

Banka Kombetare Tregtare Sh.A.

**Financial Statements as of
31 December 2002
(with audit report thereon)**



Revisione e organizzazione contabile

KPMG S.p.A.
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Audit report

To the shareholders of Banka Kombetare Tregtare Sh.A.

We have audited the accompanying balance sheet of Banka Kombetare Tregtare Sh.A. (the Bank) as of 31 December 2002 and the related statements of income and cash flows for the year then ended. The financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Milan, 10 February 2003

KPMG S.p.A.


Orazio Vagnozzi
Director of Audit



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Banka Kombetare Tregtare Sh.A.

Balance sheets as at 31 December 2002 and 2001

(amounts in USD, unless otherwise stated)

	Notes	31 December 2002	31 December 2001
Assets			
Cash and balances with Central Bank	4	28,174,857	35,681,046
Placement and balances with banks	5	44,309,956	63,862,142
Treasury bills	6	129,325,035	109,330,707
Investment securities	7	19,665,457	4,829,620
Loans and advances to customers	8	9,756,974	700,307
Tangible assets	9	7,701,030	7,958,767
Intangible assets	10	452,984	609,555
Deferred tax assets	11	122,366	-
Other assets	12	<u>744,211</u>	<u>808,873</u>
Total assets		<u>240,252,870</u>	<u>223,781,017</u>
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	13	221,316,179	207,755,735
Short term borrowing	14	897,534	-
Accruals and other liabilities	15	<u>2,986,917</u>	<u>2,829,934</u>
Total liabilities		225,200,630	210,585,669
Shareholders' equity			
Share capital		10,000,000	10,000,000
Other reserve	9,16	941,371	969,133
Retained earnings		2,226,215	1,863,671
Net profit for the year		<u>1,884,654</u>	<u>362,544</u>
Total shareholders' equity		<u>15,052,240</u>	<u>13,195,348</u>
Total liabilities and shareholders' equity		<u>240,252,870</u>	<u>223,781,017</u>

The financial statements were authorised for release by the Board of Directors on 27 January 2003.

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Income statements for the years ended 31 December 2002 and 2001

(amounts in USD, unless otherwise stated)

	Notes	Year ended 31 December 2002	Year ended 31 December 2001
Interest			
Interest income	17	14,764,450	12,723,020
Interest expense	18	<u>(8,537,836)</u>	<u>(7,729,642)</u>
Net interest margin		6,226,614	4,993,378
Non-interest income, net			
Fees and commissions, net	19	1,041,065	785,428
Foreign exchange revaluation gain (loss), net	20	(131,862)	(634,013)
Profit from FX trading activities, net		439,356	578,000
Other income, net		<u>146,950</u>	<u>117,192</u>
Total non-interest income, net		1,495,509	846,607
Operating expenses			
Personnel	21	(2,387,366)	(2,463,210)
Administrative	22	(1,701,544)	(1,639,704)
Depreciation and amortization	9,10	<u>(879,513)</u>	<u>(710,905)</u>
Total operating expenses		(4,968,423)	(4,813,819)
Provision for loan losses	8	(280,594)	(12,527)
Restructure write-off		<u>-</u>	<u>(466,521)</u>
Profit before taxes		2,473,106	547,118
Income tax expense	23	(588,452)	(184,574)
Net profit for the year		<u>1,884,654</u>	<u>362,544</u>

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Statement of changes in equity for the years ended 31 December 2002 and 2001
(amounts in USD, unless otherwise stated)

	Notes	Share Capital	Other Reserve	Retained earnings	Total
Balance at 31 December 2000		10,000,000	969,133	1,863,671	12,832,804
Net profit for the year		-	-	362,544	362,544
Balance at 31 December 2001		10,000,000	969,133	2,226,215	13,195,348
Net profit for the year		-	-	1,884,654	1,884,654
Decrease in other reserve	9	-	(27,762)	-	(27,762)
Balance at 31 December 2002		10,000,000	941,371	4,110,869	15,052,240

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Statement of cash flows for the years ended 31 December 2002 and 2001

(amounts in USD, unless otherwise stated)

