



Banka Kombetare Tregtare Sh.A.

**Financial Statements as at
30 June 2003
(with review report thereon)**



KPMG Polska Audit Sp. z o.o. - the Polish member firm of KPMG
International, a Swiss nonoperating association

Spółka zarejestrowana w
Sądzie Rejonowym dla
m.st. Warszawy XIX
Wydział Gospodarczy

Krajowego Rejestru Sądowego
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KPMG Polska Audyt Sp. z o.o. 31 December 2003

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Independent review report

To the shareholders of Banka Kombetare Tregtare Sh.A.

We have reviewed the accompanying balance sheet of the Banka Kombetare Tregtare Sh.a. ("the Bank") as at 30 June 2003, and the related income statement and statements of cash flows and changes in equity for the six months then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our review.

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

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

30 July 2003
KPMG Polska Audyt Sp. z o.o.

David Pozzecco
Partner



Banka Kombetare Tregtare Sh.A.

Balance sheets as at 30 June 2003 and 31 December 2002

(amounts in USD, unless otherwise stated)

	Notes	30 June 2003	31 December 2002
Assets			
Cash and balances with Central Bank	4	32,703,503	28,174,857
Placement and balances with banks	5	49,904,601	44,309,956
Treasury bills	6	164,000,367	129,325,035
Investment securities	7	21,877,765	19,665,457
Loans and advances to customers	8	20,643,780	9,756,974
Tangible assets	9	7,456,544	7,701,030
Intangible assets	10	375,342	452,984
Deferred tax assets	11	131,425	122,366
Other assets	12	<u>1,423,435</u>	<u>744,211</u>
Total assets		<u>298,516,762</u>	<u>240,252,870</u>
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	13	275,907,457	221,316,179
Due to banks	14	2,793,797	113,179
Short term borrowing		-	897,534
Due to third parties for cash collected on their behalf	15	1,080,230	-
Accruals and other liabilities	16	<u>2,843,183</u>	<u>2,873,738</u>
Total liabilities		282,624,667	225,200,630
Shareholders' equity			
Share capital		14,644,250	10,000,000
Other reserve	17	407,955	941,371
Retained earnings		<u>839,890</u>	<u>4,110,869</u>
Total shareholders' equity		<u>15,892,095</u>	<u>15,052,240</u>
Total liabilities and shareholders' equity		<u>298,516,762</u>	<u>240,252,870</u>

The financial statements were authorised for release by the Board of Directors on 17 July 2003.

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Income statements for the six months ended 30 June 2003, three months ended 30 June 2003, six months ended 30 June 2002 and three months ended 30 June 2002

(amounts in USD, unless otherwise stated)

	Notes	Six months ended 30 June 2003	Three months ended 30 June 2003	Six months ended 30 June 2002	Three months ended 30 June 2002
Interest					
Interest income	18	10,457,050	5,521,000	6,605,895	3,302,140
Interest expense	19	<u>(6,219,769)</u>	<u>(3,327,048)</u>	<u>(3,742,823)</u>	<u>(1,860,655)</u>
Net interest margin		4,237,281	2,193,952	2,863,072	1,441,485
Non-interest income, net					
Fees and commissions, net	20	578,302	344,818	421,616	207,471
Foreign exchange revaluation gain (loss), net	21	(499,795)	(360,729)	(65,990)	(147,681)
Profit from FX trading activities, net		57,416	(63,210)	218,384	93,870
Other income (expense), net		<u>3,077</u>	<u>28,472</u>	<u>56,158</u>	<u>15,693</u>
Total non-interest income, net		139,000	(50,649)	630,168	169,353
Operating expenses					
Personnel	22	(1,167,831)	(614,094)	(1,090,919)	(486,946)
Administrative	23	(1,021,411)	(568,339)	(780,957)	(395,539)
Depreciation and amortization	9,10	<u>(469,939)</u>	<u>(236,387)</u>	<u>(428,599)</u>	<u>(220,435)</u>
Total operating expenses		(2,659,181)	(1,418,820)	(2,300,475)	(1,102,920)
Provision for loan losses, net	8	<u>(325,876)</u>	<u>(244,992)</u>	<u>(100,714)</u>	<u>(74,900)</u>
Profit before taxes		1,391,224	479,491	1,092,051	433,018
Income tax expense	24	<u>(551,369)</u>	<u>(252,422)</u>	<u>(246,741)</u>	<u>(138,151)</u>
Net profit for the period		<u>839,855</u>	<u>227,069</u>	<u>845,310</u>	<u>294,867</u>

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Statement of changes in equity for the six months ended 30 June 2003 and 2002

(amounts in USD, unless otherwise stated)

	Notes	Share capital	Other reserve	Retained earnings	Total
Balance at 31 December 2001		10,000,000	969,133	2,226,215	13,195,348
Net profit for the period		-	-	845,310	845,310
Balance at 30 June 2002		10,000,000	969,133	3,071,525	14,040,658
Net profit for the period		-	-	1,039,344	1,039,344
Decrease in other reserve		-	(27,762)	-	(27,762)
Balance at 31 December 2002		10,000,000	941,371	4,110,869	15,052,240
Net profit for the period		-	-	839,855	839,855
Increase in share capital		4,644,250	-	-	4,644,250
Decrease in retained earnings		-	-	(4,110,834)	(4,110,834)
Decrease in other reserve		-	(533,416)	-	(533,416)
Balance at 30 June 2003		14,644,250	407,955	839,890	15,892,095

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Statement of cash flows for the six months ended 30 June 2003 and 2002

(amounts in USD, unless otherwise stated)

	Six months ended 30 June 2003	Six months ended 30 June 2002
Cash flows from operating activities		
Net profit after tax	839,855	845,310
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	469,939	428,599
Gain on sale of tangible assets	(5,324)	(2,734)
Deferred tax asset	(9,059)	-
Gain on sale of treasury bills	(324)	(7,095)
Write-off of fixed assets	15,833	-
Provision for loan losses	325,876	100,714
Other provisions	-	276
Cash flows from operating profits before changes in operating assets and liabilities	1,636,796	1,365,070
(Increase)/decrease in operating assets:		
Placements and balances with banks	(5,594,645)	23,039,101
Loans and advances to customers	(11,212,682)	(3,148,660)
Other assets	(679,224)	74,474
	(17,486,551)	19,964,915
Increase/(decrease) in operating liabilities:		
Due to customers	54,591,278	(21,154,762)
Due to banks	2,680,618	1,340
Cash due to third parties	1,080,230	1,667,566
Accruals and other liabilities	(30,555)	(432,709)
	58,321,571	(19,918,565)
Net cash flows from operating activities	42,471,816	1,411,420
Cash flows from investing activities		
Purchases of investment securities	(2,212,308)	(13,754,445)
Purchases of treasury bills	(34,729,522)	(2,349,224)
Purchases of tangible assets	(163,644)	(346,839)
Proceeds from sale of tangible assets	5,324	2,734
Proceeds from sale of treasury bills	54,514	6,009,048
Net cash used in investing activities	(37,045,636)	(10,438,726)
Cash flows from financing activities		
Repayment of short term borrowings	(897,534)	-
Net cash from financing activities	(897,534)	-
Net increase/(decrease) in cash and cash equivalents	4,528,646	(9,027,306)
Cash and cash equivalents at the beginning of the period	28,174,857	35,681,046
Cash and cash equivalents at the end of the period	32,703,503	26,653,740

The Bank has prepaid tax of USD 465,941 as per the tax authorities' estimated tax payable calculated at the beginning of 2003.

The interest paid is for the six month ended 30 June 2003 is USD 4,524,692 while the interest received for the same period is USD 9,435,005.

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

1. General

Banka Kombetare Tregtare Sh.A. (BKT or the Bank) was registered on 11 December 1998 with the Bank of Albania (BoA) to operate as a bank in the Republic of Albania and is subject to Law no. 8269 "On the Bank of Albania" dated December 1997 and Law no. 8565 "On the Banking System in Albania", dated July 1998.

BKT completed its privatisation process in the year 2000. The sale contract between the Republic of Albania and a Group of International Investors was approved by the Albanian Parliament on 6 July 2000 with the Law no. 8634 "On the approval of the sale contract of the Shares of Banka Kombetare Tregtare between the Republic of Albania and KentBank, International Finance Corporation (IFC) and European Bank for Reconstruction and Development (EBRD).

The transfer of ownership became effective on 17 October 2000. The par value per share was USD 10 and composition of capital after privatisation was as follows:

	<i>No. of shares</i>	<i>%</i>	<i>Total USD</i>
Kent Bank	600,002	60	6,000,020
EBRD	199,999	20	1,999,990
IFC	<u>199,999</u>	<u>20</u>	<u>1,999,990</u>
	<u>1,000,000</u>	<u>100</u>	<u>10,000,000</u>

During 2001, ownership of Kent Bank passed to the Turkish Government. The present Shareholders expect to identify a new long-term strategic shareholder to replace Kent Bank during 2003.

The Bank, in March 2003, upon the Shareholders Decision taken on 25 February 2003, increased its paid-up capital by USD 4,644,250. Based on the Shareholders Decision, the Bank used its retained earnings of Lek 621,121,995 as at 31 December 2002 translated into USD with the exchange rate announced by the Bank of Albania as at 31 December 2002 (1USD=133.74 Lek). As a result, 464,425 shares were issued to the existing shareholders with a nominal value of USD 10 per share. The total number of issued and paid-up shares of the Bank after this increase in capital is 1,464,425, and the composition is as follows:

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

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

BKT is a commercial bank, which provides banking services to state and privately owned enterprises and to individuals in the Republic of Albania. The main source of funding for the Bank are deposits, which the Bank accepts in various forms including current accounts, demand and term deposits, in both Lek and foreign currency. It also invests in government securities and takes part in the local and international interbank market.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

At present the Bank is also operating as an agent for the Albanian government in the following activities:

- Cash acceptance for payments to the State budget and;
- Administration and implementation of specific loans to state owned entities utilising credit lines received from international donors.

The headquarters of the BKT are located in Tirana. Currently the Bank has a network of 10 branches, three of them in Tirana, and the others in Durres, Elbasan, Korca, Gjirokaster, Vlora, Lushnje, and Shkodra. The Bank has decided to open 5 new branches this year in Tirana (Laprake), Fier, Berat, Pogradec and Saranda. It is foreseen that these branches will start their activity in August 2003. The Bank had 251 employees as at 30 June 2003.

2. Statement of compliance

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

3. Summary of accounting principles

3.1 Basis of preparation

The financial statements are presented in US Dollars (USD). The measurement currency used in preparing the financial statements is the US Dollar. Management have referred to Standing Interpretation 19 (SIC-19) *Reporting Currency - Measurement and Presentation of Financial Statements under IAS 21 and IAS 29*, in identifying the Bank's measurement currency. In particular, the Bank performs the majority of its transactions on a USD basis and negotiates the majority of its supplier contracts on a USD basis, reflecting the operating environment in Albania.

The financial statements are prepared on the historic cost basis.

3.2 Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are booked at historical cost on the transaction date, are translated at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement 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, except for fixed assets which are kept in US Dollars (refer to note 9).

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

3.3 Financial instruments

(i) Classification

Originated loans and receivables are loans and receivables 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, originated 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 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.

Treasury bills

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

Investment securities

Investment securities 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. They are booked at the purchase price, with interest accrued for the coupons to be paid. Any discount or premium paid on the nominal value at the moment of the purchase is accrued to the payment date of the bond's capital.

Loans and advances to customers

Loans and advances originated by the Bank are classified as originated 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).

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

3.3 Financial instruments (continued)

(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. Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition. 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 originated by the Bank are classified as originated loans. Loans and advances to customers are reported at amortised cost net of provisions to reflect the estimated recoverable amounts.

Provisions are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. Expected cash flows are estimated based on previous experience of customers' repayment history and any late payments of interest or penalties. Changes in the provision amount are recognised in the income statement.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or provision is reversed through the income statement.

The provisions for loan losses represent management's assessment of potential losses in relation to the Bank's loan portfolio. Amounts are set aside to cover credit losses that have been specifically identified and for potential losses which experience indicates are present in the portfolio but have not yet been specifically identified.

3.5 Interest income and expense

Interest income and expense is recognised on an accrual 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 is recognized when the corresponding service is provided.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

3.7 Taxation

Current tax comprises tax payable calculated on the basis of the expected taxable income of the year, using the tax rates enacted by the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

The tax value of losses expected to be available for utilisation against future taxable income is set off against deferred tax liability within the same legal tax unit and jurisdiction. Net deferred tax assets are not recorded to the extent that it is not probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. The effect on deferred tax of any change in the rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

3.8 Pension plan

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

3.9 Tangible assets

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

Buildings	5%
Motor vehicles	20%
Office equipment	20%
Computers and electronic equipment	25%

3.10 Intangible assets

Intangible assets acquired by the Bank are stated at cost less accumulated amortization. The yearly amortization rates are as follows:

Software	25%
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3.11 Impairment

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether any indication of impairment exists. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

4. Cash and balances with the Central Bank

Cash and balances with the Central Bank are considered to be highly liquid. At 30 June 2003 and 31 December 2002, their balances are detailed as follows:

	<i>30 June 2003</i>	<i>31 December 2002</i>
<i>Cash</i>	7,402,849	7,024,084
<i>Bank of Albania</i>		
Current account	982,481	317,888
Statutory reserve	<u>24,318,173</u>	<u>20,832,885</u>
	<u>25,300,654</u>	<u>21,150,773</u>
	<u>32,703,503</u>	<u>28,174,857</u>

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

5. Placements and balances with banks

Placements and balances with banks as at 30 June 2003 and 31 December 2002 are composed as follows:

	<i>30 June 2003</i>	<i>31 December 2002</i>
Placements	47,612,087	41,683,774
Cash collateral held by correspondent banks	839,902	1,239,006
Current accounts	<u>1,452,612</u>	<u>1,387,176</u>
	<u>49,904,601</u>	<u>44,309,956</u>

Placements are held with non-resident banks from OECD countries and have contractual maturities from 7 days to 3 months. Current accounts represent balances with correspondent banks that represent prime international financial institutions. Cash collateral represents collateral held by correspondent banks against letters of credit issued to the Bank's clients by the correspondent banks.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

6. Treasury bills

Treasury bills as at 30 June 2003 and 31 December 2002 divided by original maturity are composed as follows:

	30 June 2003			31 December 2002		
	Purchase Value	Accrued interest	Net book value	Purchase Value	Accrued interest	Net book value
7 days	8,440,956	9,250	8,450,206	-	-	-
3 months	8,272,555	9,253	8,281,808	7,987,887	81,278	8,069,165
6 months	40,236,058	1,072,512	41,308,570	54,770,409	1,433,935	56,204,344
12 months	<u>100,555,017</u>	<u>5,404,766</u>	<u>105,959,783</u>	<u>61,010,735</u>	<u>4,040,791</u>	<u>65,051,526</u>
	<u>157,504,586</u>	<u>6,495,781</u>	<u>164,000,367</u>	<u>123,769,031</u>	<u>5,556,004</u>	<u>129,325,035</u>

Treasury bills bear interest at market rates ranging from 8.00% p.a. to 14.92% p.a. on a compound basis and are all denominated in Lek.

7. Investment securities

Investment securities comprise USD and Lek denominated bonds at 30 June 2003 as follows:

Issuer	30 June 2003			Maturity Date
	Nominal Value	Premium/ (Discount)	Net Value	
<i>USD Denominated Bonds</i>				
Republic of Turkey	5,000,000	(142,114)	4,857,886	15 June 2010
Republic of Portugal	2,000,000	67,457	2,067,457	21 September 2004
Kingdom of Sweden	3,000,000	87,860	3,087,860	27 May 2004
Kingdom of Spain	1,000,000	16,472	1,016,472	18 May 2004
Republic of Finland	1,000,000	38,089	1,038,089	28 July 2004
Kingdom of Denmark	2,000,000	53,387	2,053,387	02 September 2004
Government of Canada	1,000,000	34,488	1,034,488	30 November 2004
European Investment Bank	1,000,000	25,335	1,025,334	08 September 2004
Inter-American Development Bank	2,000,000	66,563	2,066,563	20 October 2004
Republic of Hungary	<u>2,000,000</u>	<u>221,592</u>	<u>2,221,592</u>	19 April 2006
	<u>20,000,000</u>	<u>469,129</u>	<u>20,469,129</u>	
<i>Lek Denominated Bond</i>				
Government of Albania	<u>1,406,854</u>	<u>1,782</u>	<u>1,408,636</u>	18 December 2004
	<u>21,406,854</u>	<u>470,911</u>	<u>21,877,765</u>	

With the exception of the bonds issued by the Republic of Turkey and Hungary, the USD denominated bonds have ratings of AA or AAA. As at 30 June 2003, the fair value of the USD denominated bond portfolio was USD 21,185,300 which exceeds the carrying value by USD 716,171.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

7. Investment securities (continued)

As at 31 December 2002, the fair value of the USD denominated bond portfolio was USD 19,313,720 which exceeded the carrying value by USD 896,558 at that time. Only the bond issued by the Republic of Hungary has been purchased during 2003.

8. Loans and advances to customers

Loans and advances to customers as at 30 June 2003 and 31 December 2002 are composed as follows:

	<i>30 June 2003</i>	<i>31 December 2002</i>
Loans and advances to customers, gross	21,293,672	10,060,863
Provision for loan losses	<u>(649,892)</u>	<u>(303,889)</u>
	<u>20,643,780</u>	<u>9,756,974</u>

Movements in the provisions for loan losses were as follows:

	<i>2003</i>	<i>2002</i>
At 1 January	303,889	13,060
Additions during the period	521,265	365,847
Reversals during the period	<u>(195,389)</u>	<u>(85,253)</u>
	325,876	280,594
Translation difference	<u>20,127</u>	<u>10,235</u>
	<u>649,892</u>	<u>303,889</u>

As at 30 June 2003, there was only one retail-customer loan amounting to USD 16,753 classified as non performing.

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

BKT began extending loans to private enterprises and individuals in 2001. As at 30 June 2003 the breakdown of the loan portfolio is as follows:

Private Enterprises	83%
Individuals	17%

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

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Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

8. Loans and advances to customers (continued)

Corporate and retail loans can be further detailed as follows:

Corporate loans by industry	30 June 2003		31 December 2002	
	USD	%	USD	%
Wholesale and retail trade	6,262,737	34%	2,108,469	24%
Construction	2,128,976	12%	1,168,745	13%
Hotels and restaurants	2,088,052	12%	1,486,259	17%
Manufacturing of other non-metallic products	1,890,093	10%	636,307	7%
Manufacture of food products, beverages	1,516,769	8%	1,324,926	15%
Personal needs	996,677	5%	100,972	1%
Manufacturing of basic metallic	629,066	4%	380,000	5%
Manufacture of wood and wood products	538,102	3%	302,826	4%
Manufacture of textile and textile products	496,980	3%	289,324	3%
Manufacture of rubber and plastic products	427,500	2%	70,000	1%
Manufacture of pulp, paper and paper products	310,000	2%	250,000	3%
Manufacture of furniture	211,735	1%	287,386	3%
Other sectors	<u>729,691</u>	<u>4%</u>	<u>344,248</u>	<u>4%</u>
	<u>18,226,378</u>	<u>100%</u>	<u>8,749,462</u>	<u>100%</u>

Retail loans by type	30 June 2003		31 December 2002	
	USD	%	USD	%
Home purchase	1,668,588	55%	506,346	38%
Home improvement	1,174,500	38%	746,406	57%
Car purchase	158,664	5%	-	-
Technical equipment	48,987	2%	50,930	4%
General purpose staff loan	10,364	0%	-	-
Education support	<u>6,191</u>	<u>0%</u>	<u>7,719</u>	<u>1%</u>
	<u>3,067,294</u>	<u>100%</u>	<u>1,311,401</u>	<u>100%</u>

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

Loans in USD	3.20% to 13.00%
Loans in Euro	4.00% to 13.00%
Loans in Lek	8.00% to 18.62%

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(amounts in USD, unless otherwise stated)

9. Tangible assets

Tangible assets as at 30 June 2003 and 31 December 2002 are composed as follows:

	Land and buildings	Plant and equipment	IT Equipment	Office equipment	Work in progress	Total
Gross value						
At 31 December 2002	8,295,969	739,492	1,668,026	207,704	-	10,911,191
Additions	-	13,501	150,655	-	-	164,156
Disposals / transfers	<u>(13,535)</u>	<u>(35,057)</u>	<u>(1,390)</u>	<u>-</u>	<u>-</u>	<u>(49,982)</u>
At 30 June 2003	<u>8,282,434</u>	<u>717,936</u>	<u>1,817,291</u>	<u>207,704</u>	<u>-</u>	<u>11,025,365</u>
Accumulated depreciation						
At 31 December 2002	(1,703,030)	(504,496)	(892,468)	(110,167)	-	(3,210,161)
Charge for the period	(170,052)	(30,033)	(172,988)	(19,224)	-	(392,297)
Disposals / deductions	<u>4,004</u>	<u>28,318</u>	<u>1,315</u>	<u>-</u>	<u>-</u>	<u>33,637</u>
At 30 June 2003	<u>1,869,078</u>	<u>(506,211)</u>	<u>1,064,141</u>	<u>(129,391)</u>	<u>-</u>	<u>(3,568,821)</u>
Carrying value						
At 31 December 2002	<u>6,592,939</u>	<u>234,996</u>	<u>775,558</u>	<u>97,537</u>	<u>-</u>	<u>7,701,030</u>
At 30 June 2003	<u>6,413,356</u>	<u>211,725</u>	<u>753,150</u>	<u>78,313</u>	<u>-</u>	<u>7,456,544</u>

As described in note 3.1, the Bank's reporting and measurement currency is the US Dollar. However, prior to privatisation the Bank's fixed assets were recorded at their historic Lek values. As such, the land and buildings have been restated to their historic US Dollar cost and accumulated depreciation. For land and buildings, the historic US Dollar values were available from independent appraisal reports.

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10. Intangible assets

Intangible assets as at 30 June 2003 and 31 December 2002 are composed as follows:

	Software
Gross value	
At 31 December 2002	626,285
Additions	<u>-</u>
At 31 December 2003	<u>626,285</u>
Accumulated depreciation	
At 31 December 2002	(173,301)
Charge for the period	<u>(77,642)</u>
At 30 June 2003	<u>(250,943)</u>
Carrying amount	
At 31 December 2002	<u>452,984</u>
At 30 June 2003	<u>375,342</u>

Software represents the Bank's operating and accounting system implemented during 2001.

11. Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 25%. The movement in the deferred income tax account is as follows:

	30 June 2003	31 December 2002
Balance at 1 January	122,366	-
Income statement credit	<u>9,059</u>	<u>122,366</u>
Balance at the end of the period	<u>131,425</u>	<u>122,366</u>

Deferred income tax assets are attributable to the following items:

	30 June 2003	31 December 2002
Provision for loan losses	54,335	46,767
Decelerated depreciation	27,104	21,984
Start up costs written off	<u>49,986</u>	<u>53,615</u>
	<u>131,425</u>	<u>122,366</u>

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12. Other assets

Other assets, net as at 30 June 2003 and 31 December 2002 are composed as follows:

	30 June 2003	31 December 2002
Cheques for collection	170,788	129,711
Inventory, net	81,595	76,674
Accrued interest on bank placements, bonds, deposits with Central Bank and on loans to customers	559,853	477,585
Other debtors, net	<u>611,199</u>	<u>60,241</u>
	<u>1,423,435</u>	<u>744,211</u>

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

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

Other debtors is composed as follows:

	30 June 2003	31 December 2002
Other debtors	3,853,810	3,139,714
Provision	<u>(3,242,611)</u>	<u>(3,079,473)</u>
	<u>611,199</u>	<u>60,241</u>

“Other debtors” are composed of three items. The first item of USD 3,268,365 is related mainly to old balances inherited from past transactions prior to the Bank's privatisation. A provision has been made for the whole amount, except for the amount of USD 20,950, which is fully cash collateralized. The other two items represent advance payments to suppliers of USD 452,071 (2002: USD 23,407) and prepaid expenses of USD 133,374 (2002: USD 18,277).

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

	2003	2002
At 1 January	3,079,473	3,016,964
Additions during the period	1,999	4,533
Reversals during the period	<u>(473)</u>	<u>(3,755)</u>
	1,526	778
Translation difference	<u>161,612</u>	<u>61,731</u>
	<u>3,242,611</u>	<u>3,079,473</u>

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

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Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

13. Customer deposits

Customer deposits as at 30 June 2003 and 31 December 2002 are composed as follows:

	<i>30 June 2003</i>	<i>31 December 2002</i>
Current accounts:		
Private individuals and enterprises	22,541,637	24,251,712
State owned entities	<u>29,298,460</u>	<u>19,376,096</u>
	51,840,097	43,627,808
Deposits:		
Private individuals and enterprises	204,665,231	158,995,776
State owned entities	<u>6,616,425</u>	<u>9,866,075</u>
	211,281,656	168,861,851
Other:		
Private individuals and enterprises	12,024,004	8,057,682
State owned entities	<u>761,700</u>	<u>768,838</u>
	<u>12,785,704</u>	<u>8,826,520</u>
	<u>275,907,457</u>	<u>221,316,179</u>

Current accounts and deposits can be further analysed as follows:

	<i>30 June 2003</i>			<i>31 December 2002</i>		
	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>
Current accounts	30,704,492	21,135,605	51,840,097	24,486,935	19,140,873	43,627,808
Deposits						
On demand	54,751	279,071	333,822	68,719	550,157	618,876
One month	3,610,810	18,366,238	21,977,048	6,110,552	14,811,425	20,921,977
Three months	42,573,421	17,715,537	60,288,958	35,873,599	16,184,710	52,058,309
Six months	48,153,880	9,221,562	57,375,442	34,705,879	8,659,318	43,365,197
Twelve months	57,834,362	9,120,291	66,954,653	41,173,325	7,863,594	49,036,919
Accrued interest on deposits	<u>4,193,771</u>	<u>157,962</u>	<u>4,351,733</u>	<u>2,695,436</u>	<u>165,137</u>	<u>2,860,573</u>
Total deposits	<u>156,420,995</u>	<u>54,860,661</u>	<u>211,281,656</u>	<u>120,627,510</u>	<u>48,234,341</u>	<u>168,861,851</u>
Other customer accounts	<u>6,282,080</u>	<u>6,503,624</u>	<u>12,785,704</u>	<u>4,994,088</u>	<u>3,832,432</u>	<u>8,826,520</u>
Total customer deposits	<u>193,407,567</u>	<u>82,499,890</u>	<u>275,907,457</u>	<u>150,108,533</u>	<u>71,207,646</u>	<u>221,316,179</u>

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(amounts in USD, unless otherwise stated)

13. Customer deposits (continued)

Other customer accounts are composed as follows:

	<i>30 June 2003</i>			<i>31 December 2002</i>		
	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>
Deposits from liquidation of Xhaferi Foundation	2,145,722	97,782	2,243,504	1,901,439	94,041	1,995,480
Deposit guarantees for letters of credit	-	3,695,137	3,695,137	-	1,267,989	1,267,989
Escrow accounts	3,748,949	1,878,447	5,627,396	2,831,552	1,951,194	4,782,746
Bank drafts	-	6,946	6,946	12,254	11,948	24,202
Payment orders to be executed	28,585	423,714	452,299	40,939	398,730	439,669
Other	358,824	401,328	760,152	207,904	108,260	316,164
Accrued interest on other customer accounts	-	270	270	-	270	270
	<u>6,282,080</u>	<u>6,503,624</u>	<u>12,785,704</u>	<u>4,994,088</u>	<u>3,832,432</u>	<u>8,826,520</u>

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

“Other” consists of two items. The first, approximately USD 714,318 (2002: USD 274,950), represents deposits that are pending to be allocated into the relevant deposit category the next business day (value date); and the second of USD 45,834 (2002: USD 41,214) represents inactive customer accounts.

14. Due to banks

Due to banks at 30 June 2003 and 31 December 2002 consisted as follows:

	<i>30 June 2003</i>	<i>31 December 2002</i>
Deposits from resident banks	2,783,191	-
Current accounts of resident banks	<u>10,606</u>	<u>113,179</u>
	<u>2,793,797</u>	<u>113,179</u>

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Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

14. Due to banks (continued)

The Bank as at 30 June 2003, has borrowed from resident banks in Lek and USD with a contractual maturity from 1 to 7 days, and their balances are detailed as follows:

Bank	USD Amount	Original Currency	Maturity Date
Commercial Bank of Greece Tirana	422,114	Lek	01 July 2003
Alpha Bank Tirana	1,359,214	Lek	01 July 2003
Credit Bank of Albania	<u>1,001,863</u>	USD	03 July 2003
	<u>2,783,191</u>		

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

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 2003 represents the amount collected from the taxpayers, which has not yet been transferred to the tax authorities account.

