



# Banka Kombetare Tregtare Sh.A.

Financial Statements as of  
30 June 2002  
(with review report thereon)



## Review report

To the shareholders of Banka Kombetare Tregtare Sh.A.

We have reviewed the accompanying balance sheet of Banka Kombetare Tregtare Sh.A. (the Bank) as of 30 June 2002 and the related statements of income and cash flows for the six months 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 review.

We conducted our review in accordance with International Standards on Auditing as issued by the International Federation of Accountants and as applicable to review engagements.. These standards require that we plan and perform the review to obtain moderate assurance about whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view in accordance with International Accounting Standards.

KPMG S.p.A.



## Banka Kombetare Tregtare Sh.A.

### Balance sheets as at 30 June 2002 and 31 December 2001

(amounts in USD, unless otherwise stated)

	Notes	30 June 2002	31 December 2001
<b>Assets:</b>			
Cash and balances with Central Bank	4	26,653,740	35,681,046
Treasury bills	5	105,677,978	109,330,707
Placement and balances with banks	6	40,823,041	63,862,142
Investment in Securities	7	18,584,065	4,829,620
Loans and advances to customers	8	3,748,253	700,307
Fixed assets	9	8,486,562	8,568,322
Other assets	10	<u>734,123</u>	<u>808,873</u>
<b>Total assets</b>		<b><u>204,707,762</u></b>	<b><u>223,781,017</u></b>
<b>Liabilities and shareholders' equity:</b>			
<b>Liabilities:</b>			
Customer deposits	11	186,600,973	207,755,735
Due to third parties for cash collected on their behalf	12	1,667,566	-
Accruals and other liabilities	13	<u>2,398,565</u>	<u>2,829,934</u>
<b>Total liabilities</b>		190,667,104	210,585,669
<b>Shareholders' equity:</b>			
Capital		10,000,000	10,000,000
Other reserve	14	969,133	969,133
Retained earnings		2,226,215	1,863,671
Current profit		<u>845,310</u>	<u>362,544</u>
<b>Total shareholders' equity</b>		<b><u>14,040,658</u></b>	<b><u>13,195,348</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>204,707,762</u></b>	<b><u>223,781,017</u></b>

See accompanying notes to the financial statements



## Banka Kombetare Tregtare Sh.A.

### Income statements for the six months ended 30 June 2002, three months ended 30 June 2002, six months ended 30 June 2001 and three months ended 30 June 2001

(amounts in USD, unless otherwise stated)

	Notes	Six months ended 30 June 2002	Three months ended 30 June 2002	Six months ended 30 June 2001	Three months ended 30 June 2001
Interest:					
Interest income	15	6,605,895	3,302,140	6,574,776	3,212,776
Interest expense	16	<u>(3,742,823)</u>	<u>(1,860,655)</u>	<u>(3,760,960)</u>	<u>(1,887,960)</u>
Net interest margin		<b>2,863,072</b>	<b>1,441,485</b>	<b>2,813,816</b>	<b>1,334,816</b>
Fees and commissions, net	17	421,616	207,471	387,959	172,963
Foreign exchange revaluation gain (loss), net	18	(65,990)	(147,681)	(235,452)	(108,082)
Profit from trading activities, net		218,384	93,870	213,862	88,000
Operating expenses:					
Personnel	19	(1,090,919)	(486,946)	(1,119,900)	(532,000)
Administrative	20	(780,957)	(395,539)	(727,179)	(468,079)
Depreciation	9	<u>(428,599)</u>	<u>(220,435)</u>	<u>(219,000)</u>	<u>(93,888)</u>
Total operating expenses		<b>(2,300,475)</b>	<b>(1,102,920)</b>	<b>(2,066,079)</b>	<b>(1,093,967)</b>
Provision for loan losses, net		(100,714)	(74,900)	-	-
Other, net		<u>56,158</u>	<u>15,693</u>	<u>79,273</u>	<u>53,274</u>
<b>Profit (loss) before taxes</b>		<b>1,092,051</b>	<b>433,018</b>	<b>1,193,379</b>	<b>447,004</b>
Taxes on income	3.9	(246,741)	(138,151)	(267,534)	(112,110)
<b>Net profit (loss)</b>		<b><u>845,310</u></b>	<b><u>294,867</u></b>	<b><u>925,845</u></b>	<b><u>334,894</u></b>

See accompanying notes to the financial statements



Banka Kombetare Tregtare Sh.A.