	Year ended 31 December 2002	Year ended 31 December 2001
Cash flows from operating activities:		
Net profit after tax	1,884,654	362,544
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	879,513	710,905
Gain on sale of tangible assets	(142,728)	-
Deferred tax asset	(122,366)	-
Gain on sale of treasury bills	(8,477)	-
Write-off of fixed assets	52,593	466,521
Write-off of small inventory	-	119,000
Provision for loan losses	280,594	12,527
Other provisions	-	19,749
Cash flows from operating profits before changes in operating assets and liabilities	<u>2,823,783</u>	<u>1,691,246</u>
(Increase)/decrease in operating assets:		
Placements and balances with banks	19,552,186	1,498,335
Loans and advances to customers	(9,337,261)	(712,834)
Other assets	<u>64,662</u>	<u>2,176,698</u>
	10,279,587	2,962,199
Increase/(decrease) in operating liabilities:		
Due to customers	13,560,444	49,628,260
No change in cash due to third parties	-	(3,142,529)
Accruals and other liabilities	<u>156,983</u>	<u>(3,019,952)</u>
	13,717,427	43,465,779
Net cash flows from operating activities	26,820,797	48,119,224
Cash flows from investing activities		
Purchases of investment securities	(14,835,837)	(4,829,620)
Purchases of treasury bills	(26,587,641)	(31,597,140)
Purchases of tangible assets	(590,137)	(3,026,077)
Proceeds from sale of tangible assets	187,305	-
Proceeds from sale of treasury bills	<u>6,601,790</u>	<u>-</u>
Net cash used in investing activities	(35,224,520)	(39,452,837)
Cash flows from financing activities		
Proceeds from short term borrowings	<u>897,534</u>	<u>-</u>
Net cash from financing activities	897,534	-
Net (decrease)/increase in cash and cash equivalents	(7,506,189)	8,666,387
Cash and cash equivalents at the beginning of the year	<u>35,681,046</u>	<u>27,014,659</u>
Cash and cash equivalents at the end of the year	<u>28,174,857</u>	<u>35,681,046</u>

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 2002

(amounts in USD, unless otherwise stated)

1. General

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

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

The transfer of ownership became effective on 17 October 2000. The 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.

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

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

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

The headquarters of the BKT is located in Tirana. Currently the Bank has a network of 10 branches, three of them in Tirana, and the others located in Durres, Elbasan, Korca, Gjirokaster, Vlora, Lushnje, and Shkodra. The Bank employed 226 staff as at 31 December 2002.

2. Statement of compliance

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

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 2002

(amounts in USD, unless otherwise stated)

3. Summary of accounting principles

3.1 Basis of preparation

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

The financial statements are prepared on the historic cost basis.

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).

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.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 2002

(amounts in USD, unless otherwise stated)

(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.

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).

(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.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 2002

(amounts in USD, unless otherwise stated)

3.5 Treasury bills

Treasury bills are held to maturity and measured at cost plus accrued interest.

3.6 Investment securities

Investment securities 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.

3.7 Interest income and expense

Interest income and expense is recognised on an accrual basis.

3.8 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.

3.9 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.

3.10 Pension plan

The Bank has created a pension plan fund (refer to note 15 "Reserve fund for retiring employees") during 2002. The amount to be charged to this fund is decided upon at the beginning of the year as 5% of budgeted personnel expenses. During the year, the amount accrued is charged to the income statement and to the fund on a monthly basis.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 2002

(amounts in USD, unless otherwise stated)

3.11 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%

3.12 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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3.13 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 year ended 31 December 2002

(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 31 December 2002 and 2001, their balances are detailed as follows:

	<i>31 December 2002</i>	<i>31 December 2001</i>
<i>Cash</i>	7,024,084	17,182,454
<i>Bank of Albania</i>		
Current account	317,888	16,387
Statutory reserve	<u>20,832,885</u>	<u>18,482,205</u>
	<u>21,150,773</u>	<u>18,498,592</u>
	<u>28,174,857</u>	<u>35,681,046</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 at 31 December 2002 and 2001 consisted as follows:

	<i>31 December 2002</i>	<i>31 December 2001</i>
Placements	41,683,774	58,696,946
Cash collateral held by correspondent banks	1,239,006	4,665,158
Current accounts	<u>1,387,176</u>	<u>500,038</u>
	<u>44,309,956</u>	<u>63,862,142</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 year ended 31 December 2002

