,146</u>	<u>167,896,300</u>	<u>195,689,197</u>	<u>7,318,015</u>	<u>203,007,212</u>
	<u>228,347,345</u>	<u>6,434,572</u>	<u>234,781,917</u>	<u>246,516,745</u>	<u>8,164,650</u>	<u>254,681,395</u>

As of 31 December 2005, the fair value of the Treasury bills portfolio was USD 235,435,746, which exceeds the carrying value by USD 653,829, while as of 31 December 2004, the fair value of the Treasury bills portfolio was USD 255,280,627, which exceeded the carrying value by USD 599,232.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

7. Investment securities available-for-sale

Investment securities available-for-sale comprise only USD denominated bonds as of 31 December 2005 as follows:

Issuer	Nominal Value	Premium/ (Discount)	31 December 2005		Maturity Date	S & P* Bond Ratings
			Market to Market Gain/Loss	Fair Value		
<i>USD Denominated Bonds</i>						
Republic of Brazil	2,500,000	2,493	1,257	2,503,750	11 January 2006	BB-
Republic of Egypt	2,500,000	38,526	(7,776)	2,530,750	11 July 2006	BB+
Republic of South Africa	3,000,000	87,288	(9,288)	3,078,000	17 October 2006	BBB+
	8,000,000	128,307	(15,807)	8,112,500		

The three of the USD bonds have been purchased in February 2005, totalling to a face value of USD 8 million. All of the bonds are re-measured at fair value as of 31 December 2005.

8. Investment securities held-to-maturity

Investment securities held-to-maturity comprise USD, EUR and Lek denominated bonds as of 31 December 2005 as follows:

Issuer	Nominal Value	Premium/ (Discount)	31 December 2005		Maturity Date	S & P* Bond Ratings
			Net Value			
<i>USD Denominated Bonds</i>						
Republic of Turkey	5,000,000	(93,084)	4,906,916		15 June 2010	BB-
Republic of Hungary	2,000,000	23,347	2,023,347		19 April 2006	A-
	7,000,000	(69,737)	6,930,263			
<i>EUR Denominated Bonds</i>						
Republic of South Africa	1,775,150	22,435	1,797,585		19 May 2006	BBB+
	1,775,150	22,435	1,797,585			
<i>Lek Denominated Bonds</i>						
Government of Albania	482,719	4	482,723		19 January 2006	
Government of Albania	1,930,875	-	1,930,875		18 March 2006	
Government of Albania	4,827,187	21,939	4,849,126		17 September 2006	
Government of Albania	5,116,818	13,569	5,130,387		17 December 2006	
Government of Albania	965,437	2,319	967,756		17 January 2007	
Government of Albania	965,437	5,546	970,983		18 February 2007	
Government of Albania	8,688,936	-	8,688,936		18 March 2007	
Government of Albania	2,220,506	-	2,220,506		18 April 2007	
Government of Albania	1,930,874	1,235	1,932,109		18 May 2007	
Government of Albania	2,194,176	(6,260)	2,187,916		18 July 2007	
Government of Albania	579,262	(1,488)	577,774		18 July 2007	
Government of Albania	965,437	(8,654)	956,783		18 August 2007	
Government of Albania	1,259,266	(32,064)	1,227,202		19 September 2007	
Government of Albania	193,087	(4,829)	188,258		19 September 2007	
Government of Albania	4,827,187	-	4,827,187		19 December 2007	
Government of Albania	482,719	972	483,691		05 April 2008	
Government of Albania	19,308,747	73,420	19,382,167		05 October 2008	
	56,938,670	65,709	57,004,379			
	65,713,820	18,407	65,732,227			

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

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004 (amounts in USD, unless otherwise stated)

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

As of 31 December 2005, the fair value of the bond portfolio was USD 66,966,314, which exceeds the carrying value by USD 1,234,087, while as of 31 December 2004, the fair value of the bond portfolio was USD 32,103,490, which exceeded the carrying value by USD 1,372,383. Thirteen of the Lek bonds issued by the Government of Albania have been purchased during 2005, totalling to a face value of USD 44.6 million, while are matured during the year four EUR denominated bonds amounting at a nominal value of USD 4.3 million.