Statement of cash flows for the six months ended 30 June 2002 and six months ended 30 June 2001

(amounts in USD, unless otherwise stated)

	Six months ended 30 June 2002	Six months ended 30 June 2001
<b>Cash flows from operating activities:</b>		
Net profit	845,310	925,845
Adjustments to reconcile change in net assets to net Cash provided by operating activities:		
Depreciation	428,599	219,000
Provision for loan losses	100,714	-
Other provisions	<u>276</u>	<u>-</u>
	1,374,899	1,144,845
Decrease/(increase) of operating assets:		
Decrease in treasury bills	3,652,729	(9,760,353)
Decrease in placement and balances with banks	23,039,101	1,503,762
Increase of loans and advances to customers	(3,148,660)	-
Decrease in other assets	<u>74,474</u>	<u>2,335,949</u>
	23,617,644	(5,920,642)
Increase/(decrease) of operating liabilities:		
Decrease in due to customers	(21,154,762)	13,021,056
Increase in cash due to third parties	1,667,566	(801,917)
Decrease of accruals other liabilities	<u>(431,369)</u>	<u>(2,390,444)</u>
	(19,918,565)	9,828,695
Cash flows from operating activities	5,073,978	5,052,898
<b>Cash flows from investing activities</b>		
Increase in investment in securities	(13,754,445)	(4,819,473)
Increase/decrease of tangible assets	<u>(346,839)</u>	<u>(681,000)</u>
Net cash from investing activities	(14,101,284)	(5,500,473)
<b>Net decrease in cash and cash equivalents</b>	<b>(9,027,306)</b>	<b>(447,575)</b>
<b>Cash and bank at the beginning of the year</b>	<b><u>35,681,046</u></b>	<b><u>27,014,659</u></b>
<b>Cash and bank at the end of the six months</b>	<b><u>26,653,740</u></b>	<b><u>26,567,084</u></b>

See accompanying notes to the financial statements



Banka Kombetare Tregtare Sh.A.

Statement of changes in equity for the six months ended 30 June 2002

*(amounts in USD, unless otherwise stated)*

	Share Capital	Reserve	Retained earnings	Profit of the year	Total
<b>Balance at 31 December 2001</b>	<b>10,000,000</b>	<b>969,133</b>	<b>1,863,671</b>	<b>362,544</b>	<b>13,195,348</b>
Destination of prior year profit	-	-	362,544	(362,544)	-
Current profit of the year 2002	-	-	-	845,310	845,310
<b>Balance at 30 June 2002</b>	<b>10,000,000</b>	<b>969,133</b>	<b>2,226,215</b>	<b>845,310</b>	<b>14,040,658</b>

*See accompanying notes to the financial statements*



## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

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

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 Durres, Elbasan, Korca, Gjirokaster, Vlora, Lushnje, and Shkodra. The Bank employed 224 staff as at 30 June 2002.



## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

(Amounts in USD, unless otherwise stated)

#### **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, without any rounding. 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 22.

##### **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 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**





## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

*(Amounts in USD, unless otherwise stated)*

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 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 2002, tax on profit is equal to 25% of the taxable income. Taxable income is calculated by 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.

The accompanying financial statements include an estimation for taxation in the income statement of the period ended 30 June 2002.

#### **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%



## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

(Amounts in USD, unless otherwise stated)

#### 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 30 June 2002 and 31 December 2001, their balances are detailed as follows:

	<i>30 June 2002</i>	<i>31 December 2001</i>
<i>Cash</i>	<b>5,707,007</b>	<b>17,182,454</b>
<i>Bank of Albania</i>		
Current Account	12,080,539	11,704,475
Compulsory Reserve	6,003,940	6,794,117
Overnight Deposit	<u>2,862,254</u>	<u>-</u>
	<b><u>20,946,733</u></b>	<b><u>18,498,592</u></b>
	<b><u>26,653,740</u></b>	<b><u>35,681,046</u></b>

Starting from September 2000, according to a decision of the Bank of Albania, the compulsory reserve is an interest bearing account. The overnight deposit represents the overnight placement of the amounts in excess of the required compulsory reserve. This deposit bears interest at a rate of 2.5 % less than the current interest rates on repos.

