

Banka Kombetare Tregtare sh.a.

**Independent Auditors' Review Report
and
Interim Financial Statements as of
30 June 2007**

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INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying interim balance sheet of Banka Kombetare Tregtare sh.a. (the "Bank") as of 30 June 2007, and the related interim income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements ("ISRE") 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

Based on information provided to us by management, the Bank has treated its share capital issued in United States Dollars as a monetary item in the interim financial statements and recognized the revaluation difference during the six-month period ended 30 June 2007 in the income statement which in our opinion, 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 and retained earnings and reserves should be translated using the historical rate. Accordingly, although this has no effect on total shareholders' equity, if share capital had been treated as a non-monetary item, and retained earnings and reserves had been translated using the historical rate, the reported net profit for the six-month period ended 30 June 2007 would be lower by USD 1,570,468, the retained earnings would be lower by USD 11,740,995 and the balance of translation reserve would be higher by USD 10,170,527.

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of the Bank as at June 30, 2007, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche revizija d.o.o.

Ljubljana,

July 19, 2007

Banka Kombetare Tregtare Sh.A.

Interim Balance sheets as of 30 June 2007 and 31 December 2006

(amounts in USD, unless otherwise stated)

| | Notes | 30 June 2007 | 31 December 2006 |
|---|--------------|---------------------|-------------------------|
| Assets | | | |
| Cash and balances with Central Bank | 5 | 101,871,861 | 98,690,893 |
| Placement and balances with banks | 6 | 154,353,095 | 140,613,900 |
| Treasury bills held-to-maturity | 7 | 236,438,832 | 241,343,691 |
| Investment securities available-for-sale | 8 | 11,180,708 | 7,444,820 |
| Investment securities held-to-maturity | 9 | 146,444,189 | 119,890,480 |
| Loans and advances to customers | 10 | 272,913,859 | 229,168,373 |
| Capital equivalency deposit | 11 | 6,729,452 | 6,577,969 |
| Property and equipment | 12 | 12,078,183 | 11,442,960 |
| Intangible assets | 13 | 845,877 | 631,180 |
| Deferred tax assets | 14 | 41,643 | 75,246 |
| Other assets | 15 | 2,194,276 | 1,889,142 |
| Total assets | | 945,091,975 | 857,768,654 |
| Liabilities and shareholders' equity | | | |
| Liabilities | | | |
| Customer deposits | 16 | 869,575,271 | 798,499,340 |
| Due to banks | 17 | 10,656,438 | 8,565,519 |
| Due to third parties | 18 | 3,828,031 | - |
| Accruals and other liabilities | 19 | 6,720,092 | 5,176,567 |
| Total liabilities | | 890,779,832 | 812,241,426 |
| Shareholders' equity | | | |
| Share capital | | 44,700,000 | 33,000,000 |
| Translation difference | | 326,222 | 450,372 |
| Reserves | | - | 229,877 |
| Retained earnings | 20 | 1,014,121 | (62,012) |
| Net profit for the period | | 8,271,800 | 11,908,991 |
| Total shareholders' equity | | 54,312,143 | 45,527,228 |
| Total liabilities and shareholders' equity | | 945,091,975 | 857,768,654 |

The financial statements were authorized for release by the Board of Directors on 26 July 2007.

The accompanying notes 1 to 35 are an integral part of these interim financial statements

Banka Kombetare Tregtare Sh.A.

Interim Statements of operations for the six-month and three-month periods ended 30 June 2007 and 2006

(amounts in USD, unless otherwise stated)

| | Notes | Six-month period ended 30 June 2007 | Three-month period ended 30 June 2007 | Six-month period ended 30 June 2006 | Three-month period ended 30 June 2006 |
|--|--------|---|---|---|---|
| Interest | | | | | |
| Interest income | 21 | 31,238,546 | 16,403,147 | 21,567,151 | 11,211,041 |
| Interest expense | 22 | (14,119,565) | (7,460,064) | (9,321,998) | (4,867,942) |
| Net interest margin | | 17,118,981 | 8,943,083 | 12,245,153 | 6,343,099 |
| Non-interest income, net | | | | | |
| Fees and commissions, net | 23 | 1,836,427 | 1,040,167 | 1,245,723 | 647,408 |
| Foreign exchange revaluation gain (loss), net | 24 | (480,232) | (540,600) | (178,756) | (145,399) |
| Profit from FX trading activities, net | | 764,967 | 441,260 | 611,371 | 325,472 |
| Other income, net | 25 | 37,383 | 20,067 | 33,520 | 16,186 |
| Total non-interest income, net | | 2,158,545 | 960,894 | 1,711,858 | 843,667 |
| Operating expenses | | | | | |
| Personnel | 26 | (4,048,559) | (1,987,215) | (3,479,851) | (1,558,645) |
| Administrative | 27 | (3,394,177) | (1,937,986) | (2,671,338) | (1,583,649) |
| Depreciation and amortization | 12, 13 | (1,098,250) | (582,688) | (841,292) | (428,799) |
| Total operating expenses | | 8,540,986 | (4,507,889) | (6,992,481) | (3,571,093) |
| Impairment of loans | 10 | (310,672) | (135,759) | (506,779) | (436,129) |
| Profit before taxes | | 10,425,868 | 5,260,329 | 6,457,751 | 3,179,544 |
| Income tax expense | 28 | (2,154,068) | (1,095,752) | (1,166,745) | (631,189) |
| Net profit for the period | | 8,271,800 | 4,164,577 | 5,291,006 | 2,548,355 |

The accompanying notes 1 to 35 are an integral part of these interim financial statements

Banka Kombetare Tregtare Sh.A.**Interim Statements of changes in equity for the six-month periods ended 30 June 2007 and 2006 and year ended 31 December 2006***(amounts in USD, unless otherwise stated)*

| | Share capital | Translation difference | Reserves | Retained earnings | Net profit for the period | Total |
|--|-------------------|------------------------|----------------|-------------------|---------------------------|-------------------|
| Balance as of 1 January 2006 | 24,644,250 | (277,955) | 208,927 | (337,717) | 8,395,549 | 32,633,054 |
| Appropriation of prior year net profit | - | - | - | 8,395,549 | (8,395,549) | - |
| Increase in share capital | 8,355,750 | - | - | (8,355,750) | - | - |
| Adjustment of retained earnings with 2006 June end exchange rate | - | - | - | 515,739 | - | 515,739 |
| Adjustment of reserves with 2006 June end exchange rate | - | - | 13,989 | - | - | 13,989 |
| Net profit for the period | - | - | - | - | 5,291,006 | 5,291,006 |
| Appropriation of 2005 year translation difference | - | 277,955 | - | (277,955) | - | - |
| Translation difference for the period | - | 140,071 | - | - | - | 140,071 |
| Balance as of 30 June 2006 | 33,000,000 | 140,071 | 222,916 | (60,134) | 5,291,006 | 38,593,859 |
| Adjustment of retained earnings with 2006 December end exchange rate | - | - | - | (1,878) | - | (1,878) |
| Adjustment of reserves with 2006 December end exchange rate | - | - | 6,961 | - | - | 6,961 |
| Net profit for the period | - | - | - | - | 6,617,985 | 6,617,985 |
| Translation difference for the period | - | 310,301 | - | - | - | 310,301 |
| Balance as of 31 December 2006 | 33,000,000 | 450,372 | 229,877 | (62,012) | 11,908,991 | 45,527,228 |
| Appropriation of prior year net profit | - | - | - | 11,908,991 | (11,908,991) | - |
| Increase in share capital | 11,700,000 | - | (232,820) | (11,467,180) | - | - |
| Adjustment of retained earnings with 2007 June end exchange rate | - | - | - | 183,950 | - | 183,950 |
| Adjustment of reserves with 2007 June end exchange rate | - | - | 2,943 | - | - | 2,943 |
| Net profit for the period | - | - | - | - | 8,271,800 | 8,271,800 |
| Appropriation of 2006 year translation difference | - | (450,372) | - | 450,372 | - | - |
| Translation difference for the period | - | 326,322 | - | - | - | 326,322 |
| Balance as of 30 June 2007 | 44,700,000 | 326,322 | - | 1,014,121 | 8,271,800 | 54,312,143 |

The accompanying notes 1 to 35 are an integral part of these interim financial statements

Banka Kombetare Tregtare Sh.A.

Interim Statements of cash flows for the six-month periods ended 30 June 2007 and 2006

(amounts in USD, unless otherwise stated)

| | Six-month period ended 30 June 2007 | Six-month period ended 30 June 2006 |
|---|--|--|
| Cash flows from operating activities: | | |
| Profit before taxes | 10,425,868 | 6,457,751 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Interest expense | 14,119,565 | 9,321,998 |
| Interest income | (31,238,546) | (21,567,151) |
| Depreciation and amortization | 1,098,250 | 841,292 |
| Gain on sale of property and equipment | (4,321) | (3,385) |
| Gain on sale of treasury bills | (8,487) | (13,963) |
| Write-off of property and equipment | 45 | 2,375 |
| Deferred tax asset | 35,193 | (98,142) |
| Impairment of loans | 310,672 | 506,779 |
| Cash flows from operating profits before changes in operating assets and liabilities | (5,261,761) | (4,552,446) |
| (Increase)/decrease in operating assets: | | |
| Placements and balances with banks | (7,759,516) | (11,086,601) |
| Loans and advances to customers | (33,134,033) | (33,823,864) |
| Other assets | (220,686) | (629,249) |
| | (41,114,235) | (45,539,714) |
| Increase/(decrease) in operating liabilities: | | |
| Due to customers | 34,312,664 | 46,048,123 |
| Due to third parties | 3,679,658 | 1,410,602 |
| Accruals and other liabilities | 850,930 | 737,477 |
| | 38,843,252 | 48,196,202 |
| Interest paid | (10,754,486) | (7,506,681) |
| Interest received | 27,125,740 | 21,015,515 |
| Income taxes paid | (1,720,293) | (1,145,198) |
| Net cash flows from operating activities | 7,118,217 | 10,467,678 |
| Cash flows from investing activities | | |
| Purchases of investment securities | (23,383,751) | (17,474,056) |
| Purchases of treasury bills | 11,096,240 | 32,133,604 |
| Investment in affiliates | 107,253 | - |
| Purchases of property and equipment | (1,451,377) | (1,676,989) |
| Proceeds from sale of property and equipment | 4,570 | 3,312 |
| Proceeds from sale of treasury bills | 5,721,530 | 4,477,204 |
| Net cash used in investing activities | (7,905,535) | 17,463,075 |
| Cash flows from financing activities | | |
| Proceeds from due to banks | 1,628,708 | 12,043,981 |
| Net cash from financing activities | 1,628,708 | 12,043,981 |
| Net increase in cash and cash equivalents | 841,390 | 39,974,734 |
| Translation difference | 2,339,578 | 4,234,027 |
| Cash and cash equivalents at the beginning of the year | 98,690,893 | 69,911,636 |
| Cash and cash equivalents at the end of the six months | 101,871,861 | 114,120,397 |

The accompanying notes 1 to 35 are an integral part of these interim financial statements

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(amounts in USD, unless otherwise stated)

1. General

BKT is a commercial bank offering a wide range of universal services. The Bank 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 are accepted in various forms including current accounts, demand and term deposits, in both Lek and foreign currency. BKT offers: a variety of corporate and consumer loans, EMV-compliant debit and credit cards, ATMs, on-line banking facilities, qualified international banking services and different treasury products. It also invests in government securities and takes part actively in the local and international inter-bank markets.

BKT 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.

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 was finalized and registered in the Tirana Court on June 09, 2006, following the approvals by the Bank of Albania and Competition Authority.

The Bank, upon the Shareholders Decision taken on 27 April 2007, increased its paid-up capital by USD 11,700,000 by allocation of the balance of retained earnings of Lek 1,065,874,370 and of the remained balance of reserves of Lek 21,640,630 as at 31 March 2007 translated into USD using the exchange rate announced by Bank of Albania as of 27 April 2007 (1USD=92.95 Lek). As a result 1,170,000 shares were issued to the 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 4,470,000, and the composition is as follows:

| | <i>No. of shares</i> | <i>%</i> | <i>Total USD</i> |
|------------------------|----------------------|------------|-------------------|
| Calik/Seker Consortium | 2,682,002 | 60 | 26,820,020 |
| EBRD | 893,999 | 20 | 8,939,990 |
| IFC | 893,999 | 20 | 8,939,990 |
| | 4,470,000 | 100 | 44,700,000 |

The headquarters of BKT is located in Tirana. Currently the Bank has a network of 21 branches, 12 agencies and 3 custom agencies. Seven of branches are in Tirana, while the others are located in Durres, Elbasan, Korca, Gjirokaster, Vlora, Lushnje, Shkodra, Fier, Berat, Pogradec, Saranda, Lezha, Kukes and Peshkopi. Similarly, most of the agencies are in Tirana (five of them), whereas the others are placed in Kamza, Vore, Bilisht, Delvina, Kavaja, Lac and Rreshen followed by custom agencies in Kakavija, Kapshtica and Durres Seaport. Five of the branches were opened during 2003, while other ten new branches and agencies started their activity in 2005. In 2006 year, the Bank has expanded further its network by opening another one new branch and six agencies. Even in 2007 year the Bank has opened three other agencies till June-end. The Bank had 473 employees as of 30 June 2007.

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Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(amounts in USD, unless otherwise stated)

2. Statement of compliance

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

3. Summary of accounting principles

3.1 Basis of preparation

The financial statements are presented in US Dollars. The 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 2006.

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;
- equity items other than the net profit for the period and share capital are translated at the closing rate existing at the date of balance.
- share capital has been translated as described in paragraph 3.2 a) above; and

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Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(amounts in USD, unless otherwise stated)

3.2 Foreign currency (continued)

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

- all resulting exchange differences are recognised as a separate component of equity in the “Translation difference” account

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.

3.3 Financial instruments (continued)

(iv) Specific instruments

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.

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.

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Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(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.

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

3.8 Repurchase agreements

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

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 19 "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 yearly budgeted personnel salary 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.

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Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(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.

3.14 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.

3.15 Non- current assets as held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods, if the revision affects both current and future periods.

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Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(amounts in USD, unless otherwise stated)

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

a) Impairment losses on loans to customers

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Held-to maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortized cost. The estimation of the fair value of treasury bills and investments held to maturity is disclosed in note 30.

5. Cash and balances with the Central Bank

Cash and balances with the Central Bank as of 30 June 2007 and 31 December 2006, are detailed as follows:

| | 30 June 2007 | 31 December 2006 |
|-------------------|--------------------|-------------------|
| Cash in hand | 17,139,602 | 29,722,867 |
| Bank of Albania | | |
| Current account | 2,298,416 | 64,718 |
| Statutory reserve | 82,384,595 | 68,859,908 |
| Accrued interest | 49,248 | 43,400 |
| | 84,732,259 | 68,968,026 |
| | 101,871,861 | 98,690,893 |

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, which during the month can be decreased up to 80% of its level, provided that the monthly average is obtained.

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Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(amounts in USD, unless otherwise stated)

6. Placements and balances with banks

Placements and balances with banks as of 30 June 2007 and 31 December 2006 consisted as follows:

| | <i>30 June 2007</i> | <i>31 December 2006</i> |
|--|---------------------|-------------------------|
| Placements | 151,581,931 | 133,622,895 |
| Cash collateral held by correspondent banks and financial institutions | 1,338,112 | 769,570 |
| Current accounts | 1,061,300 | 5,901,840 |
| Accrued interest | 371,752 | 319,595 |
| | 154,353,095 | 140,613,900 |

Placements are held with non-resident banks from OECD countries and have contractual maturities from 3 days to 9 months. Current accounts represent balances with correspondent banks in the OECD countries.

Cash collateral represents mostly collateral held by correspondent banks and financial institutions against letters of credit issued to the Bank's clients by the correspondent banks and a cash deposit for the security of risks, which might rise from the issuance of credit cards by the Bank.

7. Treasury bills held-to-maturity

Treasury bills bear interest at market rates ranging from 5.73% p.a. to 8.48% p.a. on a compound basis and are all denominated in Lek. Treasury bills by original maturity are presented as follows:

| | <i>30 June 2007</i> | | | <i>31 December 2006</i> | | |
|-----------|---------------------|--------------------|--------------------|-------------------------|--------------------|--------------------|
| | Purchase value | Amortized discount | Amortized cost | Purchase value | Amortized discount | Amortized cost |
| 3 months | - | - | - | 9,554,877 | 84,409 | 9,639,286 |
| 6 months | 67,275,546 | 1,280,238 | 68,555,784 | 78,540,303 | 1,354,935 | 79,895,238 |
| 12 months | 161,114,532 | 6,768,516 | 167,883,048 | 148,327,170 | 3,481,997 | 151,809,167 |
| | 228,390,078 | 8,048,754 | 236,438,832 | 236,422,350 | 4,921,341 | 241,343,691 |

As of 30 June 2007, the fair value of the Treasury bills portfolio was USD 236,625,243, which exceeds the carrying value by USD 186,411, while as of 31 December 2006 the fair value of the Treasury bills portfolio was USD 240,616,431, which was lower than carrying value by USD 727,260.

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Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(amounts in USD, unless otherwise stated)

8. Investment securities available-for-sale

Investment securities available-for-sale comprise only two Lek denominated bonds as of 30 June 2007 as follows:

| Issuer | 30 June 2007 | | | | |
|-----------------------------|-------------------|----------------------|------------------|-------------------|------------------|
| | Nominal value | Unamortized discount | Accrued interest | Net value | Maturity date |
| <i>Lek Denominated Bond</i> | | | | | |
| Government of Albania | 7,733,097 | (10,381) | 23,178 | 7,745,894 | 18 December 2008 |
| Government of Albania | 3,314,185 | (4,684) | 125,313 | 3,434,814 | 17 January 2009 |
| | 11,047,282 | (15,065) | 148,491 | 11,180,708 | |

9. Investment securities held-to-maturity

Investment securities held-to-maturity comprise only one USD and Lek denominated bonds (with two, three and five year original maturity) as of 30 June 2007 as follows:

| Issuer | 30 June 2007 | | | | | S & P Bond Rating |
|------------------------------|--------------------|----------------------------------|------------------|--------------------|-------------------|-------------------|
| | Nominal Value | Unamortized Premium / (Discount) | Accrued interest | Net Value | Maturity Date | |
| <i>USD Denominated Bonds</i> | | | | | | |
| Republic of Turkey | 5,000,000 | (55,500) | 26,111 | 4,970,611 | 15 June 2010 | BB- |
| | 5,000,000 | (55,500) | 26,111 | 4,970,611 | | |
| <i>Lek Denominated Bonds</i> | | | | | | |
| Government of Albania | 2,510,745 | (80) | 85,261 | 2,595,926 | 18 July 2007 | |
| Government of Albania | 662,837 | (19) | 22,509 | 685,327 | 18 July 2007 | |
| Government of Albania | 1,104,729 | (643) | 30,610 | 1,134,696 | 18 August 2007 | |
| Government of Albania | 1,440,949 | (4,171) | 32,662 | 1,469,440 | 19 September 2007 | |
| Government of Albania | 220,946 | (629) | 5,008 | 225,325 | 19 September 2007 | |
| Government of Albania | 5,523,641 | - | 14,730 | 5,538,371 | 19 December 2007 | |
| Government of Albania | 1,104,728 | (1,110) | 39,015 | 1,142,633 | 18 January 2008 | |
| Government of Albania | 16,570,923 | 70,779 | 464,308 | 17,106,010 | 20 February 2008 | |
| Government of Albania | 4,971,277 | (6,687) | 94,841 | 5,059,431 | 20 March 2008 | |
| Government of Albania | 1,657,092 | 1,513 | 12,668 | 1,671,273 | 18 May 2008 | |
| Government of Albania | 4,418,913 | (7,242) | 9,133 | 4,420,804 | 19 June 2008 | |
| Government of Albania | 2,209,457 | (18,456) | 34,946 | 2,225,947 | 18 October 2008 | |
| Government of Albania | 2,209,457 | - | 21,137 | 2,230,594 | 20 November 2008 | |
| Government of Albania | 4,418,913 | 9,917 | 133,672 | 4,562,502 | 19 February 2009 | |
| Government of Albania | 2,209,456 | (12,286) | 35,618 | 2,232,788 | 18 April 2009 | |
| Government of Albania | 2,761,821 | - | 8,178 | 2,769,999 | 18 June 2009 | |
| Government of Albania | 552,364 | 380 | 11,084 | 563,828 | 05 April 2008 | |
| Government of Albania | 22,094,565 | 40,064 | 509,341 | 22,643,970 | 05 October 2008 | |
| Government of Albania | 1,657,092 | (11,335) | 64,811 | 1,710,568 | 05 January 2009 | |
| Government of Albania | 1,657,093 | (3,035) | 56,709 | 1,710,767 | 05 July 2009 | |
| Government of Albania | 17,675,652 | (211,646) | 346,246 | 17,810,252 | 05 October 2009 | |
| Government of Albania | 4,418,913 | (19,597) | 187,951 | 4,587,267 | 05 January 2010 | |
| Government of Albania | 12,152,011 | - | 173,191 | 12,325,202 | 08 November 2011 | |
| Government of Albania | 15,466,195 | - | 618,749 | 16,084,944 | 09 February 2012 | |
| Government of Albania | 8,837,826 | - | 127,888 | 8,965,714 | 08 May 2012 | |
| | 138,507,595 | (174,283) | 3,140,266 | 141,473,578 | | |
| | 143,507,595 | (229,783) | 3,166,377 | 146,444,189 | | |

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(amounts in USD, unless otherwise stated)

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

As of 30 June 2007, the fair value of the bond portfolio was USD 144,139,312, which exceeds the carrying value by USD 861,500, while as of 31 December 2006 the fair value of the bond portfolio was USD 118,561,361, which exceeded the carrying value by USD 998,811. Six of the Lek bonds issued by the Government of Albania have been purchased during 2007, totalling to a face value of USD 38 million.

10. Loans and advances to customers

Loans and advances to customers consisted of the following:

| | <i>30 June 2007</i> | <i>31 December 2006</i> |
|--|---------------------|-------------------------|
| Loans and advances to customers, gross | 275,155,557 | 231,243,051 |
| Accrued interest | 1,938,996 | 1,447,227 |
| Less allowances for impairment on loans and advances | (1,794,015) | (1,414,258) |
| Less unamortized deferred fee income | (2,386,679) | (2,107,647) |
| | 272,913,859 | 229,168,373 |

Movements in the allowance for impairment on loans and advances:

| | <i>2007</i> | <i>2006</i> |
|----------------------------------|------------------|------------------|
| At 1 January | 1,414,258 | 721,402 |
| Impairment charge for the period | 310,672 | 595,468 |
| Reversals during the period | - | - |
| Translation difference | 69,085 | 97,388 |
| At the end of the period | 1,794,015 | 1,414,258 |

As of 30 June 2007, the Bank's loans in arrears for more than 30 days totalled USD 5,833,406 (2006: USD 3,804,660). All loans are secured by mortgages and personal guarantees.

As of 30 June 2007 the breakdown of the loan portfolio is as follows:

| | |
|---------------------|-------|
| Individuals | 61.2% |
| Private Enterprises | 36.3% |
| Public Enterprises | 2.5% |

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

All the loans are in Lek, Euro, USD and CHF and bear interest at the following rates:

| | |
|---------------|-----------------|
| Loans in Lek | 1.50% to 20.00% |
| Loans in Euro | 2.00% to 15.00% |
| Loans in USD | 2.00% to 16.20% |
| Loans in CHF | 4.40% to 8.00% |

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Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(amounts in USD, unless otherwise stated)

10. Loans and advances to customers (continued)

The classification of loans is as follows:

| Corporate loans by industry | 30 June 2007 | | 31 December 2006 | |
|---|---------------------|-------------|-------------------------|-------------|
| | USD | % | USD | % |
| Wholesale Trade | 38,920,189 | 20% | 33,374,376 | 20% |
| Construction | 34,033,161 | 18% | 21,219,352 | 13% |
| Hotels and Restaurants | 22,157,935 | 12% | 16,811,915 | 10% |
| Other Community, Social and Personal Activities | 14,600,193 | 8% | 7,489,069 | 5% |
| Retail Trade | 13,511,460 | 7% | 11,784,117 | 7% |
| Manufacturing of Other Non-metallic Products | 12,272,290 | 6% | 11,534,130 | 7% |
| Real Estate, Renting and Business Activity | 8,799,863 | 4% | 8,055,922 | 5% |
| Personal Needs | 8,350,313 | 4% | 16,058,542 | 10% |
| Manufacture of Food Products, Beverages | 7,442,686 | 4% | 5,015,964 | 3% |
| Manufacture of Wood and Wood Products | 5,414,523 | 3% | 5,198,677 | 3% |
| Manufacture of Rubber and Plastic Products | 3,210,091 | 2% | 2,277,039 | 1% |
| Manufacturing of Basic Metallic | 3,203,303 | 2% | 8,242,609 | 5% |
| Education | 2,879,379 | 2% | 2,435,116 | 2% |
| Financial Intermediation | 2,833,236 | 1% | 2,826,462 | 2% |
| Transport, Storage and Communication | 2,372,122 | 1% | 1,908,676 | 1% |
| Manufacture of Furniture | 1,943,478 | 1% | 1,514,480 | 1% |
| Manufacture of Textile and Textile Products | 1,763,679 | 1% | 1,795,761 | 1% |
| Manufacture of Pulp, Paper & Paper Products | 1,333,614 | 1% | 1,153,618 | 1% |
| Other Sectors | 5,335,448 | 3% | 4,349,947 | 3% |
| | 190,376,963 | 100% | 163,045,772 | 100% |

| Retail loans by type | 30 June 2007 | | 31 December 2006 | |
|-----------------------------|---------------------|-------------|-------------------------|-------------|
| | USD | % | USD | % |
| Home purchase | 47,661,755 | 56% | 38,747,601 | 56% |
| Home improvement | 9,172,737 | 11% | 6,555,211 | 10% |
| Super Loan | 8,212,230 | 10% | 5,913,638 | 9% |
| Home reconstruction | 7,711,097 | 9% | 6,428,360 | 9% |
| Home advances | 5,783,037 | 7% | 5,117,261 | 7% |
| Shop purchase | 4,041,342 | 5% | 3,306,501 | 5% |
| Car purchase | 1,046,602 | 1% | 1,256,156 | 2% |
| Other types | 1,149,794 | 1% | 872,551 | 2% |
| | 84,778,594 | 100% | 68,197,279 | 100% |

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Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(amounts in USD, unless otherwise stated)

11. Capital equivalency deposit

Capital equivalency deposit represents the amount of EUR 5 million (USD 6,729,452) transferred on December 15, 2006 in favour of the Central Banking Authority of Kosovo, as a minimum required capital necessary to be blocked in order to obtain the license for Kosovo Branch, planned to be opened in 2007.

12. Property and equipment

Property and equipment as of 30 June 2007 and 31 December 2006 are composed as follows:

| (In USD) | Land and Buildings | Plant and Equipment | IT Equipment | Office Equipment | Total |
|---------------------------------|--------------------|---------------------|--------------------|------------------|---------------------|
| Gross value | | | | | |
| At 31 December 2006 | 12,515,449 | 2,166,415 | 5,987,153 | 611,158 | 21,280,175 |
| Additions | 267,290 | 451,940 | 441,680 | 2,068 | 1,162,978 |
| Disposals / transfers | - | (5,534) | (79,232) | (144) | (84,910) |
| Translation difference | 500,507 | 86,637 | 239,433 | 24,441 | 851,018 |
| At 30 June 2007 | 13,283,246 | 2,699,458 | 6,589,034 | 637,523 | 23,209,261 |
| Accumulated depreciation | | | | | |
| At 31 December 2006 | (4,222,612) | (1,293,132) | (3,868,665) | (452,806) | (9,837,215) |
| Charge for the period | (268,144) | (159,011) | (491,435) | (30,740) | (949,330) |
| Disposals / write offs | - | 5,023 | 79,232 | - | 84,255 |
| Translation difference | (179,523) | (57,786) | (171,670) | (19,809) | (428,788) |
| At 30 June 2007 | (4,670,279) | (1,504,906) | (4,452,538) | (503,355) | (11,131,078) |
| Net book value | | | | | |
| At 31 December 2006 | 8,292,837 | 873,283 | 2,118,488 | 158,352 | 11,442,960 |
| At 30 June 2007 | 8,612,967 | 1,194,552 | 2,136,496 | 134,168 | 12,078,183 |

13. Intangible assets

Intangible assets as of 30 June 2007 and 31 December 2006 are composed as follows:

| (In USD) | Software |
|---------------------------------|--------------------|
| Gross value | |
| At 31 December 2006 | 1,989,277 |
| Additions | 347,204 |
| Translation difference | 79,554 |
| At 30 June 2007 | 2,416,035 |
| Accumulated depreciation | |
| At 31 December 2006 | (1,358,097) |
| Charge for the period | (148,920) |
| Translation difference | (63,141) |
| At 30 June 2007 | (1,570,158) |
| Net book value | |
| At 31 December 2006 | 631,180 |
| At 30 June 2007 | 845,877 |

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

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Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(amounts in USD, unless otherwise stated)

14. Deferred tax assets

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 20% (2006: 20%). The movement on the deferred income tax account is as follows:

| | <i>30 June 2007</i> | <i>31 December 2006</i> |
|------------------------------------|---------------------|-------------------------|
| Balance at 1 January | 75,246 | 108,631 |
| Income statement benefit/(expense) | (35,193) | (42,491) |
| Exchange differences | 1,590 | 9,106 |
| Balance at the end of the period | 41,643 | 75,246 |

Deferred income tax assets are attributable to the following items:

| | <i>30 June 2007</i> | <i>31 December 2006</i> |
|----------------------------------|---------------------|-------------------------|
| Deferred income on fees on loans | 477,336 | 421,529 |
| Allowance for loan impairment | (724,850) | (609,500) |
| Decelerated depreciation | 266,728 | 235,856 |
| Start up costs written off | 22,429 | 27,361 |
| | 41,643 | 75,246 |

15. Other assets

Other assets, net as of 30 June 2007 and 31 December 2006 are as follows:

| | <i>30 June 2007</i> | <i>31 December 2006</i> |
|--|---------------------|-------------------------|
| Cheques for collection and payments in transit | 41,958 | 4,333 |
| Inventory | 230,413 | 65,702 |
| Accrued account maintenance commission | 161,941 | |
| Spot transactions revaluation gain | - | 13,585 |
| Fiscal administration | - | 1,318,899 |
| Other debtors, net | 1,759,964 | 486,623 |
| | 2,194,276 | 1,889,142 |

“Cheques for collection and payments in transit” represent customers’ cheques and payments 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. This item also includes the collateral values of three unrecoverable loans totalling to USD 222,270 (2006: USD 57,412), the ownership of which, was taken on behalf of the Bank.

“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>30 June 2007</i> | <i>31 December 2006</i> |
|---------------|---------------------|-------------------------|
| Other debtors | 1,762,618 | 489,277 |
| Provision | (2,654) | (2,654) |
| | 1,759,964 | 486,623 |

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(amounts in USD, unless otherwise stated)

15. Other assets (continued)

“Other debtors” are composed of three items. The first item of USD 267,899 (2006: USD 113,175) consists mostly of USD 215,046 (2006: USD 69,715), which is continuously recoverable from the credit clients of the bank and of USD 27,419, which is fully cash collateralised. The other two items represent advance payments to suppliers (due to opening of new branches) of USD 1,195,893 (2006: USD 302,018) and prepaid expenses of USD 298,826 (2006: USD 74,084).

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

| | 2007 | 2006 |
|-----------------------------|--------------|--------------|
| At 1 January | 2,654 | 6,270 |
| Additions during the period | - | - |
| Reversals during the period | - | (3,883) |
| Translation difference | - | 267 |
| At the end of the period | <u>2,654</u> | <u>2,654</u> |

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

16. Customer deposits

Customer deposits as of 30 June 2007 and 31 December 2006 are composed as follows:

| | 30 June 2007 | 31 December 2006 |
|---------------------------------|---------------------|-------------------------|
| Current accounts: | | |
| Individuals | 22,432,870 | 24,014,173 |
| Private enterprises | 54,166,128 | 63,404,256 |
| State owned entities | 33,495,344 | 45,726,772 |
| | <u>110,094,342</u> | <u>133,145,201</u> |
| Deposits: | | |
| Individuals | 668,173,963 | 573,609,141 |
| Private enterprises | 41,538,645 | 34,848,599 |
| State owned entities | 35,680,544 | 24,003,773 |
| | <u>745,393,152</u> | <u>632,461,513</u> |
| Other customer accounts: | | |
| Individuals | 3,374,851 | 16,813,958 |
| Private enterprises | 9,648,735 | 15,022,040 |
| State owned entities | 1,064,191 | 1,056,628 |
| | <u>14,087,777</u> | <u>32,892,626</u> |
| | <u>869,575,271</u> | <u>798,499,340</u> |

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16. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

| | 30 June 2007 | | | 31 December 2006 | | |
|---------------------------------|--------------------|---------------------|--------------------|--------------------|---------------------|--------------------|
| | Local currency | Foreign currency | Total | Local currency | Foreign currency | Total |
| Current accounts | 68,664,558 | 41,429,784 | 110,094,342 | 87,322,020 | 45,823,181 | 133,145,201 |
| Deposits | | | | | | |
| On demand | 73,265 | 126,007 | 199,272 | 97,223 | 177,569 | 274,792 |
| One month | 31,177,868 | 44,679,929 | 75,857,797 | 20,970,168 | 45,936,186 | 66,906,354 |
| Three months | 76,414,596 | 54,779,663 | 131,194,259 | 68,000,532 | 45,737,629 | 113,738,161 |
| Six months | 111,319,983 | 44,644,569 | 155,964,552 | 100,043,119 | 36,791,090 | 136,834,209 |
| Twelve months | 225,802,811 | 94,147,882 | 319,950,693 | 191,115,507 | 75,183,509 | 266,299,016 |
| Two years and over | 39,069,727 | 10,463,531 | 49,533,258 | 31,548,307 | 7,925,176 | 39,473,483 |
| Accrued interest on deposits | 9,703,808 | 2,989,513 | 12,693,321 | 7,086,730 | 1,848,768 | 8,935,498 |
| Total deposits | 493,562,058 | 251,831,094 | 745,393,152 | 418,861,586 | 213,599,927 | 632,461,513 |
| Other customer accounts | 9,535,043 | 4,552,734 | 14,087,777 | 16,839,523 | 16,053,103 | 32,892,626 |
| Total customer deposits | 571,761,659 | 297,813,612 | 869,575,271 | 523,023,129 | 275,476,211 | 798,499,340 |

Other customer accounts are composed as follows:

| | 30 June 2007 | | | 31 December 2006 | | |
|--|-------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
| | Local currency | Foreign currency | Total | Local currency | Foreign currency | Total |
| Deposits from liquidation of Xhaferi Foundation | 994,312 | 24,740 | 1,019,052 | 957,828 | 23,706 | 981,534 |
| Deposit guarantees for letters of credit | - | 427,216 | 427,216 | - | 366,382 | 366,382 |
| Escrow accounts | 7,436,213 | 2,990,455 | 10,426,668 | 13,696,027 | 12,594,064 | 26,290,091 |
| Bank drafts | - | 6,504 | 6,504 | - | 6,309 | 6,309 |
| Payment orders to be executed | 13,891 | 264,419 | 278,310 | 20,944 | 332,563 | 353,507 |
| Other | 1,090,627 | 839,400 | 1,930,027 | 2,164,724 | 2,730,079 | 4,894,803 |
| | 9,535,043 | 4,552,734 | 14,087,777 | 16,839,523 | 16,053,103 | 32,892,626 |

“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).

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17. Due to banks

Due to banks as of 30 June 2007 and 31 December 2006 consisted as follows:

| | <i>30 June 2007</i> | <i>31 December 2006</i> |
|--|---------------------|-------------------------|
| Deposits from resident banks | - | 2,627,561 |
| Reverse repo with Central Bank | 9,447,355 | - |
| Current accounts of non resident banks | 1,187,885 | 5,921,750 |
| Current accounts of resident banks | 21,198 | 16,208 |
| | <u>10,656,438</u> | <u>8,565,519</u> |

18. Due to third parties

The Bank acts as an agent for the tax authorities in the collection of taxes. In return, the Bank charges a commission to the taxpayers for the service rendered. The balance as at 30 June 2007 represents the amount collected from the taxpayers, which has not yet been transferred to the tax authorities account.

19. Accruals and other liabilities

A breakdown of accruals and other liabilities as of 30 June 2007 and 31 December 2006 is presented as follows:

| | <i>30 June 2007</i> | <i>31 December 2006</i> |
|-------------------------------------|---------------------|-------------------------|
| Creditors | 1,840,761 | 1,842,012 |
| Transit account | 873,635 | 326,548 |
| Due to tax authorities | 450,479 | 603,642 |
| Reserve fund for retiring employees | 870,207 | 726,888 |
| Social insurance | 86,179 | 78,816 |
| Accrued expenses | 1,536,175 | 732,975 |
| Other | 1,062,656 | 865,686 |
| | <u>6,720,092</u> | <u>5,176,567</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 period.

“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 391,675 (2006: USD 303,729) of deposit insurance premium due for the second quarter of 2007 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.

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19. Accruals and other liabilities (continued)

Accrued expenses for personnel is another important item amounting at USD 1,144,501 (2006: USD 429,246), which represent the accrued amounts of summer holidays salary and year end planned bonuses given to the bank's staff and management.

"Other" consists of three items. The first item of USD 927,081 (2006: USD 827,989) are payments due to construction companies in relation to semi finished home loans; the second of USD 79,484 (2006: nil) represents spot transactions revaluation loss and the last item of USD 56,091 (2006: USD 37,697) represents cash guarantees received from the suppliers.

20. Retained earnings

Retained earnings represent the balance of earnings from 2006 year's profit. As described in note 1, the Bank has used its statutory retained earnings amounting to Lek 1,065,874,370 or USD 11,467,180 to increase its share capital on 27 April 2007.

21. Interest income

Interest income is composed as follows:

| | <i>Six-month period ended 30 June 2007</i> | <i>Six-month period ended 30 June 2006</i> |
|--|--|--|
| Treasury bills and investment securities | 14,070,816 | 11,430,199 |
| Placements with banks and balances with Central Bank | 5,198,391 | 3,286,959 |
| Loans and advances to customers | 11,969,339 | 6,849,993 |
| | 31,238,546 | 21,567,151 |

22. Interest expense

Interest expense is composed as follows:

| | <i>Six-month period ended 30 June 2007</i> | <i>Six-month period ended 30 June 2006</i> |
|-------------------|--|--|
| Due to banks | 117,618 | 121,267 |
| Customer deposits | 14,001,947 | 9,200,731 |
| | 14,119,565 | 9,321,998 |

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(amounts in USD, unless otherwise stated)

23. Fees and commissions, net

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

| | <i>Six-month period ended 30 June 2007</i> | <i>Six-month period ended 30 June 2006</i> |
|-----------------------------------|--|--|
| <i>Fee and commission income</i> | | |
| Lending activity | 919,736 | 614,842 |
| Payment services to clients | 566,956 | 350,661 |
| Customer accounts' maintenance | 162,159 | 168,279 |
| Cash transactions with clients | 131,282 | 112,284 |
| Card transactions | 48,775 | - |
| Inter bank transactions | 28,168 | 16,642 |
| Other fees and commissions | 24,325 | 19,222 |
| | <u>1,881,401</u> | <u>1,281,930</u> |
| <i>Fee and commission expense</i> | | |
| Inter bank transactions | - | 1,192 |
| Customer accounts' maintenance | 43,356 | 33,333 |
| Payment services to clients | 1,618 | 1,682 |
| | <u>44,974</u> | <u>36,207</u> |
| Fees and commissions, net | <u>1,836,427</u> | <u>1,245,723</u> |

24. Foreign exchange revaluation gain/(loss)

Foreign exchange revaluation gain/(loss) represents the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in note 3.2 it also includes the revaluation of the Bank's share capital. The revaluation gain on this item for the six-month period ended 30 June 2007 is USD 1,570,468 (2006: USD 1,605,766).

25. Other income, net

Other income and expenses are composed as follows:

| | <i>Six-month period ended 30 June 2007</i> | <i>Six-month period ended 30 June 2006</i> |
|---|--|--|
| <i>Other income</i> | | |
| Reversal of other debtors provisions | - | 2,809 |
| Gain on sale of fixed assets | 4,321 | 3,385 |
| Sundry | 33,107 | 29,701 |
| | <u>37,428</u> | <u>35,895</u> |
| <i>Other expense</i> | | |
| Loss on sale or write off of fixed assets | 45 | 2,375 |
| Sundry | - | - |
| | <u>45</u> | <u>2,375</u> |
| Other income, net | <u>37,383</u> | <u>33,520</u> |

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26. Personnel expenses

Personnel expenses are composed as follows:

| | <i>Six-month period ended 30 June 2007</i> | <i>Six-month period ended 30 June 2006</i> |
|-------------------------------------|--|--|
| Salaries | 2,707,915 | 2,300,922 |
| Performance bonus | 669,859 | 570,022 |
| Social insurance | 327,185 | 359,531 |
| Training | 154,502 | 146,619 |
| Reserve fund for retiring employees | 122,771 | 94,495 |
| Life insurance | 2,793 | 2,451 |
| Other | 63,534 | 5,811 |
| | 4,048,559 | 3,479,851 |

27. Administrative expenses

Administrative expenses are composed as follows:

| | <i>Six-month period ended 30 June 2007</i> | <i>Six-month period ended 30 June 2006</i> |
|---|--|--|
| Deposit insurance expense | 753,251 | 571,804 |
| Telephone, electricity and IT expenses | 703,357 | 555,101 |
| Marketing expenses | 470,579 | 421,496 |
| Security and insurance expenses | 296,484 | 264,896 |
| Repairs and maintenance | 244,910 | 189,705 |
| Transportation and business related travel | 244,801 | 191,779 |
| Lease payments | 197,217 | 146,184 |
| Credit/debit cards expenses | 185,606 | 88,684 |
| Office stationery and supplies | 128,164 | 99,676 |
| Representation expenses | 84,574 | 46,354 |
| Other external services (including external audit fees) | 31,916 | 47,125 |
| Taxes other than tax on profits | 18,905 | 16,753 |
| Sundry | 34,413 | 31,781 |
| | 3,394,177 | 2,671,338 |

28. Income tax expense

Income tax expense is comprised of:

| | <i>Six-month period ended 30 June 2007</i> | <i>Six-month period ended 30 June 2006</i> |
|--|--|--|
| Current tax expense | 2,118,875 | 1,264,887 |
| Deferred tax expense / (benefit) (note 14) | 35,193 | (98,142) |
| | 2,154,068 | 1,166,745 |

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(amounts in USD, unless otherwise stated)

28. Income tax expense (continued)

Income tax in Albania is assessed at the rate of 20% (2006: 20%) of taxable income. The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

| | <i>Six-month period ended 30 June 2007</i> | <i>Six-month period ended 30 June 2006</i> |
|---|--|--|
| Profit (loss) before taxes | 10,425,868 | 6,457,751 |
| Computed tax using applicable tax rate | 2,085,174 | 1,291,550 |
| Non tax deductible expenses | 71,508 | 55,032 |
| Start up costs amortized for tax purposes | (21,567) | (31,190) |
| Foreign exchange difference | 18,953 | (148,647) |
| Tax expense | 2,154,068 | 1,166,745 |

29. 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 credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risk.

(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 1,000,000 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) 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 31.

29. Financial risk management (continued)

(c) Market risk:

1) Foreign currency risk:

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Bank of Albania guidelines. The Bank has in place procedures for the independent checking of open foreign currency positions. The Bank's net open foreign currency position at 30 June 2007 is shown in note 32.

2) 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 33.

30. 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 30 June 2007, the fair value of the Treasury bills portfolio was USD 236,625,243 (2006: USD 240,616,431), which exceeds the carrying amount by USD 186,411 (2006: lower by USD 727,260).

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 30 June 2007, the fair value of the entire bond portfolio was USD 144,139,312 (2006: USD 118,561,361), which exceeds the carrying amount by USD 861,500 (2006: USD 998,811).

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30. Estimation of fair value (continued)

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.

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.

31. Liquidity risk

As of 30 June 2007, 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 years</i> | Total |
|---|----------------------|----------------------|----------------------|---------------------|---------------------|--------------------|
| Assets | | | | | | |
| Cash and balances with Central Bank | 101,871,861 | - | - | - | - | 101,871,861 |
| Placement and balances with banks | 126,427,704 | 14,763,089 | 13,162,302 | - | - | 154,353,095 |
| Treasury bills held-to-maturity | 29,271,128 | 78,953,057 | 128,214,647 | - | - | 236,438,832 |
| Investment securities available-for-sale | - | - | - | 11,180,708 | - | 11,180,708 |
| Investment securities held-to-maturity | 3,281,253 | 2,829,461 | 35,502,350 | 104,831,125 | - | 146,444,189 |
| Loans and advances to customers | 6,314,684 | 21,757,255 | 60,943,718 | 106,317,542 | 77,580,660 | 272,913,859 |
| Capital equivalency deposit | - | - | - | - | 6,729,452 | 6,729,452 |
| Property and equipment | - | - | - | 3,465,216 | 8,612,967 | 12,078,183 |
| Intangible assets | - | - | - | 845,877 | - | 845,877 |
| Deferred tax asset | - | - | - | 41,643 | - | 41,643 |
| Other assets | 2,032,335 | - | - | 161,941 | - | 2,194,276 |
| Total assets | 269,198,965 | 118,302,862 | 237,823,017 | 226,844,052 | 92,923,079 | 945,091,975 |
| Liabilities and shareholders' equity | | | | | | |
| Customer deposits | 281,863,322 | 229,112,659 | 306,668,909 | 51,930,381 | - | 869,575,271 |
| Due to banks | 10,656,438 | - | - | - | - | 10,656,438 |
| Due to third parties | 3,828,031 | - | - | - | - | 3,828,031 |
| Accruals and other liabilities | 5,663,621 | - | 186,264 | - | 870,207 | 6,720,092 |
| Shareholders' equity | - | - | - | - | 54,312,143 | 54,312,143 |
| Total liabilities and shareholders' equity | 302,011,412 | 229,112,659 | 306,855,173 | 51,930,381 | 55,182,350 | 945,091,975 |
| Net Position | (32,812,447) | (110,809,797) | (69,032,156) | 174,913,671 | 37,740,729 | - |
| Cumulative Net Position | (32,812,447) | (143,622,244) | (212,654,400) | (37,740,729) | - | - |

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31. Liquidity risk (continued)

As of 31 December 2006, 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 years</i> | Total |
|---|----------------------|----------------------|----------------------|---------------------|---------------------|--------------------|
| Assets | | | | | | |
| Cash and balances with Central Bank | 98,690,893 | - | - | - | - | 98,690,893 |
| Placement and balances with banks | 122,112,902 | 13,446,217 | 5,054,781 | - | - | 140,613,900 |
| Treasury bills held-to-maturity | 30,152,798 | 47,119,847 | 164,071,046 | - | - | 241,343,691 |
| Investment securities available-for-sale | - | - | - | 7,444,820 | - | 7,444,820 |
| Investment securities held-to-maturity | 1,106,790 | 10,872,685 | 15,808,022 | 92,102,983 | - | 119,890,480 |
| Loans and advances to customers | 15,237,282 | 16,569,207 | 42,834,473 | 92,330,734 | 62,196,677 | 229,168,373 |
| Capital equivalency deposit | - | - | - | - | 6,577,969 | 6,577,969 |
| Property and equipment | - | - | - | 3,150,123 | 8,292,837 | 11,442,960 |
| Intangible assets | - | - | - | 631,180 | - | 631,180 |
| Deferred tax asset | - | - | - | 75,246 | - | 75,246 |
| Other assets | 1,889,142 | - | - | - | - | 1,889,142 |
| Total assets | 269,189,807 | 88,007,956 | 227,768,322 | 195,735,086 | 77,067,483 | 857,768,654 |
| Liabilities and shareholders' equity | | | | | | |
| Customer deposits | 307,632,937 | 172,012,273 | 277,653,395 | 41,200,735 | - | 798,499,340 |
| Due to banks | 8,565,519 | - | - | - | - | 8,565,519 |
| Due to third parties | - | - | - | - | - | - |
| Accruals and other liabilities | 4,449,680 | - | - | - | 726,887 | 5,176,567 |
| Shareholders' equity | - | - | - | - | 45,527,228 | 45,527,228 |
| Total liabilities and shareholders' equity | 320,648,136 | 172,012,273 | 277,653,395 | 41,200,735 | 46,254,115 | 857,768,654 |
| Net Position | (51,458,329) | (84,004,317) | (49,885,073) | 154,534,351 | 30,813,368 | - |
| Cumulative Net Position | (51,458,329) | (135,462,646) | (185,347,719) | (30,813,368) | - | - |

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 33.

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32. Foreign currency risk

The following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency as of 30 June 2007 and 31 December 2006 in accordance with the Bank of Albania foreign currency disclosure requirements:

| 2007 | Lek | USD | Euro | Other | Total |
|---|---------------------|--------------------|--------------------|-------------------|--------------------|
| Assets | | | | | |
| Cash and balances with Central Bank | 64,727,711 | 12,852,969 | 23,273,015 | 1,018,166 | 101,871,861 |
| Placements and balances with banks | - | 113,672,989 | 25,473,351 | 15,206,755 | 154,353,095 |
| Treasury bills held-to-maturity | 236,438,832 | - | - | - | 236,438,832 |
| Investment securities available-for-sale | 11,180,708 | - | - | - | 11,180,708 |
| Investment securities held-to-maturity | 141,473,578 | 4,970,611 | - | - | 146,444,189 |
| Loans and advances to customers | 118,126,217 | 20,448,027 | 128,169,223 | 6,170,392 | 272,913,859 |
| Capital equivalency deposit | - | - | 6,729,452 | - | 6,729,452 |
| Property and equipment | 12,078,183 | - | - | - | 12,078,183 |
| Intangible assets | 845,877 | - | - | - | 845,877 |
| Deferred tax assets | 41,643 | - | - | - | 41,643 |
| Other assets | 635,811 | 330,276 | 1,226,064 | 2,125 | 2,194,276 |
| Total assets | 585,548,560 | 152,274,872 | 184,871,105 | 22,397,438 | 945,091,975 |
| Off balance sheet items | 3,574,542 | 13,534,647 | 1,318,972 | 6,045,152 | 24,473,313 |
| Liabilities and shareholders' equity | | | | | |
| Customer deposits | 571,761,659 | 99,940,076 | 182,133,926 | 15,739,610 | 869,575,271 |
| Due to banks | 9,449,923 | 343,311 | 863,204 | - | 10,656,438 |
| Due to third parties | 3,828,031 | - | - | - | 3,828,031 |
| Accruals and other liabilities | 1,807,486 | 3,567,259 | 1,188,938 | 156,409 | 6,720,092 |
| Shareholders' equity | 9,612,143 | 44,700,000 | - | - | 54,312,143 |
| Total liabilities and shareholders' equity | 596,459,242 | 148,550,646 | 184,186,068 | 15,896,019 | 945,091,975 |
| Off balance sheet items | 1,039,052 | 9,778,363 | 1,318,972 | 12,336,926 | 24,473,313 |
| Net position | (8,375,192) | 7,480,510 | 685,037 | 209,645 | - |
| 2006 | | | | | |
| | Lek | USD | Euro | Other | Total |
| Assets | | | | | |
| Cash and balances with Central Bank | 51,530,167 | 13,208,790 | 33,159,971 | 791,965 | 98,690,893 |
| Placements and balances with banks | - | 110,314,134 | 15,810,586 | 14,489,180 | 140,613,900 |
| Treasury bills held-to-maturity | 241,343,691 | - | - | - | 241,343,691 |
| Investment securities available-for-sale | 7,444,820 | - | - | - | 7,444,820 |
| Investment securities held-to-maturity | 114,933,180 | 4,957,300 | - | - | 119,890,480 |
| Loans and advances to customers | 97,944,717 | 23,495,821 | 104,103,260 | 3,624,575 | 229,168,373 |
| Capital equivalency deposit | - | - | 6,577,969 | - | 6,577,969 |
| Property and equipment | 11,442,960 | - | - | - | 11,442,960 |
| Intangible assets | 631,180 | - | - | - | 631,180 |
| Deferred tax assets | 75,246 | - | - | - | 75,246 |
| Other assets | 1,628,396 | 51,876 | 208,749 | 121 | 1,889,142 |
| Total assets | 526,974,357 | 152,027,921 | 159,860,535 | 18,905,841 | 857,768,654 |
| Off balance sheet items | 616,040 | 4,616,682 | 713,657 | 1,001,226 | 6,947,605 |
| Liabilities and shareholders' equity | | | | | |
| Customer deposits | 523,023,129 | 105,517,651 | 154,832,772 | 15,125,788 | 798,499,340 |
| Due to banks | 2,128,151 | 5,416,323 | 1,021,044 | 1 | 8,565,519 |
| Due to third parties | - | - | - | - | - |
| Accruals and other liabilities | 1,175,970 | 3,135,282 | 766,684 | 98,631 | 5,176,567 |
| Shareholders' equity | 12,527,228 | 33,000,000 | - | - | 45,527,228 |
| Total liabilities and shareholders' equity | 538,854,478 | 147,069,256 | 156,620,500 | 15,224,420 | 857,768,654 |
| Off balance sheet items | - | 1,734,309 | 526,237 | 4,687,059 | 6,947,605 |
| Net position | (11,264,081) | 7,841,038 | 3,427,455 | (4,412) | - |

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33. Interest rate risk

The average effective yields of significant categories of financial assets and liabilities of the Bank as of 30 June 2007 were as follows:

| | <i>Lek</i> | <i>USD</i> | <i>Euro</i> |
|--|------------|------------|-------------|
| Assets | | | |
| Cash and balances with Central Bank | 3.85% | 3.72% | 2.88% |
| Placement and balances with banks | N/A | 5.30% | 4.08% |
| Treasury bills held-to-maturity | 7.14% | N/A | N/A |
| Investment securities held-to-maturity | 8.68% | 5.75% | N/A |
| Loans and advances to customers | 12.45% | 9.98% | 9.30% |
| Liabilities | | | |
| Customer deposits | 3.96% | 3.34% | 2.60% |
| Due to banks | 0.1% | 0.1% | 0.1% |

The average effective yields of significant categories of financial assets and liabilities of the Bank as of 31 December 2006 were as follows:

| | <i>Lek</i> | <i>USD</i> | <i>Euro</i> |
|--|------------|------------|-------------|
| Assets | | | |
| Cash and balances with Central Bank | 3.67% | 3.72% | 2.43% |
| Placement and balances with banks | N/A | 5.28% | 3.61% |
| Treasury bills held-to-maturity | 6.59% | N/A | N/A |
| Investment securities held-to-maturity | 8.31% | 5.73% | N/A |
| Loans and advances to customers | 11.25% | 6.21% | 9.41% |
| Liabilities | | | |
| Customer deposits | 3.57% | 2.68% | 2.35% |
| Due to banks | 0.10% | 0.10% | 0.10% |

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as of 30 June 2007 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 years</i> | <i>Total</i> |
|--|----------------------|--------------------|--------------------|--------------------|---------------------|--------------------|
| Assets | | | | | | |
| Cash and balances with Central Bank | 101,871,861 | - | - | - | - | 101,871,861 |
| Placement and balances with banks | 126,427,704 | 14,763,089 | 13,162,302 | - | - | 154,353,095 |
| Treasury bills held-to-maturity | 29,271,128 | 78,953,057 | 128,214,647 | - | - | 236,438,832 |
| Investment securities available-for-sale | - | - | - | 11,180,708 | - | 11,180,708 |
| Investment securities held-to-maturity | 3,281,253 | 2,829,461 | 35,502,350 | 104,831,125 | - | 146,444,189 |
| Loans and advances to customers | 46,991,108 | 13,853,198 | 202,197,324 | 8,603,990 | 1,268,239 | 272,913,859 |
| Total | 307,843,054 | 110,398,805 | 379,076,623 | 124,615,823 | 1,268,239 | 923,202,544 |
| Liabilities | | | | | | |
| Customer deposits | 281,863,322 | 229,112,659 | 306,668,909 | 51,930,381 | - | 869,575,271 |
| Due to banks | 10,656,438 | - | - | - | - | 10,656,438 |
| Total | 292,519,760 | 229,112,659 | 306,668,909 | 51,930,381 | - | 880,231,709 |

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34. 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 2007.

Transactions with directors and executive officers

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

| | <i>Six-month period ended 30 June 2007</i> | <i>Year ended 31 December 2006</i> |
|--------------------|--|--|
| Directors | 21,168 | 42,336 |
| Executive officers | 452,721 | 1,254,992 |
| | 473,889 | 1,297,328 |

35. Contingencies and commitments including off-balance sheets items

Guarantees

| | <i>30 June 2007</i> | <i>31 December 2006</i> |
|--|---------------------|-------------------------|
| Guarantees in favour of customers | 12,016,078 | 26,256,641 |
| Guarantees received from credit institutions | 1,913,327 | 1,204,589 |
| Letters of credit issued to customers | 1,966,449 | 365,650 |

Guarantees and letters of credit issued in favour of customers are counter guaranteed by other financial institutions or fully cash collateralised.

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

Banka Kombetare Tregtare Sh.A

Notes to the Interim Financial Statements for the six-month period ended 30 June 2007

(amounts in USD, unless otherwise stated)

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

Other

| | <i>30 June 2007</i> | <i>31 December 2006</i> |
|---|----------------------------|--------------------------------|
| Undrawn credit commitments | 15,030,426 | 9,161,456 |
| Outstanding cheques of non-resident banks | 88,455 | 134,226 |
| Spot foreign currency contract | 24,473,313 | 6,947,605 |
| Collaterals for loan portfolio | 610,103,127 | 500,917,020 |

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 30 June 2007.

Lease commitments

Such commitments for the period ended 30 June 2007 and year ended 31 December 2006 are composed as follows:

| | <i>30 June 2007</i> | <i>31 December 2006</i> |
|--|----------------------------|--------------------------------|
| Not later than 1 year | 402,555 | 347,820 |
| Later than 1 year and not later than 5 years | 1,474,101 | 1,281,615 |
| Later than 5 years | 992,644 | 862,930 |
| Total | 2,869,300 | 2,492,365 |

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2007 with a maximum duration of ten years.

The Bank had 32 rented buildings as of 30 June 2007, in which are included the rented space dedicated to off site disaster recovery and the building of Kosovo Branch planned to be opened in 2007.

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