

Banka Kombëtare Tregtare sh.a.

**Independent Auditors' Review Report
and
Condensed Consolidated Interim
Financial Information
as at and for the nine-month period ended
30 September 2023**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REVIEW REPORT	i-ii
CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION	
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION	1
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	2
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY	3 - 4
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS	5
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	6 - 9



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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of Banka Kombëtare Tregtare Sh.a

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Banka Kombëtare Tregtare sh.a. (hereafter referred as the “Bank” or the “Group”) as of 30 September 2023 and the related condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the nine-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 the condensed consolidated interim financial information in accordance with the IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on the condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’. A review of interim financial information consists of making enquiries, 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

The Bank has treated its share capital issues in United States Dollar (USD) as a monetary item in the condensed consolidated interim financial information and recognized the revaluation differences for the nine-month period ended 30 September 2023 within net profits in the condensed consolidated interim statement of profit or loss and other comprehensive income.

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This treatment is not in accordance with International Accounting Standard (IAS) 21 “The effects of Changes in Foreign Exchange Rates” which requires share capital to be treated as a non-monetary item and carried at the exchange rate of the date of the transaction. Had the Bank treated its share capital in accordance with IAS 21 requirements, the share capital as at 30 September 2023 would have been increased by USD 35,404,165, retained earnings would have been decreased by USD 16,052,177 and the net profit would have been decreased by USD 19,351,988 for the nine month period ended 30 September 2023. Nevertheless, this would not have affected the total shareholder’s equity.

Conclusion

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information does not give a true and fair view of the financial position of the Bank as at 30 September 2023 and of its financial performance and its cash flows for the nine – months period then ended in accordance with the IAS 34 Interim Financial Reporting.

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November 24th, 2023

Teit Gjini
Statutory Auditor

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of comprehensive income for the nine-month period ended 30 September 2023

(amounts in USD)

	Nine-month period ended 30 September 2023	Nine-month period ended 30 September 2022	Year ended 31 December 2022
Interest			
Interest income	174,938,842	122,722,999	172,784,025
Interest expense	(35,793,082)	(19,873,228)	(29,597,962)
Net interest margin	139,145,760	102,849,771	143,186,063
Non-interest income, net			
Fees and commissions, net	28,438,142	24,269,230	29,130,738
Foreign exchange revaluation, net	(6,672,069)	6,668,424	(2,795,117)
Foreign exchange trading activities income, net	3,541,578	2,136,453	2,111,244
Securities trading gain, net	(579,087)	37,463,827	53,476,297
Other (expense)/income, net	1,933,921	16,548,243	5,833,191
Total non-interest income, net	26,662,485	87,086,177	87,756,353
Operating expenses			
Personnel expenses	(27,084,562)	(20,413,837)	(27,683,420)
Administrative expenses	(37,047,134)	(31,733,194)	(43,817,673)
Depreciation and amortization	(8,144,194)	(7,076,247)	(9,378,577)
Total operating expenses	(72,275,890)	(59,223,278)	(80,879,670)
Impairment of loans	4,093,993	2,874,679	7,284,287
Impairment of other financial instruments	(5,960,834)	(32,886,983)	(36,098,059)
Profit before taxes	91,665,514	100,700,366	121,248,974
Income tax	(12,872,328)	(13,539,100)	(15,933,697)
Net profit for the period	78,793,186	87,161,266	105,315,277
Foreign currency translation differences	(4,285,404)	(3,105,879)	6,540,795
Net change in fair value reserves and impairment of FVOCI	3,998,207	(90,397,928)	(72,636,653)
Other comprehensive income for the period, net of income tax	(287,197)	(93,503,807)	(66,095,858)
Total comprehensive income for the period	78,505,989	(6,342,541)	39,219,419

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the notes set out in pages 6 to 9 that form part of the condensed consolidated interim financial information.

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of changes in equity for the nine-month period ended 30 September 2023

(amounts in USD)

	Share Capital	Legal reserve	Translation reserve	Fair value reserve and impairment of FVTOCI	Retained earnings	Total
Balance as at 31 December 2021	300,000,000	52,315,511	(2,358,124)	44,542,840	161,467,079	555,967,306
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Creation of legal reserve	-	7,230,562	-	-	(7,230,562)	-
Adjustment for translation of legal reserve	-	(5,418,627)	-	-	-	(5,418,627)
Appropriation of year 2021 translation difference	-	-	-	-	(2,358,124)	(2,358,124)
Adjustment of retained earnings with September 2022 exchange rate	-	-	-	-	(18,376,172)	(18,376,172)
Total transactions with owners recorded in equity	-	1,811,935	-	-	(27,964,858)	(26,152,923)
Comprehensive income for the period						
Net profit for the period	-	-	-	-	87,161,266	87,161,266
Other comprehensive income / (expense), net of income tax						
Net change in fair value reserve	-	-	-	(113,590,383)	-	(113,590,383)
Net change in impairment of FVOCI	-	-	-	23,192,455	-	23,192,455
Foreign currency translation differences	-	-	(3,105,879)	-	-	(3,105,879)
Total other comprehensive income	-	-	(3,105,879)	(90,397,928)	-	(93,503,807)
Total comprehensive income for the year	-	-	(3,105,879)	(90,397,928)	87,161,266	(6,342,541)
Balance as at 30 September 2022	300,000,000	54,127,446	(5,464,003)	(45,855,088)	220,663,487	523,471,842

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes set out in pages 6 to 9 that form part of the condensed consolidated interim financial information

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of changes in equity for the nine-month period ended 30 September 2023

(amounts in USD)

	Share Capital	Legal reserve	Translation reserve	Fair value reserve and impairment of FVTOCI	Retained earnings	Total
Balance as at 31 December 2022	300,000,000	60,093,852	4,182,671	(28,093,813)	207,659,770	543,842,480
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Creation of legal reserve	-	3,906,700	-	-	(3,906,700)	-
Dividend payable	-	-	-	-	(50,000,000)	(50,000,000)
Adjustment for translation of legal reserve	-	4,078,995	-	-	(4,078,995)	-
Appropriation of year 2022 translation difference	-	-	-	-	4,182,671	4,182,671
Adjustment of retained earnings with September 2023 exchange rate	-	-	-	-	10,920,447	10,920,447
<i>Total transactions with owners recorded in equity</i>	-	<i>7,985,695</i>	-	-	<i>(42,882,577)</i>	<i>(34,896,882)</i>
Comprehensive income for the period						
Net profit for the period	-	-	-	-	78,793,186	78,793,186
Other comprehensive income / (expense), net of income tax						
Net change in fair value reserve	-	-	-	(964,017)	-	(964,017)
Net change in impairment of FVOCI	-	-	-	4,962,224	-	4,962,224
Foreign currency translation differences	-	-	(4,285,404)	-	-	(4,285,404)
Total other comprehensive income	-	-	(4,285,404)	3,998,207	-	(287,197)
<i>Total comprehensive income for the year</i>	-	-	<i>(4,285,404)</i>	<i>3,998,207</i>	<i>78,793,186</i>	<i>78,505,989</i>
Balance as at 30 September 2023	300,000,000	68,079,547	(102,733)	(24,095,606)	243,570,379	587,451,587

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes set out in pages 6 to 9 that form part of the condensed consolidated interim financial information.

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of cash flows for the nine-month period ended 30 September 2023
(amounts in USD)

	Nine-month Period ended 30 September 2023	Nine-month period ended 30 September 2022	Year ended 31 December 2022
Cash flows from operating activities:			
Profit before taxes	91,665,514	100,700,366	121,248,974
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>			
Interest expense	35,793,082	19,873,228	29,597,962
Interest income	(174,938,842)	(122,722,999)	(172,784,025)
Depreciation and amortization	8,144,194	7,076,247	9,378,577
Gain on sale of property and equipment	(23,884)	(7,915)	(143,467)
Gain on sale of investment securities	579,087	(37,463,827)	(53,476,297)
Gain on sale of non-current assets	(611,473)	(203,322)	(348,875)
Gain on recovery of written-off loans to customers	(1,307,764)	(908,347)	(1,151,425)
Write-off of loans to customers	373,613	586,576	894,256
Write off of fixed assets and repossessed assets	54,298	14,060	14,061
Provision on other debtors	-	-	6,778,236
Reversal from other debtors	(217,166)	(676,787)	(1,142,328)
Movement in the fair value reserve and impairment of FVOCI	3,998,207	(90,397,928)	(72,636,653)
Dividend income from securities	(420,395)	(2,749,173)	(2,795,904)
Impairment of loans to customers	(4,093,993)	(2,874,679)	(7,284,287)
Impairment of other financial assets	5,960,834	32,886,983	36,098,059
Cash flows from operating profits before changes in operating assets and liabilities	(35,044,688)	(96,867,517)	(107,753,136)
(Increase)/decrease in operating assets:			
Restricted balances with central banks	(41,802,396)	5,522,557	(37,480,820)
Placements and balances with banks	43,472,324	(81,464,311)	(36,722,712)
Loans and advances to banks	6,899,669	(66,973,498)	(7,555,470)
Loans and advances to customers	(62,461,002)	(50,913,981)	(67,669,581)
Other assets	(2,200,620)	(24,576,638)	(38,996,619)
	(56,092,025)	(218,405,871)	(188,425,202)
Increase/(decrease) in operating liabilities:			
Customer deposits	96,707,153	240,447,229	402,222,496
Due to third parties	(612,259)	2,044,389	2,235,834
Accruals and other liabilities	(7,333,164)	15,169,523	(4,066,353)
	88,761,730	257,661,141	400,391,977
Dividend payment	(100,000,000)	(45,000,000)	(45,000,000)
Interest paid	(28,392,348)	(17,134,208)	(25,000,907)
Interest received	180,749,081	119,197,985	165,492,165
Income taxes paid	(12,646,783)	(9,835,397)	(15,307,100)
Net cash flows from operating activities	37,334,967	(10,383,867)	184,397,797
Cash flows from investing activities			
Purchases of investment securities	(296,439,376)	(399,926,673)	(618,864,483)
Purchases of treasury bills	64,202,826	(76,836,257)	(112,063,026)
Investment in associates	234,823	(1,235,484)	(152,889)
Purchases of property and equipment	(2,690,433)	(3,414,301)	(5,735,824)
Proceeds from sale of investment securities	163,593,958	219,887,619	414,471,037
Proceeds from sale of treasury bills	14,736,269	23,196,958	30,745,318
Net cash flows used in investing activities	(56,361,933)	(238,328,138)	(291,599,867)
Cash flows from financing activities			
Proceeds from short term borrowings	(134,972,201)	(26,543,411)	(62,173,825)
Subordinated debt	(3,554,936)	21,855,963	20,789,259
Net cash from financing activities	(138,527,138)	(4,687,448)	(41,384,566)
Net change in cash and cash equivalents	(157,554,104)	(253,399,453)	(148,586,636)
Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference)	11,134,710	3,391,586	(1,239,942)
Cash and cash equivalents at the beginning of the year	573,035,990	722,862,568	722,862,568
Cash and cash equivalents at the end of the period	426,616,596	472,854,701	573,035,990

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes set out in pages 6 to 9 that form part of the condensed consolidated interim financial information.

Banka Kombetare Tregtare sh.a.

Explanatory notes as of and for the nine-month period ended 30 September 2023
(amounts in USD, unless otherwise stated)

1. General

Banka Kombetare Tregtare sh.a (the “Bank”) 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 Albania and in Kosovo. The condensed consolidated interim financial statements comprise the bank in Albania and in Kosovo, BKT Pay and its associate Albania Leasing (together referred to as the “Bank” “BKT” or the “Group”).

2. Share capital

The Bank’s share capital is issued and maintained in United States Dollars (“USD”) as allowed by the legislation in Albania as well as by a 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.

Upon the Shareholder’s Decision dated 30 March 2023, the Bank created legal reserves of Lek 407,586 thousand (equivalent of USD 3,906,700) and decided to distribute Lek 5,216,500 thousand as dividends (equivalent of USD 50,000,000, using the exchange rate published by Bank of Albania as at 30 March 2023 - 104.33 Lek per USD), using part of the statutory net profit for the year ended December 31, 2022 and part of the net profit of the year 2021. The remaining part of the net profit of the year 2022 was kept as retained earnings. The dividend was paid in May 2023. Meanwhile, the suspended dividend payment during 2022 was paid in February 2023 following the respective Bank of Albania decision.

As at 30 September 2023 and 31 December 2022, the registered share capital was USD 300,000,000.3 divided into 24,291,498 shares with a nominal value of USD 12.35, while the shareholding structure was as follows:

	30 September 2023			31 December 2022		
	No. of shares	Total in USD	%	No. of shares	Total in USD	%
Calik Holding A.S.	24,291,498	300,000,000.3	100	24,291,498	300,000,000.3	100

3. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Bank as at and for the year ended 31 December 2022.

4. Functional and presentation currency

The financial statements are prepared in Albanian Lek “Lek” which is the currency of the primary economic environment in which the Bank operates (its functional currency). For reporting purposes these condensed consolidated interim financial statements are presented in USD which is the presentation currency.

The results and financial position of the Bank are translated in the presentation currency by translating (i) assets and liabilities at the closing rate at the date of that statement of financial position; and (ii) income and expenses at exchange rates at the dates of the transactions. All resulting exchange differences from the translation to the presentation currency are recognised in other comprehensive income.

The main exchange rates as at the end of each reporting period were as follows:

	30 September 2023	31 December 2022	30 September 2022
USD/LEK	100.48	107.05	118.85
EUR/LEK	106.63	114.23	116.60

Banka Kombetare Tregtare sh.a.

Explanatory notes as of and for the nine-month period ended 30 September 2023

(amounts in USD, unless otherwise stated)

5. Significant accounting policies

The Interim Financial Statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 December 2022.

6. Estimates

The preparation of this condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Except as described in section below, in preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2022.

7. Financial risk management

During the nine months ended 30 September 2023 the Bank's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2022.

8. Fair value of financial assets

The Bank's investment securities portfolio as at 30 September 2023 includes investment securities - measured at FVOCI amounting USD 995,400,640 (31 December 2022: USD 1,187,394,054); investment securities - measured at FVTPL amounting USD 39,696,546 (31 December 2022: USD 4,387,015) and investment securities - measured at amortised cost amounting USD 2,113,037,458 (31 December 2022: USD 1,720,010,309).

9. Impairment of financial assets

a) Impairment of financial assets measured at amortised cost

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired.

As at 30 September 2023, the impairment for loan losses was USD 54,116,603 (31 December 2022: USD 57,612,143) and the impairment for other financial assets was USD 13,771,590 (31 December 2022: USD 12,803,639).

b) Impairment of financial assets measured at FVOCI

Following the requirements of the standard "IFRS 9-Financial Instruments", impairment of FVOCI represents the impairment provision for debt securities measured at FVOCI recognised in other comprehensive income.

As at 30 September 2023, the impairment of FVOCI at USD 37,986,024 (31 December 2022: USD 33,023,800) was composed of available-for-sale securities impairment provision at USD 37,964,749 (31 December 2022: USD 32,847,021) and treasury bills available-for-sale impairment provision at USD 21,275 (31 December 2022: USD 176,779).

10. Seasonality of operations

The Bank's activity is not subject to seasonal fluctuations.

Banka Kombetare Tregtare sh.a.

Explanatory notes as of and for the nine-month period ended 30 September 2023
(amounts in USD, unless otherwise stated)

11. Income tax

The Bank's effective tax rate for the nine months ended 30 September 2023 was 14.04 per cent (for the nine months ended 30 September 2022: 13.44 per cent), while the income tax rate in Albania is 15% and 10% for Kosovo.

12. Contingencies

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 at 30 September 2023.

13. 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 and affiliates, directors and executive officers. The Bank's sole shareholder is Calik Holding at 100% as at 30 September 2023. The ultimate controlling party is Mr. Ahmet Calik. Aktif Yatirim Bankasi A.S. ("AktifGroup"), Arkestate Investments, Kosovo Electricity Distribution and Supply Company J.S.C (KEDS) and Kosovo Electricity Supply Company J.S.C (KESCO) are controlled by Calik Holding. Albania Leasing sh.a represent an affiliate of the Group.

Balances and transactions with related parties

	30 September 2023	31 December 2022
Assets		
<i>Placement and balances with banks:</i>		
Current accounts with Aktifbank	157,810	112,198
Placements with Aktifbank	-	14,940,217
Loans to Banks Aktifbank	14,022,750	-
Investment Securities with Calik Holding	27,419,854	18,892,512
<i>Loans to customers:</i>		
Arkestate Investments	13,919,798	5,568,248
Total assets	55,520,212	39,513,175
Liabilities		
<i>Due to banks and financial institutions:</i>		
Borrowings from Aktifbank	10,612	15,080,244
<i>Customer deposits:</i>		
Albania Leasing	230,301	79,420
KEDS / KESCO	19,395,474	19,057,455
Calik Holding	14,022,167	-
<i>Other Liabilities:</i>		
Dividend Payable to Calik Holding A.S.	-	50,000,000
Total liabilities	33,658,554	84,217,119

Banka Kombetare Tregtare sh.a.

Explanatory notes as of and for the nine-month period ended 30 September 2023
(amounts in USD, unless otherwise stated)

13. Related party transactions (continued)

	Nine months period ended 30 September 2023	Nine months period ended 30 September 2022
Statement of comprehensive income		
<i>Interest income from:</i>		
Albania Leasing	-	6
Aktifbank	22,750	-
Calik Holding	2,226,336	-
Arkestate Investments	476,300	-
<i>Interest expenses for:</i>		
Aktifbank	(55,728)	(81,178)
Calik Holding	(22,167)	-
<i>Fees and commissions:</i>		
Account maintenance and lending fees from Albania Leasing	2,781	2,658
Account maintenance and lending fees from KEDS / KESCO	22,303	23,908
<i>Operating expenses:</i>		
Calik Holding	(622,310)	(314,873)
Net	2,050,265	(369,479)

Balances and transactions with directors and executive officers

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

	Nine-month period ended 30 September 2023	Nine-month period ended 30 September 2022
Directors	1,627,613	1,266,136
Executive officers	3,050,567	2,335,325
	4,678,180	3,601,461

The remuneration of directors and executive officers for the year ended 31 December 2022 was USD 4,353,166.

As at 30 September 2023, the total deposits of directors held with the Bank were USD 4,612,764 (31 December 2022: USD 4,495,731), while the outstanding loans granted to directors were USD 539,541 (31 December 2022: USD 540,572).

14. Subsequent events

There are no events subsequent to the reporting date that would require either adjustments or additional disclosures in the condensed consolidated interim financial information.