(amounts in USD, unless otherwise stated)

6. Treasury bills

Treasury bills bear interest at market rates ranging from 10.49% p.a. to 12.90% p.a. on a compound basis and are all denominated in Lek. A detail of treasury bills by original maturity is presented as follows:

	31 December 2002			31 December 2001		
	Purchase Value	Accrued interest	Net book value	Purchase Value	Accrued interest	Net book value
3 months	7,987,887	81,278	8,069,165	-	-	-
6 months	54,770,409	1,433,935	56,204,344	82,007,560	2,360,813	84,368,373
12 months	<u>61,010,735</u>	<u>4,040,791</u>	<u>65,051,526</u>	<u>24,259,439</u>	<u>702,895</u>	<u>24,962,334</u>
	<u>123,769,031</u>	<u>5,556,004</u>	<u>129,325,035</u>	<u>106,266,999</u>	<u>3,063,708</u>	<u>109,330,707</u>

The Bank's investment in treasury bills is considered to be of low risk due to the stability in the Albanian market.

7. Investment securities

Investment securities comprise USD and Lek denominated bonds at 31 December 2002 as follows:

Issuer	Nominal Value	31 December 2002		Maturity Date
		Premium/ (Discount)	Net Value	
<i><u>USD Denominated Bonds</u></i>				
<i>Republic of Turkey</i>	5,000,000	(150,227)	4,849,773	15 June 2010
<i>Republic of Portugal</i>	2,000,000	95,675	2,095,675	21 September 2004
<i>Kingdom of Sweden</i>	3,000,000	137,989	3,137,989	27 May 2004
<i>Kingdom of Spain</i>	1,000,000	26,159	1,026,159	18 May 2004
<i>Republic of Finland</i>	1,000,000	56,000	1,056,000	28 July 2004
<i>Kingdom of Denmark</i>	2,000,000	76,615	2,076,615	02 September 2004
<i>Government of Canada</i>	1,000,000	46,625	1,046,625	30 November 2004
<i>European Investment Bank</i>	1,000,000	36,311	1,036,311	08 September 2004
<i>Inter-American Development Bank</i>	2,000,000	92,015	2,092,015	20 October 2004
	<u>18,000,000</u>	<u>417,162</u>	<u>18,417,162</u>	
<i><u>Lek Denominated Bond</u></i>				
<i>Government of Albania</i>	1,246,224	2,071	1,248,295	18 December 2004
	<u>19,246,224</u>	<u>419,233</u>	<u>19,665,457</u>	

With the exception of the bond issued by the Republic of Turkey, the USD denominated bonds have ratings of AA or AAA. As at 31 December 2002, the fair value of the USD denominated bond portfolio was USD 19,313,720 which exceeds the carrying value by USD 896,558.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 2002

(amounts in USD, unless otherwise stated)

7. Investment securities (continued)

The outstanding amount at 31 December 2001 was USD 4,829,620 that represented only the bond issued by the Republic of Turkey. The fair value of this bond as at 31 December 2001 was USD 4,915,500 which exceeded the carrying value by USD 85,880 at that time. All other bonds were purchased during 2002.

8. Loans and advances to customers

Loans and advances to customers consisted of the following:

	<i>31 December 2002</i>	<i>31 December 2001</i>
Loans and advances to customers, gross	10,060,863	713,367
Provision for loan losses	<u>(303,889)</u>	<u>(13,060)</u>
	<u>9,756,974</u>	<u>700,307</u>

Movements in the provisions for loan losses were as follows:

	<i>2002</i>	<i>2001</i>
At 1 January	13,060	-
Additions during the year	365,847	17,247
Reversals during the year	<u>(85,253)</u>	<u>(4,720)</u>
	280,594	12,527
Translation difference	<u>10,235</u>	<u>533</u>
	<u>303,889</u>	<u>13,060</u>

As at 31 December 2002, there were no loans in arrears in the portfolio.