9. Loans and advances to customers

Loans and advances to customers consisted of the following:

	<i>31 December 2005</i>	<i>31 December 2004</i>
Loans and advances to customers, gross	126,263,578	70,105,666
Less allowances for impairment on loans and advances	<u>(721,402)</u>	<u>(380,994)</u>
	<u>125,542,176</u>	<u>69,724,672</u>

Movements in the allowance for impairment on loans and advances:

	<i>2005</i>	<i>2004</i>
At 1 January	380,994	9,518
Impairment charge for the year	394,829	343,506
Reversals during the year	-	(9,873)
Translation difference	<u>(54,421)</u>	<u>37,843</u>
At the end of the year	<u>721,402</u>	<u>380,994</u>

As of 31 December 2005, the Bank's loans in arrears for more than 30 days totalled USD 1,724,969 (2004: USD 749,277). All loans are secured by mortgages and personal guarantees.

As of 31 December 2005 the breakdown of the loan portfolio is as follows:

Private Enterprises	50%
Individuals	50%

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

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

Loans in USD	3.60% to 15.80%
Loans in Euro	3.40% to 13.60%
Loans in Lek	6.70% to 18.19%

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004
(amounts in USD, unless otherwise stated)

9. Loans and advances to customers (continued)

The classification of loans is as follows:

Corporate loans by industry	31 December 2005		31 December 2004	
	USD	%	USD	%
Wholesale and Retail Trade	27,221,247	28%	18,112,353	34%
Construction	12,958,077	13%	6,866,325	13%
Hotels and Restaurants	10,908,214	11%	4,598,686	9%
Manufacturing of Other Non-metallic Products	7,614,407	8%	2,974,996	6%
Real Estate, Renting and Business Activity	6,873,428	7%	1,873,334	3%
Other Community, Social and Personal Activities	5,335,470	6%	2,941,274	5%
Personal Needs	5,123,702	5%	2,793,799	5%
Manufacture of Food Products, Beverages	3,366,341	4%	2,127,064	4%
Manufacture of Wood and Wood Products	3,196,422	3%	1,871,283	3%
Manufacturing of Basic Metallic	3,179,017	3%	1,688,688	3%
Financial Intermediation	2,724,391	3%	1,381,159	3%
Agriculture, Hunting and Forestry	1,172,327	1%	554,767	1%
Manufacture of Textile and Textile Products	1,172,246	1%	929,831	2%
Education	1,125,706	1%	821,778	2%
Manufacture of Rubber and Plastic Products	1,055,860	1%	523,302	1%
Manufacture of Pulp, Paper & Paper Products	720,724	1%	504,360	1%
Transport, Storage and Communication	678,773	1%	571,041	1%
Other Sectors	<u>2,329,459</u>	<u>3%</u>	<u>1,946,402</u>	<u>4%</u>
	<u>96,755,811</u>	<u>100%</u>	<u>53,080,442</u>	<u>100%</u>
Retail loans by type	31 December 2005		31 December 2004	
	USD	%	USD	%
Home purchase	15,263,731	52%	7,942,281	47%
Home advances	3,722,753	13%	2,795,343	16%
Home improvement	3,493,354	12%	2,788,953	16%
Home reconstruction	3,151,980	11%	393,907	2%
Shop purchase	2,126,523	7%	1,343,708	8%
Car purchase	1,063,828	3%	1,231,399	7%
Technical equipment	338,829	1%	321,843	2%
Other types	<u>346,769</u>	<u>1%</u>	<u>207,790</u>	<u>2%</u>
	<u>29,507,767</u>	<u>100%</u>	<u>17,025,224</u>	<u>100%</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004
(amounts in USD, unless otherwise stated)

10. Property and equipment

Property and equipment as of 31 December 2005 and 2004 are composed as follows:

(In USD)	Land and buildings	Plant and equipment	IT Equipment	Office equipmen	Total
Gross value					
At 31 December 2004	11,603,992	1,371,052	3,519,531	436,820	16,931,395
Additions	1,683	478,180	735,458	84,295	1,299,616
Disposals / transfers	(382)	(87,959)	(31,511)	(743)	(120,595)
Translation difference	<u>(1,225,601)</u>	<u>(144,809)</u>	<u>(371,728)</u>	<u>(46,137)</u>	<u>(1,788,275)</u>
At 31 December 2005	<u>10,379,692</u>	<u>1,616,464</u>	<u>3,851,750</u>	<u>474,235</u>	<u>16,322,141</u>
Accumulated depreciation					
At 31 December 2004	(3,294,031)	(913,033)	(2,368,818)	(272,794)	(6,848,676)
Charge for the year	(447,865)	(193,468)	(774,541)	(79,206)	(1,495,080)
Disposals / write offs	207	49,265	30,670	743	80,885
Translation difference	<u>364,307</u>	<u>102,916</u>	<u>278,578</u>	<u>31,643</u>	<u>777,444</u>
At 31 December 2005	<u>(3,377,382)</u>	<u>(954,320)</u>	<u>(2,834,111)</u>	<u>(319,614)</u>	<u>(7,485,427)</u>
Net book value					
At 31 December 2004	<u>8,309,961</u>	<u>458,019</u>	<u>1,150,713</u>	<u>164,026</u>	<u>10,082,719</u>
At 31 December 2005	<u>7,002,310</u>	<u>662,144</u>	<u>1,017,639</u>	<u>154,621</u>	<u>8,836,714</u>

11. Intangible assets

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

(In USD)	Software
Gross value	
At 31 December 2004	1,059,135
Additions	705,523
Translation difference	<u>(111,864)</u>
At 31 December 2005	<u>1,652,794</u>
Accumulated depreciation	
At 31 December 2004	(780,072)
Charge for the year	(326,324)
Translation difference	<u>93,378</u>
At 31 December 2005	<u>(1,013,018)</u>
Net book value	
At 31 December 2004	<u>279,063</u>
At 31 December 2005	<u>639,776</u>

Software represents the Bank's operating and accounting system implemented during 2001, which was upgraded during the first half of 2005.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 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 23% (2004: 25%). The movement on the deferred income tax account is as follows:

	<i>31 December 2005</i>	<i>31 December 2004</i>
Balance at 1 January	88,497	102,287
Income statement benefit/(expense)	30,579	(26,311)
Exchange differences	<u>(10,445)</u>	<u>12,521</u>
Balance at the end of the year	<u>108,631</u>	<u>88,497</u>

Deferred income tax assets are attributable to the following items:

	<i>31 December 2005</i>	<i>31 December 2004</i>
Deferred income on fees on loans	311,124	190,677
Allowance for loan impairment	(300,440)	(228,235)
Decelerated depreciation	57,575	67,177
Start up costs written off	<u>40,372</u>	<u>58,878</u>
	<u>108,631</u>	<u>88,497</u>

13. Other assets

Other assets, net as of 31 December 2005 and 2004 are as follows:

	<i>31 December 2005</i>	<i>31 December 2004</i>
Cheques for collection	102,267	33,369
Inventory	22,799	46,309
Accrued interest on bank placements, bonds, deposits with Central Bank and on loans to customers	2,625,730	1,310,671
Spot transactions revaluation gain	-	177
Fiscal administration	238,590	-
Other debtors, net	<u>824,618</u>	<u>132,531</u>
	<u>3,814,004</u>	<u>1,523,057</u>

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

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

“Fiscal administration” represents the net year-end outstanding amount of payments and collections made by the Bank to and from the third parties, on behalf of tax authorities.

Other debtors is composed as follows:

	<i>31 December 2005</i>	<i>31 December 2004</i>
Other debtors	830,888	143,381
Provision	<u>(6,270)</u>	<u>(10,850)</u>
	<u>824,618</u>	<u>132,531</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004 (amounts in USD, unless otherwise stated)

13. Other assets (continued)

“Other debtors” are composed of three items. The first item of USD 47,543 (2004: 50,060) is the remaining amount after the write off performed in 2003 of the balances inherited from transactions prior to the Bank’s privatisation, which are provisioned for the whole amount, except for the amount of USD 23,962, which is fully cash collateralized and for the amount of USD 13,931, which are continuously recoverable from the credit clients of the bank. The other two items represent advance payments to suppliers (due to opening of new branches) of USD 692,410 (2004: USD 64,352) and prepaid expenses of USD 90,935 (2004: USD 28,969).

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

	2005	2004
At 1 January	10,850	11,296
Additions during the year	-	-
Reversals during the year	(3,842)	(1,623)
Translation difference	<u>(738)</u>	<u>1,177</u>
At the end of the year	<u>6,270</u>	<u>10,850</u>

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

14. Customer deposits

Customer deposits as of 31 December 2005 and 2004 are composed as follows:

	31 December 2005	31 December 2004
Current accounts:		
Individuals	14,629,757	9,492,736
Private enterprises	46,915,368	42,535,143
State owned entities	<u>37,097,648</u>	<u>28,458,180</u>
	98,642,773	80,486,059
Deposits:		
Individuals	406,884,844	358,725,181
Private enterprises	19,320,571	16,968,053
State owned entities	<u>16,848,266</u>	<u>7,923,476</u>
	443,053,681	383,616,710
Other customer accounts:		
Individuals	4,054,209	2,050,649
Private enterprises	4,717,930	5,314,267
State owned entities	<u>663,069</u>	<u>744,419</u>
	9,435,208	8,109,335
	<u>551,131,662</u>	<u>472,212,104</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004
(amounts in USD, unless otherwise stated)

14. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

	31 December 2005			31 December 2004		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	60,124,068	38,518,705	98,642,773	48,316,954	32,169,105	80,486,059
Deposits						
On demand	82,483	130,454	212,937	75,468	331,985	407,453
One month	13,790,766	40,764,471	54,555,237	11,188,636	38,888,403	50,077,039
Three months	52,605,412	35,536,941	88,142,353	50,560,218	31,289,370	81,849,588
Six months	84,761,080	25,920,146	110,681,226	83,121,171	17,657,977	100,779,148
Twelve months	135,625,059	32,499,977	168,125,036	119,944,691	21,865,062	141,809,753
Two years and over	14,200,477	1,577,279	15,777,756	2,736,576	125,644	2,862,220
Accrued interest on deposits	4,927,051	632,085	5,559,136	5,538,976	292,533	5,831,509
Total deposits	305,992,328	137,061,353	443,053,681	273,165,736	110,450,974	383,616,710
Other customer accounts	5,861,590	3,573,618	9,435,208	4,835,914	3,273,421	8,109,335
Total customer deposits	371,977,986	179,153,676	551,131,662	326,318,604	145,893,500	472,212,104

Other customer accounts are composed as follows:

	31 December 2005			31 December 2004		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Deposits from liquidation of Xhaferi Foundation	871,108	22,804	893,912	979,426	23,525	1,002,951
Deposit guarantees for letters of credit	-	226,448	226,448	-	457,477	457,477
Escrow accounts	3,051,300	1,740,899	4,792,199	3,257,889	1,687,107	4,944,996
Bank drafts	-	6,087	6,087	-	6,291	6,291
Payment orders to be executed	99,790	196,616	296,406	18,586	284,242	302,828
Other	1,839,392	1,380,764	3,220,156	580,013	814,779	1,394,792
	5,861,590	3,573,618	9,435,208	4,835,914	3,273,421	8,109,335

“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 Bank against similar collateral provided by Bank to correspondent banks for letters of credit opened on behalf of its customers.

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

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

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004 (amounts in USD, unless otherwise stated)

15. Due to banks

Due to banks as of 31 December 2005 and 2004 consisted as follows:

	<i>31 December 2005</i>	<i>31 December 2004</i>
Deposits from resident banks	-	676,687
Current accounts of non resident banks	956,888	303,071
Current accounts of resident banks	<u>11,476</u>	<u>14,467</u>
	<u>968,364</u>	<u>994,225</u>

16. Accruals and other liabilities

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

	<i>31 December 2005</i>	<i>31 December 2004</i>
Creditors	1,837,911	1,842,831
Transit account	269,089	291,208
Due to tax authorities	374,258	355,907
Reserve fund for retiring employees	506,959	325,300
Social insurance	71,040	59,361
Accrued expenses	462,452	332,048
Other	<u>1,962,206</u>	<u>1,226,797</u>
	<u>5,483,915</u>	<u>4,433,452</u>

“Creditors” represent balances from old transactions that the Albanian Government is keeping with the Bank, pending the determination of the rightful owner of these amounts. As at the date of the report, a decision is not yet taken.

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

“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 223,624 (2004: USD 197,764) of deposit insurance premium due for the last quarter of 2005 according to the 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 1,352,711 (2004: USD 762,707), represents deferred income from fee and commissions raised on lending activity; the second of USD 600,206 (2004: USD 462,890) are payments due to construction companies in relation to semi finished home loans, the third item of USD 8,857 (2004: USD 1,200) represents cash guarantees received from the suppliers and the last item of USD 432 (2004: nil) represents spot transactions revaluation loss.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

17. Reserves

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

As described in note 1, the Bank has used part of its reserves amounting to Lek 139,073,416 or USD 1,392,684 to increase the share capital.

18. Retained earnings

Retained earnings represent the balance of earnings from prior periods. As described in note 1, the Bank has used totally its statutory retained earnings amounting to Lek 859,526,584 or USD 8,607,316 to increase its share capital.

19. Interest income

Interest income is composed as follows:

	<i>Year ended 31 December 2005</i>	<i>Year ended 31 December 2004</i>
Treasury bills and investment securities	22,474,299	21,045,269
Placements with banks and balances with Central Bank	4,192,770	2,649,913
Loans and advances to customers	<u>8,971,743</u>	<u>5,074,631</u>
	<u>35,638,812</u>	<u>28,769,813</u>

20. Interest expense

Interest expense is composed as follows:

	<i>Year ended 31 December 2005</i>	<i>Year ended 31 December 2004</i>
Due to banks	71,487	52,690
Customer deposits	<u>15,966,151</u>	<u>15,366,841</u>
	<u>16,037,638</u>	<u>15,419,531</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 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>Year ended 31 December 2005</i>	<i>Year ended 31 December 2004</i>
<i>Fee and commission income</i>		
Lending activity	918,319	657,763
Inter bank transactions	34,420	25,067
Cash transactions with clients	188,930	164,144
Customer accounts' maintenance	278,691	244,697
Payment services to clients	728,876	669,615
Other fees and commissions	<u>33,023</u>	<u>32,893</u>
	<u>2,182,259</u>	<u>1,794,179</u>
<i>Fee and commission expense</i>		
Inter bank transactions	6,525	7,907
Customer accounts' maintenance	73,873	76,049
Payment services to clients	4,108	845
	<u>84,506</u>	<u>84,801</u>
Fees and commissions, net	<u>2,097,753</u>	<u>1,709,378</u>

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 loss (2004: gain) on this item for the year ended 31 December 2005 is USD 1,976,849 (2004: USD 1,986,772).

23 Other income, net

Other income and expenses are composed as follows:

	<i>Year ended 31 December 2005</i>	<i>Year ended 31 December 2004</i>
<i>Other income</i>		
Reversal of loan loss provisions	-	9,873
Reversal of other debtors provisions	3,842	1,623
Gain on sale of fixed assets	57,585	10,183
Sundry	<u>98,619</u>	<u>120,309</u>
	<u>160,046</u>	<u>141,988</u>
<i>Other expense</i>		
Write off of fixed assets	40,841	14,503
Provision on other assets	485	8
Sundry	<u>5,795</u>	<u>791</u>
	<u>47,121</u>	<u>15,302</u>
Other income, net	<u>112,925</u>	<u>126,686</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004 (amounts in USD, unless otherwise stated)

24 Personnel expenses

Personnel expenses are composed as follows:

	<i>Year ended 31 December 2005</i>	<i>Year ended 31 December 2004</i>
Salaries	3,703,549	2,796,167
Social insurance	625,827	456,924
Performance bonus	572,156	278,167
Training	169,676	168,214
Reserve fund for retiring employees	163,911	131,699
Life insurance	4,200	2,939
Other	<u>10,165</u>	<u>22,718</u>
	<u>5,249,484</u>	<u>3,856,828</u>

25 Administrative expenses

Administrative expenses are composed as follows:

	<i>Year ended 31 December 2005</i>	<i>Year ended 31 December 2004</i>
Telephone, electricity and IT expenses	1,098,607	835,403
Marketing expenses	938,656	301,554
Deposit insurance expense	928,486	714,114
Security expenses	534,445	469,359
Transportation and business related travel	332,568	273,845
Lease payments	234,895	151,974
Repairs and maintenance	197,369	157,960
Office stationery and supplies	175,130	129,173
Representation expenses	128,892	45,234
Credit/debit cards expenses	61,385	1,326
Other external services (including external audit fees)	54,945	86,944
Taxes other than tax on profits	22,638	103,962
Sundry	<u>65,581</u>	<u>22,852</u>
	<u>4,773,597</u>	<u>3,293,700</u>

26 Income tax expense

Income tax expense is comprised of:

	<i>Year ended 31 December 2005</i>	<i>Year ended 31 December 2004</i>
Current tax expense	2,595,462	1,921,342
Deferred tax expense / (benefit) (note 12)	<u>(30,579)</u>	<u>26,311</u>
	<u>2,564,883</u>	<u>1,947,653</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004

(amounts in USD, unless otherwise stated)

26 Income tax expense (continued)

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

	<i>Year ended 31 December 2005</i>	<i>Year ended 31 December 2004</i>
Profit (loss) before taxes	10,960,432	7,050,134
Computed tax using applicable tax rate	2,520,899	1,762,534
Non tax deductible expenses	120,959	108,299
Start up costs amortized for tax purposes	(41,876)	(53,085)
Foreign exchange difference	<u>(35,099)</u>	<u>129,905</u>
Tax expense	<u>2,564,883</u>	<u>1,947,653</u>

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 500,000 are approved only upon decision of the Board of Directors of the Bank. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

(b) Foreign currency risk:

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Bank of Albania guidelines. The Bank has in place procedures for the independent checking of open foreign currency positions. The Bank’s net open foreign currency position at 31 December 2005 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.

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 of 31 December 2005, the fair value of the Treasury bills portfolio was USD 235,435,746 (2004: USD 255,280,627), which exceeds the carrying amount by USD 653,829 (2004: USD 599,232).

Investment securities held-to-maturity

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

As of 31 December 2005, the fair value of the entire bond portfolio was USD 66,966,314 (2004: USD 32,103,490), which exceeds the carrying amount by USD 1,234,087 (2004: USD 1,372,383).

Loans and advances to customers

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

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 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

As of 31 December 2005, the Bank's assets, liabilities and shareholders' equity have remaining contractual maturities as follows:

	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 year</i>	Total
Assets						
Cash and balances with Central Bank	69,911,636	-	-	-	-	69,911,636
Placement and balances with banks	61,737,414	8,000,000	3,000,000	-	-	72,737,414
Treasury bills held-to-maturity	17,823,646	60,305,279	156,652,992	-	-	234,781,917
Investment securities available-for-sale	2,503,750	-	5,608,750	-	-	8,112,500
Investment securities held-to-maturity	14,819,320	1,930,875	4,370,763	44,611,269	-	65,732,227
Loans and advances to customers	4,242,889	10,698,861	26,792,117	589,76,609	24,831,700	125,542,176
Property and equipment	-	-	-	1,834,404	7,002,310	8,836,714
Intangible assets	-	-	-	639,776	-	639,776
Deferred tax asset	-	-	-	108,631	-	108,631
Other assets	<u>1,682,708</u>	<u>231,742</u>	<u>413,568</u>	<u>1,324,537</u>	<u>161,449</u>	<u>3,814,004</u>
Total assets	<u>172,721,363</u>	<u>81,166,757</u>	<u>196,838,190</u>	<u>107,495,226</u>	<u>31,995,459</u>	<u>590,216,995</u>
Liabilities and shareholders' equity						
Customer deposits	219,330,744	126,710,117	188,775,846	16,314,955	-	551,131,662
Due to banks	968,364	-	-	-	-	968,364
Due to third parties	-	-	-	-	-	-
Accruals and other liabilities	3,669,969	115,280	288,686	903,021	506,959	5,483,915
Shareholders' equity	-	-	-	-	<u>32,633,054</u>	<u>32,633,054</u>
Total liabilities and shareholders' equity	<u>223,969,077</u>	<u>126,825,397</u>	<u>189,064,532</u>	<u>17,217,976</u>	<u>33,140,013</u>	<u>590,216,995</u>
Net Position	<u>(51,247,714)</u>	<u>(45,658,640)</u>	<u>7,773,658</u>	<u>90,277,250</u>	<u>(1,144,554)</u>	<u>-</u>
Cumulative Net Position	<u>(51,247,714)</u>	<u>(96,906,354)</u>	<u>(89,132,696)</u>	<u>1,144,554</u>	<u>-</u>	<u>-</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004 (amounts in USD, unless otherwise stated)

29 Liquidity risk (continued)

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

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

With the exception of investment securities, the Bank's financial assets and liabilities all face variable interest rates or have a maturity or re-pricing date of less than one year. Refer to note 31.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 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 as of 31 December 2005 and 2004 in accordance with the Bank of Albania foreign currency disclosure requirements:

<i>2005</i>	<i>Lek</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
Assets					
Cash and balances with Central Bank	42,521,854	8,210,869	18,664,234	514,679	69,911,636
Placements and balances with banks	-	55,567,147	7,207,363	9,962,904	72,737,414
Treasury bills held-to-maturity	234,781,917	-	-	-	234,781,917
Investment securities available-for-sale	-	8,112,500	-	-	8,112,500
Investment securities held-to-maturity	57,004,379	6,930,263	1,797,585	-	65,732,227
Loans and advances to customers	32,507,478	19,853,813	73,180,885	-	125,542,176
Property and equipment	8,836,714	-	-	-	8,836,714
Intangible assets	639,776	-	-	-	639,776
Deferred tax assets	108,631	-	-	-	108,631
Other assets	1,973,991	690,118	1,145,221	4,674	3,814,004
Total assets	<u>378,374,740</u>	<u>99,364,710</u>	<u>101,995,288</u>	<u>10,482,257</u>	<u>590,216,995</u>
Off balance sheet items	242,762	2,877,495	177,515	262,973	3,560,745
Liabilities and shareholders' equity					
Customer deposits	371,977,986	72,756,151	95,789,575	10,607,950	551,131,662
Due to banks	6,069	348,283	591,066	22,946	968,364
Due to third parties	-	-	-	-	-
Accruals and other liabilities	1,296,863	2,667,803	1,467,484	51,765	5,483,915
Shareholders' equity	7,988,804	24,644,250	-	-	32,633,054
Total liabilities and shareholders' equity	<u>381,269,722</u>	<u>100,416,487</u>	<u>97,848,125</u>	<u>10,682,661</u>	<u>590,216,995</u>
Off balance sheet items	-	497,676	3,004,723	58,346	3,560,745
Net position	<u>(2,652,220)</u>	<u>1,328,042</u>	<u>1,319,955</u>	<u>4,223</u>	<u>-</u>
<i>2004</i>	<i>Lek</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
Assets					
Cash and balances with Central Bank	36,595,051	9,811,202	18,460,925	471,708	65,338,886
Placements and balances with banks	-	51,211,937	12,047,036	8,039,554	71,298,527
Treasury bills held-to-maturity	254,681,395	-	-	-	254,681,395
Investment securities held-to-maturity	16,546,570	6,989,533	7,195,004	-	30,731,107
Loans and advances to customers	14,730,321	17,675,805	37,318,546	-	69,724,672
Property and equipment	10,082,719	-	-	-	10,082,719
Intangible assets	279,063	-	-	-	279,063
Deferred tax assets	88,497	-	-	-	88,497
Other assets	690,881	287,576	518,595	26,005	1,523,057
Total assets	<u>333,694,497</u>	<u>85,976,053</u>	<u>75,540,106</u>	<u>8,537,267</u>	<u>503,747,923</u>
Off balance sheet items	434,801	1,782,386	915,729	-	3,132,916
Liabilities and shareholders' equity					
Customer deposits	326,318,604	66,854,206	70,659,516	8,379,778	472,212,104
Due to banks	1,230	686,000	305,103	1,892	994,225
Due to third parties	828,530	-	-	-	828,530
Accruals and other liabilities	1,020,907	2,530,636	864,390	17,519	4,433,452
Shareholders' equity	10,635,362	14,644,250	-	-	25,279,612
Total liabilities and shareholders' equity	<u>338,804,633</u>	<u>84,715,092</u>	<u>71,829,009</u>	<u>8,399,189</u>	<u>503,747,923</u>
Off balance sheet items	407,006	505,741	2,100,757	119,412	3,132,916
Net position	<u>(5,082,341)</u>	<u>2,537,606</u>	<u>2,526,069</u>	<u>18,666</u>	<u>-</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 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 of 31 December 2005 were as follows:

	<i>Lek</i>	<i>USD</i>	<i>Euro</i>
Assets			
Cash and balances with Central Bank	3.50%	3.07%	1.70%
Placement and balances with banks	N/A	4.25%	2.40%
Treasury bills held-to-maturity	7.41%	N/A	N/A
Investment securities held-to-maturity	8.91%	5.46%	2.86%
Loans and advances to customers	12.59%	10.40%	8.76%
Liabilities			
Customer deposits	3.66%	1.97%	1.47%
Due to banks	0.10%	0.10%	0.10%

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

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

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as of 31 December 2005 were as follows:

	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 year</i>	<i>Total</i>
Assets						
Cash and balances with Central Bank	69,911,636	-	-	-	-	69,911,636
Placement and balances with banks	61,737,414	8,000,000	3,000,000	-	-	72,737,414
Treasury bills held-to-maturity	17,823,646	60,305,279	156,652,992	-	-	234,781,917
Investment securities available-for-sale	2,503,750	-	5,608,750	-	-	8,112,500
Investment securities held-to-maturity	14,819,320	1,930,875	4,370,763	44,611,269	-	65,732,227
Loans and advances to customers	105,541,454	8,393,307	9,029,100	1,999,729	578,586	125,542,176
Total	272,337,220	78,629,461	178,661,605	46,610,998	578,586	576,817,870
Liabilities						
Customer deposits	219,330,744	126,710,117	188,775,846	16,314,955	-	551,131,662
Due to banks	968,364	-	-	-	-	968,364
Total	220,299,108	126,710,117	188,775,846	16,314,955	-	552,100,026

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 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 2005.

Transactions with directors and executive officers

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

	<i>Year ended</i> <i>31 December 2005</i>	<i>Year ended</i> <i>31 December 2004</i>
Directors	42,336	39,996
Executive officers	<u>793,030</u>	<u>726,377</u>
	<u>835,366</u>	<u>766,373</u>

33. Contingencies and commitments including off-balance sheets items

Guarantees

	<i>31 December 2005</i>	<i>31 December 2004</i>
Guarantees in favour of customers	6,259,802	5,816,433
Guarantees received from credit institutions	1,585,152	857,524
Letters of credit issued to customers	213,000	446,480

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

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

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements as of and for the years ended 31 December 2005 and 2004
(amounts in USD, unless otherwise stated)

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

Other

	<i>31 December 2005</i>	<i>31 December 2004</i>
Undrawn credit commitments	-	376,332
Outstanding cheques of non-resident banks	48,144	148,450
Spot foreign currency contract	3,560,745	3,132,916
Collaterals for loan portfolio	290,089,219	151,330,765

Legal

In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as of 31 December 2005.

Lease commitments

Such commitments for the years ended 31 December 2005 and 2004 are composed as follows:

	<i>31 December 2005</i>	<i>31 December 2004</i>
Not later than 1 year	227,652	178,920
Later than 1 year and not later than 5 years	863,253	693,720
Later than 5 years	<u>513,472</u>	<u>462,713</u>
Total	<u>1,604,377</u>	<u>1,335,353</u>

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

In addition in year 2003, the Bank has rented the buildings of five new branches opened in Lapraka (Tirana 4), Fier, Berat, Pogradec and Saranda.

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

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