16. Accruals and other liabilities

A breakdown of accruals and other liabilities as at 30 June 2003 and 31 December 2002 is presented as follows:

	30 June 2003	31 December 2002
Creditors	1,784,338	1,778,552
Suspense account	357,394	604,705
Personnel	6,467	-
Due to tax authorities	229,005	121,785
Reserve fund for retiring employees	193,300	90,000
Social insurance	35,433	26,778
Accrued expenses	<u>237,246</u>	<u>251,918</u>
	<u>2,843,183</u>	<u>2,873,738</u>

“Creditors” represent amounts from old transactions that the Albanian Government is keeping with the Bank, pending the determination of the rightful owner of these amounts.

“Suspense account” represents the bridge to handle inter-branch activity. Generally these balances are cleared within a couple of days after the end of the period.

“Reserve fund for retiring employees” represents a specific fund established during 2002 by the Bank, which will be paid to personnel on their retirement.

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16. Accruals and other liabilities (continued)

“Accrued expenses” among other items, includes USD 122,525 (2002: USD 82,274) of deposit insurance premium due for the second quarter of 2003 according to the new law passed in 2002 that provides insurance coverage to individual depositors against bank failures.

17. Other reserve

Prior to the change of ownership, as detailed in notes 3 and 9, the Bank’s measurement currency was the Albanian Lek. Under this previous system of accounting, the Bank’s fixed assets register was maintained in Lek and the carrying value of the “Land and Building” figure reflected the Lek equivalent of the historic US Dollar value as per independent appraisals.

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

During the first quarter of 2003 the amount of USD 533,416 was used from the reserve to increase the paid-up capital. Refer note 1.

18. Interest income

Interest income for the six months ended 30 June 2003 and 2002 is composed as follows:

	<i>Six months ended 30 June 2003</i>	<i>Six months ended 30 June 2002</i>
Treasury bills and investment securities	8,557,536	5,607,217
Placements with banks and balances with Central Bank	1,053,055	898,402
Loans and advances to customers	846,459	100,276
	<u>10,457,050</u>	<u>6,605,895</u>

19. Interest expense

Interest expense for the six months ended 30 June 2003 and 2002 is composed as follows:

	<i>Six months ended 30 June 2003</i>	<i>Six months ended 30 June 2002</i>
Due to banks	8,737	24,579
Customer deposits	6,211,032	3,718,244
	<u>6,219,769</u>	<u>3,742,823</u>

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Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

20. Fees and commissions, net

Fees and commissions income and expenses for the six months ended 30 June 2003 and 2002 are composed as follows:

	<i>Six months ended 30 June 2003</i>	<i>Six months ended 30 June 2002</i>
<i>Fee and commission income</i>		
Lending activity	244,497	55,484
Inter bank transactions	4,922	3,971
Cash transactions with clients	91,153	133,176
Customer accounts' maintenance	9,248	20,154
Payment services to clients	247,434	216,382
Other fees and commissions	<u>13,239</u>	<u>15,141</u>
	<u>610,493</u>	<u>444,308</u>
<i>Fee and commission expenses</i>		
Inter bank transactions	3,472	-
Customer accounts' maintenance	28,104	22,402
Payment services to clients	589	234
Other fees and commissions	<u>26</u>	<u>56</u>
	<u>32,191</u>	<u>22,692</u>
Fees and commissions, net	<u>578,302</u>	<u>421,616</u>

21. Foreign exchange revaluation gain/(loss)

Foreign exchange revaluation loss represents the effect of changing foreign exchange rates on the Bank's balance sheet foreign currency position.

22. Personnel

Personnel expenses for the six months ended 30 June 2003 and 2002 are composed as follows:

	<i>Six months ended 30 June 2003</i>	<i>Six months ended 30 June 2002</i>
Salaries	936,760	921,031
Social insurance	128,711	116,285
Training	39,350	43,746
Reserve fund for retiring employees	51,064	-
Life insurance	3,815	-
Other	<u>8,131</u>	<u>9,857</u>
	<u>1,167,831</u>	<u>1,090,919</u>

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23. Administrative expenses

Administrative expenses for the six months ended 30 June 2003 and 2002 are composed as follows:

	<i>Six months ended 30 June 2003</i>	<i>Six months ended 30 June 2002</i>
Telephone, electricity and IT expenses	286,084	296,250
Deposit insurance expense	228,968	-
Security expenses	139,171	108,599
Transportation and business related travel	82,501	58,827
Marketing expenses	81,525	79,555
Repairs and maintenance	61,595	57,187
Lease payments	51,517	43,356
Office stationery and supplies	39,091	56,034
Other external services (including external audit fees)	28,449	66,947
Sundry	17,745	8,136
Taxes other than tax on profits	4,765	6,066
	<u>1,021,411</u>	<u>780,957</u>

24. Income tax expense

Income tax expense for the six months ended 30 June 2003 and 2002 is composed as follows:

	<i>Six months ended 30 June 2003</i>	<i>Six months ended 30 June 2002</i>
Current tax expense	560,428	246,741
Deferred tax benefit (note 11)	(9,059)	-
	<u>551,369</u>	<u>246,741</u>

Income tax in Albania is assessed at the rate of 25% (2002: 25%) of taxable income. The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	<i>Six months ended 30 June 2003</i>	<i>Six months ended 30 June 2002</i>
Net profit (loss) before taxes	1,391,224	1,092,051
Computed tax using applicable interest rate	347,806	273,013
Non tax deductible expenses	95,237	24,192
Start up costs amortized for tax purposes	(49,986)	(56,914)
Foreign exchange difference	158,312	6,450
Tax expense (benefit)	<u>551,369</u>	<u>246,741</u>

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25. Risk Management

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

(a) Credit Risk:

Credit risk is the risk of financial loss arising from the failure of a customer to settle financial obligations to the Bank as they fall due. It is the traditional or “natural risk” associated with the banking industry. The Credit Committee approves requests for credits. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives. Also refer to note 8.

(b) Foreign currency risk:

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Bank of Albania guidelines. The Bank has in place the appropriate procedures for the independent checking of open foreign currency positions. In fact, in most cases the Bank’s internal guidelines are stricter than those of the Bank of Albania. The Bank’s net open foreign currency position at 30 June 2003 is shown in note 28.

(c) Interest rate risk:

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department of the bank manages the interest rate risk through monitoring the market conditions and taking necessary repricing or reallocation decisions with the approval of the Asset and Liability Committee. Refer to note 29.

(d) Liquidity risk:

Liquidity risk is the risk that the Bank will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Bank’s liquidity position is monitored and managed by the treasury department by tracking on a daily basis, at least, cash availability at the branches and ensuring, based on expected cash inflows and outflows, adequate liquidity in the branches as well as meeting its other obligations. Also, as part of the its operating policy guidelines, the Bank ensures that total assets maturing within 90 days are at least 70% of the total liabilities with a similar maturity. Refer to note 27.

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26. 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.

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

The fair value of the US denominated bond portfolio based on quoted market rates is USD 21,185,300 at 30 June 2003 (2002: USD 19,313,720) while its carrying value is USD 20,469,129 (2002: USD 18,417,162). Refer to note 7.

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

27. Liquidity risk

At 30 June 2003, the monetary assets and liabilities have remaining contractual maturities as follows:

	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 year</i>	Total
Assets						
Cash and balances with Central Bank	32,703,503	-	-	-	-	32,703,503
Placement and balances with banks	49,904,601	-	-	-	-	49,904,601
Treasury bills	38,229,929	14,365,901	111,404,537	-	-	164,000,367
Investment securities	20,469,129	-	-	1,408,636	-	21,877,765
Loans and advances to customers	1,025,419	3,190,589	7,222,400	8,557,090	648,282	20,643,780
Tangible assets	-	-	-	1,043,188	6,413,356	7,456,544
Intangible assets	-	-	-	375,342	-	375,342
Deferred tax assets	-	-	-	131,425	-	131,425
Other assets	896,919	19,618	44,408	432,393	30,097	1,423,435
Total assets	<u>143,229,500</u>	<u>17,576,108</u>	<u>118,671,345</u>	<u>11,948,074</u>	<u>7,091,735</u>	<u>298,516,762</u>
Liabilities						
Customer deposits	121,029,281	72,613,004	82,265,172	-	-	275,907,457
Due to banks	2,793,797	-	-	-	-	2,793,797
Cash due to third parties	1,080,230	-	-	-	-	1,080,230
Accruals and other liabilities	2,649,883	-	-	-	193,300	2,843,183
Shareholders' equity	-	-	-	-	15,892,095	15,892,095
Total liabilities	<u>127,553,191</u>	<u>72,613,004</u>	<u>82,265,172</u>	<u>-</u>	<u>16,085,395</u>	<u>298,516,762</u>
Net Position	<u>15,676,309</u>	<u>(55,036,896)</u>	<u>36,406,173</u>	<u>11,948,074</u>	<u>(8,993,660)</u>	<u>-</u>
Cumulative Net Position	<u>15,676,309</u>	<u>(39,360,587)</u>	<u>(2,954,414)</u>	<u>8,993,660</u>	<u>-</u>	<u>-</u>

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27. Liquidity risk (continued)

At 31 December 2002, the monetary assets and liabilities have remaining contractual maturities as follows:

	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 year</i>	Total
Assets						
Cash and balances with Central Bank	28,174,857	-	-	-	-	28,174,857
Placement and balances with banks	42,349,046	1,498,670	462,240	-	-	44,309,956
Treasury bills	34,506,334	23,942,202	70,876,499	-	-	129,325,035
Investment securities	-	-	-	14,815,684	4,849,773	19,665,457
Loans and advances to customers	435,820	1,067,990	3,047,586	4,965,598	239,980	9,756,974
Tangible assets	-	-	-	1,108,091	6,592,939	7,701,030
Intangible assets	-	-	-	452,984	-	452,984
Deferred tax asset	-	-	-	122,366	-	122,366
Other assets	<u>323,590</u>	<u>12,406</u>	<u>21,462</u>	<u>358,953</u>	<u>27,800</u>	<u>744,211</u>
Total assets	<u>105,789,647</u>	<u>26,521,268</u>	<u>74,407,787</u>	<u>21,823,676</u>	<u>11,710,492</u>	<u>240,252,870</u>
Liabilities						
Customer deposits	100,496,207	55,998,246	64,821,726	-	-	221,316,179
Due to banks	113,179	-	-	-	-	113,179
Short term borrowings	897,534	-	-	-	-	897,534
Accruals and other liabilities	2,718,692	65,046	-	-	90,000	2,873,738
Shareholders' equity	-	-	-	-	<u>15,052,240</u>	<u>15,052,240</u>
Total liabilities	<u>104,225,612</u>	<u>56,063,292</u>	<u>64,821,726</u>	<u>-</u>	<u>15,142,240</u>	<u>240,252,870</u>
Net Position	<u>1,564,035</u>	<u>(29,542,024)</u>	<u>9,586,061</u>	<u>21,823,676</u>	<u>(3,431,748)</u>	<u>-</u>
Cumulative Net Position	<u>1,564,035</u>	<u>(27,977,989)</u>	<u>(18,391,928)</u>	<u>3,431,748</u>	<u>-</u>	<u>-</u>

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

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Notes to the financial statements for the six months ended 30 June 2003

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28. Foreign currency risk

The following table presents the equivalent amount of assets and liabilities by currency at 30 June 2003:

	<i>USD</i>	<i>Euro</i>	<i>Lek</i>	<i>Other</i>	Total
Assets					
Cash and balances with Central Bank	7,971,637	3,916,005	19,781,485	1,034,376	32,703,503
Placements and balances with banks	33,843,688	14,761,206	781	1,298,926	49,904,601
Treasury bills	-	-	164,000,367	-	164,000,367
Investment securities	20,469,129	-	1,408,636	-	21,877,765
Loans and advances to customers	11,350,999	4,468,156	4,824,625	-	20,643,780
Tangible assets	7,456,544	-	-	-	7,456,544
Intangible assets	375,342	-	-	-	375,342
Deferred tax assets	-	-	131,425	-	131,425
Other assets	<u>875,873</u>	<u>132,052</u>	<u>412,775</u>	<u>2,735</u>	<u>1,423,435</u>
Total assets	<u>82,343,212</u>	<u>23,277,419</u>	<u>190,560,094</u>	<u>2,336,037</u>	<u>298,516,762</u>
Off balance sheet items	150,000	587,814	587,760	-	1,325,574
Liabilities					
Customer deposits	56,751,791	23,947,417	193,407,568	1,800,681	275,907,457
Due to banks	1,008,440	1,944	1,781,781	1,632	2,793,797
Cash due to third parties	-	-	1,080,230	-	1,080,230
Accruals and other liabilities	2,190,124	65,268	544,546	43,245	2,843,183
Shareholders' equity	<u>15,892,095</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,892,095</u>
Total liability and equity	<u>75,842,450</u>	<u>24,014,629</u>	<u>196,814,125</u>	<u>1,845,558</u>	<u>298,516,762</u>
Off balance sheet items	529,641	376,657	-	419,276	1,325,574
Net position	<u>6,121,121</u>	<u>(526,053)</u>	<u>(5,666,271)</u>	<u>71,203</u>	<u>-</u>

The following table presents the equivalent amount of assets and liabilities by currency at 31 December 2002:

	<i>USD</i>	<i>Euro</i>	<i>Lek</i>	<i>Other</i>	Total
Assets					
Cash and balances with Central Bank	5,617,169	6,768,690	15,559,289	229,709	28,174,857
Placements and balances with banks	28,164,739	15,415,363	705	729,149	44,309,956
Treasury bills	-	-	129,325,035	-	129,325,035
Investment securities	18,417,162	-	1,248,295	-	19,665,457
Loans and advances to customers	5,733,072	1,274,100	2,749,802	-	9,756,974
Tangible assets	7,701,030	-	-	-	7,701,030
Intangible assets	452,984	-	-	-	452,984
Deferred tax assets	-	-	122,366	-	122,366
Other assets	<u>406,638</u>	<u>28,513</u>	<u>308,862</u>	<u>198</u>	<u>744,211</u>
Total assets	<u>66,492,794</u>	<u>23,486,666</u>	<u>149,314,354</u>	<u>959,056</u>	<u>240,252,870</u>
Liabilities					
Customer deposits	47,057,800	23,444,620	150,108,533	705,226	221,316,179
Due to banks	102,577	1,783	7,433	1,386	113,179
Short term borrowings	-	-	897,534	-	897,534
Accruals and other liabilities	2,047,623	59,875	659,057	107,183	2,873,738
Shareholders' equity	<u>15,052,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,052,240</u>
Total liability and equity	<u>64,260,240</u>	<u>23,506,278</u>	<u>151,672,557</u>	<u>813,795</u>	<u>240,252,870</u>
Net position	<u>2,232,554</u>	<u>(19,612)</u>	<u>(2,358,203)</u>	<u>145,261</u>	<u>-</u>

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(amounts in USD, unless otherwise stated)

29. Interest rate risk

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 30 June 2003 were as follows:

	<i>USD</i>	<i>Euro</i>	<i>Lek</i>
Assets			
Cash and balances with Central Bank	0.39%	0.75%	3.77%
Placement and balances with banks	1.01%	2.16%	N/A
Treasury bills	N/A	N/A	11.57%
Investment securities	3.52%	N/A	14.10%
Loans and advances to customers	9.84%	9.49%	18.69%
Liabilities			
Customer deposits	0.63%	1.44%	7.16%
Due to banks	1.13%	N/A	5.75%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2002 were as follows:

	<i>USD</i>	<i>Euro</i>	<i>Lek</i>
Assets			
Cash and balances with Central Bank	0.91%	1.66%	5.15%
Placement and balances with banks	1.39%	2.97%	N/A
Treasury bills	N/A	N/A	11.87%
Investment securities	3.92%	N/A	14.10%
Loans and advances to customers	10.52%	11.55%	18.51%
Liabilities			
Customer deposits	0.76%	1.93%	6.69%
Due to banks	0.10%	0.10%	1.50%
Short term borrowings	N/A	N/A	11.00%

30. Contingencies and commitments including off-balance sheets items

Guarantees

	<i>30 June 2003</i>	<i>31 December 2002</i>
Guarantees in favour of customers	1,569,077	1,489,922
Guarantees received from credit institutions	1,569,077	1,409,634
Letters of credit issued to customers	3,685,402	3,518,761

The Bank is not exposed to any risk from these guarantees as they are counter guaranteed by other financial institutions or fully cash collateralized.

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.

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Notes to the financial statements for the six months ended 30 June 2003

(amounts in USD, unless otherwise stated)

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

Other

	<i>30 June 2003</i>	<i>31 December 2002</i>
Undrawn credit commitments	-	52,340
Outstanding cheques of non-resident banks	196,134	332,350
Spot foreign currency contract	1,325,574	-

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 at 30 June 2003.

Lease commitments

Such commitments for the six months ended 30 June 2003 and year ended 31 December 2002 are composed as follows:

	<i>30 June 2003</i>	<i>31 December 2002</i>
Not later than 1 year	131,676	73,812
Later than 1 year and not later than 5 years	519,204	292,248
Later than 5 years	<u>421,381</u>	<u>178,233</u>
Total	<u>1,072,261</u>	<u>544,293</u>

During 2000 the Bank has entered into lease commitments for the buildings of the branches: Tirana 2, Shkodra and Gjirokastra. In addition, in year 2002, the Bank has entered into a lease commitment for space dedicated to off site disaster recovery. During 2003 the Bank has entered into lease commitments for the buildings of the new five branches: Tirana 4 (Laprake), Fier, Berat, Pogradec and Saranda.

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