#### 5. Treasury bills

Treasury bills bear interest at market rates ranging from 9.79% p.a. to 13.52% p.a. on a compound basis and are all denominated in Lek. A detail of treasury bills by original maturity is presented as follows:

	<i>30 June 2002</i>			<i>31 December 2001</i>		
	Purchase Value	Accrued interest	Net book value	Purchase Value	Accrued interest	Net book value
3 months	11,892,834	150,141	12,042,975	-	-	-
6 months	43,993,759	1,431,672	45,425,431	82,007,560	2,360,813	84,368,373
12 months	<u>46,010,818</u>	<u>2,198,754</u>	<u>48,209,572</u>	<u>24,259,439</u>	<u>702,895</u>	<u>24,962,334</u>
	<b><u>101,897,411</u></b>	<b><u>3,780,567</u></b>	<b><u>105,677,978</u></b>	<b><u>106,266,999</u></b>	<b><u>3,063,708</u></b>	<b><u>109,330,707</u></b>

#### 6. Placements and balances with banks



## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

(Amounts in USD, unless otherwise stated)

Placements and balances with banks at 30 June 2002 and 31 December 2001 consisted as follows:

	<i>30 June 2002</i>	<i>31 December 2001</i>
Placements	39,353,781	58,696,946
Current Accounts	816,997	500,038
Cash collateral held by correspondent banks	<u>652,263</u>	<u>4,665,158</u>
	<b><u>40,823,041</u></b>	<b><u>63,862,142</u></b>

Placements of USD 36,885,088 were with non-resident banks from OECD countries having contractual maturities from 7 days to 3 months except for a Lek placement with an equivalent of USD 2,468,693 with Savings Bank of Albania with a 3-day maturity. Current accounts represent balances with resident banks amounting at USD 7,837 and 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 in USD denominated bonds with various countries and banks at 30 June 2002 consisted as follows:

<u>USD Denominated Bonds</u> Issuers	Nominal Value	30 June 2002		Maturity Date
		Discount	Net Value	
<i>Republic of Turkey</i>	5,000,000	(160,382)	4,839,618	15 June 2010
<i>Government of Portugal</i>	2,000,000	123,663	2,123,663	21 September 2004
<i>Government of Sweden</i>	3,000,000	187,579	3,187,579	27 May 2004
<i>Government of Spain</i>	1,000,000	35,727	1,035,727	18 May 2004
<i>Government of Finland</i>	1,000,000	73,951	1,073,951	28 July 2004
<i>Government of Denmark</i>	2,000,000	99,725	2,099,725	02 September 2004
<i>Government of Canada</i>	1,000,000	58,899	1,058,899	30 November 2004
<i>European Investment Bank</i>	1,000,000	47,157	1,047,157	08 September 2004
<i>Inter American Development Bank</i>	2,000,000	117,746	2,117,746	20 October 2004
	<b><u>18,000,000</u></b>	<b><u>584,065</u></b>	<b><u>18,584,065</u></b>	

With the exception of the bond issued by the Republic of Turkey, the bonds have ratings of AA or AAA and have been purchased in 2002. As at 30 June 2002, the market value of these bonds was USD 18,319,950, which is less than the carrying value by USD 264,115.



Banka Kombetare Tregtare Sh.A.

**Notes to the financial statements - 30 June 2002**

*(Amounts in USD, unless otherwise stated)*

The Bank has not recognised the loss in its books, as it has the intention and the ability to hold the portfolio until maturity.

**8. Loans and advances to customers**

In 2001 BKT began extending loans to private enterprises and individuals. As at 30 June 2002 the breakdown of the loan portfolio is as follows:

Private Enterprise	89%
Individuals	11%

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:

<u>Sectors</u>	<u>USD Equivalent</u>	<u>Ratio</u>
Wholesale and Retail Trade	1,390,878	36.0%
Manufacturing of Other Nonmetallic Products	588,640	15.2%
Construction	478,661	12.4%
Loans to Individuals (Retail Loans)	352,040	9.1%
Manufacturing of Food Products, Beverages	315,946	8.2%
Manufacture of Pulp, Paper & Paper Products	250,000	6.5%
Hotels and Restaurants	127,010	3.3%
Manufacture of Wood and Wood Products	114,269	2.9%
Manufacture of Rubber & Plastic Products	100,000	2.6%
Manufacture of Textile & Textile Products	49,639	1.3%
Manufacture of Furniture	40,071	1.0%
Other Sectors	57,752	1.5%
<b>TOTAL</b>	<b><u>3,864,906</u></b>	<b><u>100.0%</u></b>

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

Loans in US\$	9% to 13%
Loans in Euro	10% to 13%
Loans in Lek	8% to 18%

Gross loans at 30 June 2002 were USD 3,864,906 with a gross loan loss provision of USD 116,653 (USD 100,714 net) giving a net value of USD 3,748,253.



## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

(Amounts in USD, unless otherwise stated)

#### 9. Fixed assets

Fixed assets at 30 June 2002 and 31 December 2001 are composed as follows:

(In USD '000)	Intangible assets	Land and buildings	Plant and equipment	IT Equipment	Office equipment	Work in progress	Total
<b>Gross value</b>							
<b>At 31 December 2001 at USD historic rates</b>	<b>626,285</b>	<b>8,388,573</b>	<b>708,180</b>	<b>1,105,653</b>	<b>146,266</b>	<b>355,482</b>	<b>11,330,439</b>
Additions	-	90,340	11,971	600,471	80,058	29,486	<b>812,326</b>
Disposals / deductions	-	(66,431)	(10,376)	(7,846)	(16,223)	(384,968)	<b>(485,844)</b>
<b>At 30 June 2002</b>	<b><u>626,285</u></b>	<b><u>8,412,482</u></b>	<b><u>709,775</u></b>	<b><u>1,698,278</u></b>	<b><u>210,101</u></b>	<b><u>-</u></b>	<b><u>11,656,921</u></b>
<b>Accumulated depreciation</b>							
<b>At 31 December 2001 at USD historic rates</b>	(16,730)	(1,440,838)	(491,126)	(737,205)	(76,218)	-	<b>(2,762,117)</b>
Additions	(79,650)	(145,097)	(31,622)	(145,283)	(16,966)	-	<b>(418,618)</b>
Disposals / deductions	-	-	10,376	-	-	-	<b>10,376</b>
<b>At 30 June 2002</b>	<b><u>(96,380)</u></b>	<b><u>(1,585,935)</u></b>	<b><u>(512,372)</u></b>	<b><u>(882,488)</u></b>	<b><u>(93,184)</u></b>	<b><u>-</u></b>	<b><u>(3,170,359)</u></b>
<b>Net book value</b>							
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>
At 30 June 2002	<u>529,905</u>	<u>6,826,547</u>	<u>197,403</u>	<u>815,790</u>	<u>116,917</u>	<u>-</u>	<u>8,486,562</u>

As described in note 3, the Bank in 2001 changed its reporting and measurement currency from the Albanian Lek to the US Dollar. As a result, fixed assets are reported at the historical US Dollar value.

During the first half of 2002, the bank has capitalised the total amount that remained at work in progress at the end of last year, reclassifying to the relevant asset categories.



## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

(Amounts in USD, unless otherwise stated)

#### 10. Other assets

Other assets, net at 30 June 2002 and 31 December 2001 are as follows:

	<i><b>30 June 2002</b></i>	<i><b>31 December 2001</b></i>
Checks for Collection	78,980	252,718
Inventory, net	96,314	143,798
Accrued interest on bank placements, bonds, deposits with Central Bank and on Loans to customers	444,292	175,336
Other debtors, net	<u>114,537</u>	<u>237,021</u>
	<u><b>734,123</b></u>	<u><b>808,873</b></u>

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

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

Other debtors is composed as follows:

	<i><b>30 June 2002</b></i>	<i><b>31 December 2001</b></i>
Other debtors	3,132,609	3,253,985
Provision	<u>(3,018,072)</u>	<u>(3,016,964)</u>
	<u><b>114,537</b></u>	<u><b>237,021</b></u>

"Other debtors" are composed of four items. The first item of USD 3,040,618 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 28,204. The final two items represent advance payments to suppliers and personnel of USD 7,199 and prepaid expenses of USD 56,588.