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 31 December 2002 the breakdown of the loan portfolio is as follows:

Private Enterprises	85%
Individuals	15%

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

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 2002

(amounts in USD, unless otherwise stated)

8. Loans and advances to customers (continued)

The classification of loans is as follows:

Corporate loans by industry	31 December 2002		31 December 2001	
	USD	%	USD	%
Wholesale and Retail Trade	2,108,469	24%	71,337	10%
Hotels and Restaurants	1,486,259	17%	78,470	11%
Manufacture of Food Products, Beverages	1,324,926	15%	-	0%
Construction	1,168,745	13%	149,808	21%
Manufacturing of Other Non-metallic Products	636,307	7%	28,535	4%
Manufacturing of Basic Metallic	380,000	5%	-	0%
Manufacture of Wood and Wood Products	302,826	4%	21,401	3%
Manufacture of Textile and Textile Products	289,324	3%	-	0%
Manufacture of Furniture	287,386	3%	-	0%
Manufacture of Pulp, Paper & Paper Products	250,000	3%	-	0%
Personal Needs	100,972	1%	185,475	26%
Printing	-	0%	99,871	14%
Other Sectors	414,248	5%	78,470	11%
	8,749,462	100%	713,367	100%

Retail loans by type	31 December 2002		31 December 2001	
	USD	%	USD	%
Home improvement	746,406	57%	-	0%
Home purchase	506,346	38%	-	0%
Technical equipment	50,930	4%	-	0%
Education support	7,719	1%	-	0%
	1,311,401	100%	-	0%

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

Loans in USD	8% to 13%
Loans in Euro	10% to 13%
Loans in Lek	8% to 18%

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 2002

(amounts in USD, unless otherwise stated)

9. Tangible assets

Tangible assets at 31 December 2002 and 2001 are composed as follows:

(In USD '000)	Land and buildings	Plant and equipment	IT Equipment	Office equipment	Work in progress	Total
Gross value						
At 31 December 2001	8,388,573	708,180	1,105,653	146,266	355,482	10,704,154
Additions	44,238	83,580	737,316	80,335	29,486	974,955
Disposals / transfers	<u>(136,842)</u>	<u>(52,268)</u>	<u>(174,943)</u>	<u>(18,897)</u>	<u>(384,968)</u>	<u>(767,918)</u>
At 31 December 2002	<u>8,295,969</u>	<u>739,492</u>	<u>1,668,026</u>	<u>207,704</u>	<u>-</u>	<u>10,911,191</u>
Accumulated depreciation						
At 31 December 2001	(1,440,838)	(491,126)	(737,205)	(76,218)	-	(2,745,387)
Charge for the year	(298,330)	(65,713)	(322,337)	(36,562)	-	(722,942)
Disposals / deductions	<u>36,138</u>	<u>52,343</u>	<u>167,074</u>	<u>2,613</u>	<u>-</u>	<u>258,168</u>
At 31 December 2002	<u>(1,703,030)</u>	<u>(504,496)</u>	<u>(892,468)</u>	<u>(110,167)</u>	<u>-</u>	<u>(3,210,161)</u>
Net book value						
At 31 December 2001	<u>6,947,735</u>	<u>217,054</u>	<u>368,448</u>	<u>70,048</u>	<u>355,482</u>	<u>7,958,767</u>
At 31 December 2002	<u>6,592,939</u>	<u>234,966</u>	<u>775,558</u>	<u>97,537</u>	<u>-</u>	<u>7,701,030</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.

The above exercise has created a new reserve of USD 969,133 at 31 December 2001 as described in note 16. The reserve is subject to decreases in the case of any disposals of land and buildings. During the year some land and building were sold for USD 180,000. This resulted in a decrease to the Other reserve of USD 27,762.

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(amounts in USD, unless otherwise stated)

10. Intangible assets

Intangible assets at 31 December 2002 and 2001 are composed as follows:

(In USD '000)	Software
Gross value	
At 31 December 2001	626,285
Additions	<u>-</u>
At 31 December 2002	<u>626,285</u>
Accumulated depreciation	
At 31 December 2001	(16,730)
Charge for the year	<u>(156,571)</u>
At 31 December 2002	<u>(173,301)</u>
Net book value	
At 31 December 2001	<u>609,555</u>
At 31 December 2002	<u>452,984</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 on the deferred income tax account is as follows:

	31 December 2002	31 December 2001
Balance at 1 January	-	-
Income statement credit	<u>122,366</u>	<u>-</u>
Balance at 31 December	<u>122,366</u>	<u>-</u>

Deferred income tax assets are attributable to the following items:

	31 December 2002	31 December 2001
Provision for loan losses	46,767	-
Decelerated depreciation	21,984	-
Start up costs written off	<u>53,615</u>	<u>-</u>
	<u>122,366</u>	<u>-</u>

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12. Other assets

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

	<i>31 December 2002</i>	<i>31 December 2001</i>
Cheques for collection	129,711	252,718
Inventory, net	76,674	143,798
Accrued interest on bank placements, bonds, deposits with Central Bank and on loans to customers	477,585	175,336
Other debtors, net	<u>60,241</u>	<u>237,021</u>
	<u>744,211</u>	<u>808,873</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:

	<i>31 December 2002</i>	<i>31 December 2001</i>
Other debtors	3,139,715	3,253,985
Provision	<u>(3,079,473)</u>	<u>(3,016,964)</u>
	<u>60,242</u>	<u>237,021</u>

“Other debtors” are composed of three items. The first item of USD 3,098,031 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 18,558, which is fully cash collateralized. The other two items represent advance payments to suppliers of USD 23,407 (2001: USD 92,124) and prepaid expenses of USD 18,277 (2001: USD 9,644).

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

	<i>2002</i>	<i>2001</i>
At 1 January	3,016,964	3,008,131
Additions during the year	4,533	2,622
Reversals during the year	<u>(3,755)</u>	<u>(27,557)</u>
	778	(24,935)
Translation difference	<u>61,731</u>	<u>33,768</u>
	<u>3,079,473</u>	<u>3,016,964</u>

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

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(amounts in USD, unless otherwise stated)

13. Customer deposits

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

	<i>31 December 2002</i>	<i>31 December 2001</i>
Current accounts:		
Private individuals and enterprises	24,251,712	17,750,942
State owned entities	<u>19,376,096</u>	<u>25,767,650</u>
	43,627,808	43,518,592
Deposits:		
Private individuals and enterprises	158,995,776	118,673,177
State owned entities	<u>9,866,075</u>	<u>32,062,452</u>
	168,861,851	150,735,629
Other:		
Private individuals and enterprises	8,057,682	12,174,849
State owned entities	<u>768,838</u>	<u>1,326,665</u>
	8,826,520	13,501,514
	<u>221,316,179</u>	<u>207,755,735</u>

Current accounts and deposits can be further analysed as follows:

	<i>31 December 2002</i>			<i>31 December 2001</i>		
	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>
Current accounts	24,486,935	19,140,873	43,627,808	22,894,680	20,623,912	43,518,592
Deposits						
On demand	68,719	550,157	618,876	427,976	1,415,794	1,843,770
One month	6,110,552	14,811,425	20,921,977	1,787,289	14,451,702	16,238,991
Three months	35,873,599	16,184,710	52,058,309	40,469,025	22,562,794	63,031,819
Six months	34,705,879	8,659,318	43,365,197	24,476,000	7,586,452	32,062,452
Twelve months	41,173,325	7,863,594	49,036,919	29,709,738	5,661,161	35,370,899
Accrued interest on deposits	<u>2,695,436</u>	<u>165,137</u>	<u>2,860,573</u>	<u>1,991,238</u>	<u>1,96,460</u>	<u>2,187,698</u>
Total deposits	<u>120,627,510</u>	<u>48,234,341</u>	<u>168,861,851</u>	<u>98,861,266</u>	<u>51,874,363</u>	<u>150,735,629</u>
Other customer accounts	<u>4,994,088</u>	<u>3,832,432</u>	<u>8,826,520</u>	<u>5,333,087</u>	<u>8,168,427</u>	<u>13,501,514</u>
Total customer deposits	<u>150,108,533</u>	<u>71,207,646</u>	<u>221,316,179</u>	<u>127,089,033</u>	<u>80,666,702</u>	<u>207,755,735</u>

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(amounts in USD, unless otherwise stated)

13. Customer deposits (continued)

Other customer accounts are composed as follows:

	<i>31 December 2002</i>			<i>31 December 2001</i>		
	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>
Deposits from liquidation of Xhaferi Foundation	1,901,439	94,041	1,995,480	1,868,979	85,958	1,954,937
Deposit guarantees for letters of credit	-	1,267,989	1,267,989	-	4,690,905	4,690,905
Escrow accounts	2,831,552	1,951,194	4,782,746	3,187,332	1,906,063	5,093,395
Bank drafts	12,254	11,948	24,202	6,459	49,927	56,386
Payment orders to be executed	40,939	398,730	439,669	72,545	339,257	411,802
Other	207,904	108,260	316,164	159,120	1,047,121	1,206,241
Accrued interest on other customer accounts	-	270	270	38,652	49,196	87,848
	<u>4,994,088</u>	<u>3,832,432</u>	<u>8,826,520</u>	<u>5,333,087</u>	<u>8,168,427</u>	<u>13,501,514</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 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 41,214 represents inactive customer accounts.

14. Short term borrowing

During the normal course of business, the Bank as at 31 December 2002, obtained a one day loan in Lek equalling USD 897,534 bearing interest at a rate of 11%. Lek denominated treasury bills equalling USD 2,243,158 and carrying interest rates in excess of 12% were pledged as security against this borrowing.

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Notes to the financial statements for the year ended 31 December 2002

(amounts in USD, unless otherwise stated)

15. Accruals and other liabilities

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

	<i>31 December 2002</i>	<i>31 December 2001</i>
Accruals for reimbursement to foreign donors	-	67,261
Sundry	<u>2,986,917</u>	<u>2,762,673</u>
	<u>2,986,917</u>	<u>2,829,934</u>

Since 1996, BKT has been acting as an agent between the Albanian Government and foreign donors. In its role, BKT administers the disbursement of loans and credit lines in accordance with the loan agreements in place, and earns a fixed commission rate on the loan tranches disbursed.

The item "Sundry" can be further detailed as follows:

	<i>31 December 2002</i>	<i>31 December 2001</i>
Creditors	1,778,552	1,788,992
Suspense account	604,705	632,776
Personnel	-	124,224
Due to tax authorities	121,785	57,078
Due to banks	113,179	11,249
Reserve fund for retiring employees	90,000	-
Social insurance	26,778	18,087
Accrued expenses	<u>251,918</u>	<u>130,267</u>
	<u>2,986,917</u>	<u>2,762,673</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 of the year end.

"Reserve fund for retiring employees" represents a specific fund created this year by the Bank, which will be paid to personnel on their retirement.

"Accrued expenses" among the other items, also include USD 82,274 of deposit insurance premium due for 2002 according to the new law passed in 2002 that provides insurance coverage to individual depositors against bank failures.

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Notes to the financial statements for the year ended 31 December 2002

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16. 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) has resulted in the creation of a reserve of USD 969 thousand. This is explained by the movement of the Lek/US Dollar exchange rates, particularly during 1997 when the Lek depreciated by approximately 40% against the US Dollar.

17. Interest income

Interest income is composed as follows:

	<i>Year ended</i> <i>31 December 2002</i>	<i>Year ended</i> <i>31 December 2001</i>
Treasury bills and investment securities	12,427,560	9,473,554
Placements with banks and balances with Central Bank	1,839,830	3,239,685
Loans and advances to customers	<u>497,060</u>	<u>9,782</u>
	<u>14,764,450</u>	<u>12,723,020</u>

18. Interest expense

Interest expense is composed as follows:

	<i>Year ended</i> <i>31 December 2002</i>	<i>Year ended</i> <i>31 December 2001</i>
Due to banks	30,796	50,357
Customer deposits	<u>8,507,040</u>	<u>7,679,285</u>
	<u>8,537,836</u>	<u>7,729,642</u>

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(amounts in USD, unless otherwise stated)

19. Fees and commissions, net

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

	<i>Year ended</i> <i>31 December 2002</i>	<i>Year ended</i> <i>31 December 2001</i>
<i>Fee and commission income</i>		
Lending activity	230,762	6,599
Inter bank transactions	10,807	2,206
Cash transactions with clients	228,494	233,148
Customer accounts' maintenance	152,990	153,710
Payment services to clients	449,664	381,773
Other fees and commissions	<u>26,046</u>	<u>36,203</u>
	<u>1,098,764</u>	<u>813,639</u>
<i>Fee and commission expense</i>		
Inter bank transactions	5,097	-
Customer accounts' maintenance	52,089	27,931
Payment services to clients	477	168
Other fees and commissions	<u>36</u>	<u>112</u>
	<u>57,699</u>	<u>28,211</u>
Fees and commissions, net	<u>1,041,065</u>	<u>785,428</u>

20. 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.

21. Personnel

Personnel expenses are composed as follows:

	<i>Year ended</i> <i>31 December 2002</i>	<i>Year ended</i> <i>31 December 2001</i>
Salaries	1,929,172	2,199,162
Social insurance	225,888	203,966
Training	35,465	38,559
Reserve fund for retiring employees	87,762	-
Life insurance	1,871	-
Other	<u>107,208</u>	<u>21,523</u>
	<u>2,387,366</u>	<u>2,463,210</u>

In "Other" is included the payment of bonuses to non-management staff, totalling USD 100,120. In 2001 the bonus was given as two separate amounts: USD 31,622 as a 13-th salary and consequently included in "Salaries" and USD 10,416 as a bonus included in "Other".

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22. Administrative expenses

Administrative expenses are composed as follows:

	<i>Year ended</i> <i>31 December 2002</i>	<i>Year ended</i> <i>31 December 2001</i>
Telephone, electricity and IT expenses	564,972	395,277
Security expenses	260,273	284,915
Transportation and business related travel	157,720	154,390
Repairs and maintenance	134,105	31,888
Marketing expenses	130,474	114,771
Deposit insurance expense	128,032	-
Office stationery and supplies	105,772	102,665
Sundry	27,106	13,477
Other external services (including external audit fees)	98,259	112,587
Lease payments	79,883	246,889
Taxes other than tax on profits	14,948	44,093
Write off of printed stationery	-	119,002
Depreciation on small inventory	-	19,750
	<u>1,701,544</u>	<u>1,639,704</u>

23. Income tax expense

Income tax expense is comprised of:

	<i>Year ended</i> <i>31 December 2002</i>	<i>Year ended</i> <i>31 December 2001</i>
Current tax expense	710,818	184,574
Deferred tax benefit (note 11)	<u>(122,366)</u>	<u>-</u>
	<u>588,452</u>	<u>184,574</u>

Income tax in Albania is assessed at the rate of 25% (2001: 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>Year ended</i> <i>31 December 2002</i>	<i>Year ended</i> <i>31 December 2001</i>
Net profit (loss) before taxes	2,473,106	547,118
Computed tax using applicable interest rate	618,277	136,780
Non tax deductible expenses	93,385	13,896
Start up costs amortized for tax purposes	(113,709)	-
Other	<u>(9,501)</u>	<u>33,898</u>
Tax expense (benefit)	<u>588,452</u>	<u>184,574</u>

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Notes to the financial statements for the year ended 31 December 2002

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24. 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 31 December 2002 is shown in note 27.

(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 28.

(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 insures that total assets maturing within 90 days are at least 70% of the total liabilities with a similar maturity. Refer to note 26.

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25. 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 19,313,720 at 31 December 2002 (2001: USD 4,919,500) while its carrying value is USD 18,417,162 (2001: USD 4,829,620).

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.

26. Liquidity risk

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	-	-	-	1,108,092	6,592,938	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>21,823,677</u>	<u>11,710,491</u>	<u>240,252,870</u>
Liabilities						
Customer deposits	100,496,207	55,998,246	64,821,726	-	-	221,316,179
Short term borrowings	897,534	-	-	-	-	897,534
Accruals and other liabilities	2,831,871	65,046	-	-	90,000	2,986,917
Shareholders' equity	-	-	-	-	15,052,240	15,052,240
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>21,823,677</u>	<u>(3,431,749)</u>	<u>-</u>
Cumulative Net Position	<u>1,564,035</u>	<u>(27,977,989)</u>	<u>(18,391,928)</u>	<u>3,431,749</u>	<u>-</u>	<u>-</u>

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26. Liquidity risk (continued)

At 31 December 2001, 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 years</i>	<i>Total</i>
Assets						
Cash and balances with Central Bank	35,681,046	-	-	-	-	35,681,046
Placement and balances with banks	61,917,109	1,945,033	-	-	-	63,862,142
Treasury bills	42,353,904	8,631,933	58,344,870	-	-	109,330,707
Investment securities	-	-	-	-	4,829,620	4,829,620
Loans and advances to customers	183,061	45,837	161,904	309,505	-	700,307
Tangible assets	-	-	-	1,011,032	6,947,735	7,958,767
Intangible assets	-	-	-	609,555	-	609,555
Other assets	<u>723,471</u>	<u>15,147</u>	<u>42,367</u>	<u>27,888</u>	<u>-</u>	<u>808,873</u>
Total assets	<u>140,858,591</u>	<u>10,637,950</u>	<u>58,549,141</u>	<u>1,957,980</u>	<u>11,777,355</u>	<u>223,781,017</u>
Liabilities						
Customer deposits	100,061,740	63,085,811	44,608,184	-	-	207,755,735
Accruals and other liabilities	2,829,934	-	-	-	-	2,829,934
Shareholders' equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,195,348</u>	<u>13,195,348</u>
Total liabilities and equity	<u>102,891,674</u>	<u>63,085,811</u>	<u>44,608,184</u>	<u>-</u>	<u>13,195,348</u>	<u>223,781,017</u>
Net Position	<u>37,966,917</u>	<u>(52,447,861)</u>	<u>13,940,957</u>	<u>1,957,980</u>	<u>(1,417,993)</u>	<u>-</u>
Cumulative Net Position	<u>37,966,917</u>	<u>(14,480,944)</u>	<u>(539,987)</u>	<u>1,417,993</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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27. Foreign currency risk

The following tables present the equivalent amount of assets and liabilities by currency at 31 December 2002 and 2001:

2002	USD	Euro	Lek	Other	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	406,638	28,513	308,862	198	744,211
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
Short term borrowings	-	-	897,534	-	897,534
Accruals and other liabilities	2,150,200	61,658	666,490	108,569	2,986,917
Shareholders' equity	15,052,240	-	-	-	15,052,240
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>
2001	USD	Euro	Lek	Other	Total
Assets					
Cash and balances with Central Bank	5,883,962	17,001,097	12,666,716	129,271	35,681,046
Placements and balances with banks	48,851,018	14,860,180	727	150,217	63,862,142
Treasury bills	-	-	109,330,707	-	109,330,707
Investment securities	4,829,620	-	-	-	4,829,620
Loans and advances to customers	272,498	21,437	406,372	-	700,307
Tangible assets	7,958,767	-	-	-	7,958,767
Intangible assets	609,555	-	-	-	609,555
Other assets	189,302	46,061	570,290	3,220	808,873
Total assets	<u>68,594,722</u>	<u>31,928,775</u>	<u>122,974,812</u>	<u>282,708</u>	<u>223,781,017</u>
Liabilities					
Customer deposits	50,217,609	30,183,759	127,089,033	265,334	207,755,735
Accruals and other liabilities	2,033,065	89,555	700,028	7,286	2,829,934
Shareholders' equity	13,195,348	-	-	-	13,195,348
Total liability and equity	<u>65,446,022</u>	<u>30,273,314</u>	<u>127,789,061</u>	<u>272,620</u>	<u>223,781,017</u>
Net position	<u>3,148,700</u>	<u>1,655,461</u>	<u>(4,814,249)</u>	<u>10,088</u>	<u>-</u>

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Notes to the financial statements for the year ended 31 December 2002

(amounts in USD, unless otherwise stated)

27. Interest rate risk

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%	0%
Treasury bills	0%	0%	11.87%
Investment securities	3.92%	0%	14.10%
Loans and advances to customers	10.52%	11.55%	18.51%
Liabilities			
Customer deposits	0.76%	1.93%	6.69%
Short term borrowings	0%	0%	11.00%
Accruals and other liabilities	0.1%	0.1%	1.5%

Interest rate on "Accruals and other liabilities" is only on "Due to banks". Refer to note 15.

28. