

Banka Kombetare Tregtare sh.a.

**Independent Accountants' Review Report
and
Condensed Interim Financial Statements as of
30 September 2004**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying condensed interim balance sheet of Banka Kombetare Tregtare sh.a. (the "Bank") as at September 30, 2004, and the related condensed interim statements of income for the three-month and nine-month periods then ended, and changes in equity and cash flows for the nine-month period then ended. These condensed interim financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these condensed interim financial statements based on our review. The financial statements of the Bank as of December 31, 2003 were audited by other independent accountants whose report dated March 25, 2004, expressed a qualified opinion due to a departure from International Accounting Standard 21, "The Effects of Changes in Foreign Exchange Rates".

We conducted our review in accordance with International Standard on Review Engagements ("ISRE") 2400. 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, we do not express an audit opinion.

As explained in Note 2, the Bank has treated its share capital issued in United States Dollars as a monetary item in the financial statements and recognised the revaluation difference during the nine-month period ended September 30, 2004 in the statement of income 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. Accordingly, although this has no effect on total shareholders' equity, if share capital had been treated as a non-monetary item, the reported net profit for the nine-month period ended September 30, 2004 would be lower by USD 751,851 and balance of translation reserve as at September 30, 2004 would be higher by USD 751,851.

Based on our review, except for the effects on the condensed interim financial statements of the matter referred to in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

The accompanying financial information for the three-month and nine-month periods ended September 30, 2003 was not audited or reviewed by us and, accordingly, we do not express an opinion or any other form of assurance on it.

DELOITTE & TOUCHE D.O.O.

Ljubljana, October 12, 2004

Banka Kombetare Tregtare Sh.A.

Condensed Interim Balance Sheets as at 30 September 2004 and 31 December 2003

(amounts in USD, unless otherwise stated)

	30 September 2004	31 December 2003
Assets	<i>(unaudited)</i>	<i>(audited)</i>
Cash and balances with Central Bank	51,418,377	44,824,327
Placement and balances with banks	76,764,205	55,468,012
Treasury bills	227,389,817	188,826,705
Investment securities	28,119,038	24,140,812
Loans and advances to customers	56,627,185	29,976,575
Property and equipment	8,897,819	9,235,171
Intangible assets	315,993	472,715
Deferred tax assets	107,704	102,287
Other assets	<u>1,507,487</u>	<u>1,030,767</u>
Total assets	<u>451,147,625</u>	<u>354,077,371</u>
Liabilities and shareholders' equity		
Liabilities		
Customer deposits	421,508,319	329,991,970
Short term borrowing	612,256	-
Due to third parties	1,489,016	701,629
Accruals and other liabilities	<u>4,147,413</u>	<u>4,395,953</u>
Total liabilities	427,757,004	335,089,552
Shareholders' equity		
Share capital	14,644,250	14,644,250
Translation difference	119,451	495,400
Reserves	945,200	-
Retained earnings	3,628,378	(114,096)
Net profit for the period	<u>4,053,342</u>	<u>3,962,265</u>
Total shareholders' equity	<u>23,390,621</u>	<u>18,987,819</u>
Total liabilities and shareholders' equity	<u>451,147,625</u>	<u>354,077,371</u>

Banka Kombetare Tregtare Sh.A.

Condensed Interim Income Statements for the three-month and nine-month periods ended 30 September 2004 and 2003

(amounts in USD, unless otherwise stated)

	Nine-month period ended 30 September 2004	Three-month period ended 30 September 2004	Nine-month period ended 30 September 2003	Three-month period ended 30 September 2003
Interest	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income	20,842,871	7,255,746	16,036,567	5,579,517
Interest expense	<u>(11,211,408)</u>	<u>(3,848,118)</u>	<u>(9,544,872)</u>	<u>(3,325,103)</u>
Net interest margin	9,631,463	3,407,628	6,491,695	2,254,414
Non-interest income, net				
Fees and commissions, net	1,235,855	444,273	802,463	224,161
Foreign exchange revaluation gain (loss), net	(89,149)	(70,533)	349,859	106,754
Profit from FX trading activities, net	807,148	349,836	446,030	230,059
Other income, net	<u>101,964</u>	<u>21,844</u>	<u>27,958</u>	<u>24,881</u>
Total non-interest income, net	2,055,818	745,420	1,626,310	585,855
Operating expenses				
Personnel	(2,713,812)	(1,050,745)	(1,895,315)	(727,484)
Administrative	(2,445,340)	(769,402)	(1,668,708)	(647,297)
Depreciation and amortization	<u>(1,072,075)</u>	<u>(366,706)</u>	<u>(790,482)</u>	<u>(283,915)</u>
Total operating expenses	(6,231,227)	(2,186,853)	(4,354,505)	(1,658,696)
Impairment of loans	<u>(105,367)</u>	<u>(24,719)</u>	<u>(396,612)</u>	<u>(70,736)</u>
Profit before taxes	5,350,687	1,941,476	3,366,888	1,110,837
Income tax expense	<u>(1,297,345)</u>	<u>(463,895)</u>	<u>(847,718)</u>	<u>(289,139)</u>
Net profit for the period	<u>4,053,342</u>	<u>1,477,581</u>	<u>2,519,170</u>	<u>821,698</u>

Banka Kombetare Tregtare Sh.A.

Condensed Interim Statement of Changes in Equity for the nine-month periods ended 30 September 2004 and 2003

(amounts in USD, unless otherwise stated)

	Share Capital	Translation Difference	Reserves	Retained Earnings	Net profit for the period	Total
Balance at 1 January 2003	10,000,000	94,943	-	2,553,022	1,905,360	14,553,325
Appropriation of prior year net Profit	-	-	-	1,905,360	(1,905,360)	-
Adjustment of RE with 2003 September end exchange rate	-	-	-	11,050	-	11,050
Increase in share capital	4,644,250	-	-	-	-	4,644,250
Capitalisation of retained earnings into share capital	-	-	-	(4,644,250)	-	(4,644,250)
Net profit for the period	-	-	-	-	2,519,170	2,519,170
Appropriation of 2002 year translation difference	-	(94,943)	-	94,943	-	-
Translation difference for the period	-	118,636	-	-	-	118,636
Balance at 30 September 2003	14,644,250	118,636	-	(79,875)	2,519,170	17,202,181
Adjustment of RE with 2003 year end exchange rate	-	-	-	(34,221)	-	(34,221)
Net profit for the period	-	-	-	-	1,443,095	1,443,095
Translation difference for the period	-	376,764	-	-	-	376,764
Balance at 31 December 2003	14,644,250	495,400	-	(114,096)	3,962,265	18,987,819
Appropriation of prior year net profit	-	-	-	3,962,265	(3,962,265)	-
Adjustment of RE with 2004 September end exchange rate	-	-	-	230,009	-	230,009
Appropriation of RE earnings into reserves	-	-	945,200	(945,200)	-	-
Net profit for the period	-	-	-	-	4,053,342	4,053,342
Appropriation of 2003 year translation difference of RE	-	(495,400)	-	495,400	-	-
Translation difference for the period	-	119,451	-	-	-	119,451
Balance at 30 September 2004	14,644,250	119,451	945,200	3,628,378	4,053,342	23,390,621

Banka Kombetare Tregtare Sh.A.

Condensed Interim Statements of Cash Flows for the nine-month periods ended 30 September 2004 and 2003

(amounts in USD, unless otherwise stated)

	Nine-month period ended 30 September 2004	Nine-month period ended 30 September 2003
Cash flows from operating activities		
Net profit after tax	4,053,342	2,519,170
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,072,075	790,482
Gain on sale of property and equipment	(2,165)	(7,340)
Gain on sale of treasury bills	(4,688)	(1,188)
Write-off of property and equipment	5,169	15,684
Impairment of loans	105,367	396,612
Deferred tax asset	<u>-</u>	<u>(1,882)</u>
Cash flows from operating profits before changes in operating assets and liabilities	5,229,100	3,711,538
(Increase)/decrease in operating assets:		
Placements and balances with banks	(17,799,733)	(985,512)
Loans and advances to customers	(24,405,179)	(11,712,296)
Other assets	<u>(409,279)</u>	<u>(1,190,699)</u>
	(42,614,191)	(13,888,507)
Increase/(decrease) in operating liabilities:		
Due to customers	71,786,665	36,037,475
Due to third parties	727,381	1,135,913
Accruals and other liabilities	<u>(466,662)</u>	<u>(218,273)</u>
	72,047,384	36,955,115
Net cash flows from operating activities	34,662,293	26,778,146
Cash flows from investing activities		
Purchases of investment securities	(2,617,636)	(1,169,997)
Purchases of treasury bills	(28,785,416)	(17,964,468)
Purchases of property and equipment	(99,748)	(513,361)
Proceeds from sale of property and equipment	2,107	7,736
Proceeds from sale of treasury bills	<u>1,096,167</u>	<u>185,910</u>
Net cash used in investing activities	(30,404,526)	(19,454,180)
Cash flows from financing activities		
Proceeds from short term borrowings	593,607	-
Repayment of short-term borrowings	<u>-</u>	<u>(952,627)</u>
Net cash from/(used in) financing activities	593,607	(952,627)
Net increase in cash and cash equivalents	4,851,374	6,371,339
Translation difference	1,742,676	2,149,844
Cash and cash equivalents at the beginning of the year	<u>44,824,327</u>	<u>28,174,857</u>
Cash and cash equivalents at the end of the nine months	<u>51,418,377</u>	<u>36,696,040</u>

Banka Kombetare Tregtare Sh.A.

Notes to the Condensed Interim Financial Statements for the nine-month period ended 30 September 2004 and 2003

(amounts in USD, unless otherwise stated)

1. Basis of preparation

These condensed interim financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting*. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2003. Costs that are incurred evenly during the financial year are anticipated or deferred in the interim report only if it would be also appropriate to anticipate or defer such costs at the end of the financial year. These condensed interim financial statements should be read in conjunction with the 2003 annual financial statements.

2. Share capital

The Bank's share capital is issued and maintained in 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. The profit and retained earnings are distributable in LEK.

3. 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 2004.

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>Nine-month period ended 30 September 2004</i>	<i>Year ended 31 December 2003</i>
Directors	29,997	42,336
Executive officers	<u>527,756</u>	<u>724,068</u>
	<u>557,753</u>	<u>766,404</u>