Banka Kombetare Tregtare Sh.A.

Notes to the financial statements - 30 June 2002

(Amounts in USD, unless otherwise stated)

11. Customer deposits

Customer deposits at 30 June 2002 and 31 December 2001 are composed as follows:

	<i>30 June 2002</i>	<i>31 December 2001</i>
<b>Current accounts:</b>		
Private individuals and enterprises	17,755,149	17,750,942
State owned entities	<u>20,537,387</u>	<u>25,767,650</u>
	<b>38,292,536</b>	<b>43,518,592</b>
<b>Deposits:</b>		
Private individuals and enterprises	128,887,868	118,673,177
State owned entities	<u>8,040,701</u>	<u>32,062,452</u>
	<b>136,928,569</b>	<b>150,735,629</b>
<b>Other:</b>		
Private individuals and enterprises	10,106,252	12,174,849
State owned entities	<u>1,273,616</u>	<u>1,326,665</u>
	<b>11,379,868</b>	<b>13,501,514</b>
	<b><u>186,600,973</u></b>	<b><u>207,755,735</u></b>

Customer deposits could be further analysed as follows:

	<i>30 June 2002</i>			<i>31 December 2001</i>		
	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>
<b>Current accounts</b>	<b>23,530,985</b>	<b>14,761,551</b>	<b>38,292,536</b>	<b>22,894,680</b>	<b>20,623,912</b>	<b>43,518,592</b>
<b>Deposits :</b>						
On demand	161,229	591,545	752,774	427,976	1,415,794	1,843,770
One month	5,522,907	10,869,382	16,392,289	1,787,289	14,451,702	16,238,991
Three months	34,568,576	14,698,760	49,267,336	40,469,025	22,562,794	63,031,819
Six months	24,034,278	7,213,174	31,247,452	24,476,000	7,586,452	32,062,452
Twelve months	30,308,773	6,731,152	37,039,925	29,709,738	5,661,161	35,370,899
Accrued interest on deposits	<u>2,057,527</u>	<u>171,266</u>	<u>2,228,793</u>	<u>1,991,238</u>	<u>196,460</u>	<u>2,187,698</u>
	<b>96,653,290</b>	<b>40,275,279</b>	<b>136,928,569</b>	<b>98,861,266</b>	<b>51,874,363</b>	<b>150,735,629</b>



## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

(Amounts in USD, unless otherwise stated)

	30 June 2002			31 December 2001		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
<b>Other:</b>						
Deposits from liquidation of Xhaferi Foundation	1,808,388	90,262	<b>1,898,650</b>	1,868,979	85,958	<b>1,954,937</b>
Deposits at guarantee for letters of credit	-	788,771	<b>788,771</b>		4,690,905	<b>4,690,905</b>
Escrow accounts	3,599,394	2,068,768	<b>5,668,162</b>	3,187,332	1,906,063	<b>5,093,395</b>
Bank drafts	20,712	11,544	<b>32,256</b>	6,459	49,927	<b>56,386</b>
P/O to be executed	44,374	564,033	<b>608,407</b>	72,545	339,257	<b>411,802</b>
Other	527,342	1,815,937	<b>2,343,279</b>	159,120	1,047,121	<b>1,206,241</b>
Accrued interest on other deposits	<u>33,158</u>	<u>7,185</u>	<u><b>40,343</b></u>	<u>38,652</u>	<u>49,196</u>	<u><b>87,848</b></u>
Total Other	<u>6,033,368</u>	<u>5,346,500</u>	<u><b>11,379,868</b></u>	<u>5,333,087</u>	<u>8,168,427</u>	<u><b>13,501,514</b></u>
	<b><u>126,217,643</u></b>	<b><u>60,383,330</u></b>	<b><u>186,600,973</u></b>	<b><u>127,089,033</u></b>	<b><u>80,666,702</u></b>	<b><u>207,755,735</u></b>

“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 2,303,044, represents deposits that are pending to be reclassified into the correct deposit category the next business day; and the second of USD 40,235 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 the six months ended 30 June 2002 the net amount collected, which has remained as a balance is USD 1,667,566.





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### Notes to the financial statements - 30 June 2002

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#### 13. Accruals and other liabilities

A breakdown of accruals and other liabilities at 30 June 2002 and 31 December 2001 is presented as follows:

	<i>30 June 2002</i>	<i>31 December 2001</i>
Accruals for reimbursement to foreign donors	53,598	67,261
Sundry	<u>2,344,967</u>	<u>2,762,673</u>
	<u><b>2,398,565</b></u>	<u><b>2,829,934</b></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>30 June 2002</i>	<i>31 December 2001</i>
Creditors	1,775,363	1,788,992
Suspense account	310,242	632,776
Personnel	8,358	124,224
Due to tax authorities	39,360	57,078
Due to banks	12,589	11,249
Social insurance	24,826	18,087
Accrued expenses	<u>174,229</u>	<u>130,267</u>
	<u><b>2,344,967</b></u>	<u><b>2,762,673</b></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 reflected the Lek equivalent of the historic US Dollar value as per independent appraisals.



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### Notes to the financial statements - 30 June 2002

(Amounts in USD, unless otherwise stated)

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>Period ended 30 June 2002</i>	<i>Period ended 30 June 2001</i>
Treasury bills and investment securities	5,607,217	4,736,246
Placements with banks and deposits with Central Bank	898,402	1,838,530
Loans to customers	<u>100,276</u>	<u>-</u>
	<b><u>6,605,895</u></b>	<b><u>6,574,776</u></b>

#### 16. Interest expense

Interest expense is composed as follows:

	<i>Period ended 30 June 2002</i>	<i>Period ended 30 June 2001</i>
Banks	24,579	3,120
Customers	<u>3,718,244</u>	<u>3,757,840</u>
	<b><u>3,742,823</u></b>	<b><u>3,760,960</u></b>

#### 17. Fees and commissions, net

Fees and commissions received for the six month ended as of 30 June 2002 are mainly commissions associated with transfers and remittances.

#### 18. Foreign exchange revaluation gain/(loss)

As a result of BKT using USD as a reporting currency, it is subjected to revaluation gain or loss from changes in the exchange rate and positions in other currencies.

#### 19. Personnel

Personnel expenses are composed as follows:

	<i>Period ended 30 June 2002</i>	<i>Period ended 30 June 2001</i>
Salaries	921,031	958,116
Social insurance	116,285	102,690
Training	43,746	49,193
Other	<u>9,857</u>	<u>9,901</u>
	<b><u>1,090,919</u></b>	<b><u>1,119,900</u></b>



## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

(Amounts in USD, unless otherwise stated)

#### 20. Administrative expenses

Administrative expenses are composed as follows:

	<i>Period ended 30 June 2002</i>	<i>Period ended 30 June 2001</i>
Telephone, electricity and IT expenses	296,250	180,727
Security expenses	108,599	148,000
Marketing expenses	79,555	-
Other external services (including external audit fees)	66,947	118,909
Transportation and business related travel	58,827	-
Repairs and Maintenance	57,187	-
Office Stationary and supplies	56,034	-
Lease payments	43,356	128,178
Sundry	14,202	151,365
	<u>780,957</u>	<u>727,179</u>

#### 21. 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 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.



## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

*(Amounts in USD, unless otherwise stated)*

#### ***(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 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.

#### **22. 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.



## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

(Amounts in USD, unless otherwise stated)

#### 23. Maturity analysis

At 30 June 2002, 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
<b>Assets</b>					
Cash and balances with Central Bank	26,653,740	-	-	-	<b>26,653,740</b>
Treasury bills	25,985,391	18,462,788	61,229,799	-	<b>105,677,978</b>
Placement and balances with banks	39,830,268	992,773	-	-	<b>40,823,041</b>
Investment securities	-	-	-	18,584,065	<b>18,584,065</b>
Loans and advances to customers	63,531	603,014	1,873,907	1,207,801	<b>3,748,253</b>
Fixed assets	-	-	-	8,486,562	<b>8,486,562</b>
Other assets	<u>334,115</u>	<u>8,715</u>	<u>11,427</u>	<u>379,866</u>	<u><b>734,123</b></u>
<b>Total assets</b>	<b><u>92,867,045</u></b>	<b><u>20,067,290</u></b>	<b><u>63,115,133</u></b>	<b><u>28,658,294</u></b>	<b><u>204,707,962</u></b>
<b>Liabilities</b>					
Customer deposits	90,858,834	51,167,957	44,574,183	-	<b>186,600,973</b>
Accruals and other liabilities	4,066,131	-	-	-	<b>4,066,131</b>
Shareholders' equity	-	-	-	14,040,658	<b>14,040,658</b>
<b>Total liabilities</b>	<b><u>94,924,964</u></b>	<b><u>51,167,957</u></b>	<b><u>44,574,183</u></b>	<b><u>14,040,658</u></b>	<b><u>204,707,962</u></b>
<b>Net Position</b>	<b><u>(2,057,919)</u></b>	<b><u>(31,100,667)</u></b>	<b><u>18,540,950</u></b>	<b><u>14,617,636</u></b>	<b><u>-</u></b>

With the exception of investment securities, the Bank's financial assets and liabilities all face variable interest rates or have a maturity or repricing date of less than one year. Furthermore, the investment securities portfolio classified as "over 1 year" is composed of readily marketable bonds as detailed in Note 7.



## Banka Kombetare Tregtare Sh.A.

### Notes to the financial statements - 30 June 2002

(Amounts in USD, unless otherwise stated)

#### 24. Assets and liabilities denominated in foreign currencies

The following table presents the equivalent amount of assets and liabilities by currency at 30 June 2002:

	<i>Usd</i>	<i>Euro</i>	<i>Lek</i>	<i>Other</i>	<i>Total</i>
<b>Assets</b>					
Cash and balances with Central Bank	4,850,449	5,393,783	16,269,332	140,176	<b>26,653,740</b>
Treasury bills	-	-	105,677,978	-	<b>105,677,978</b>
Placements and balances with banks	21,904,312	16,117,779	2,476,530	324,420	<b>40,823,041</b>
Investment securities	18,584,065	-	-	-	<b>18,584,065</b>
Loans and advances to customers	1,705,940	1,033,471	1,008,842	-	<b>3,748,253</b>
Fixed assets	8,486,562	-	-	-	<b>8,486,562</b>
Other assets	<u>440,742</u>	<u>10,169</u>	<u>282,020</u>	<u>1,192</u>	<u><b>734,123</b></u>
<b>Total assets</b>	<b>55,972,070</b>	<b>22,555,202</b>	<b>125,714,702</b>	<b>465,788</b>	<b>204,707,762</b>
<b>Liabilities</b>					
Customer deposits	36,790,523	23,279,673	126,217,645	313,132	<b>186,600,973</b>
Accruals and other liabilities	1,875,303	105,407	2,067,018	18,403	<b>4,066,131</b>
Shareholders' equity	<u>14,040,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>14,040,658</b></u>
<b>Total liability and equity</b>	<u><b>52,706,484</b></u>	<u><b>23,385,080</b></u>	<u><b>128,284,663</b></u>	<u><b>331,535</b></u>	<u><b>204,707,762</b></u>
<b>Net position</b>	<u><b>3,265,586</b></u>	<u><b>(829,878)</b></u>	<u><b>(2,569,961)</b></u>	<u><b>134,253</b></u>	<u><b>=</b></u>

#### 25. Related party transactions

The Bank has not had any significant related party transactions during 2002.

#### 26. 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>30 June 2002</i>	<i>31 December 2001</i>
Guarantees in favour of customers	1,237,453	835,000
Guarantees received from credit institutions	1,237,453	835,000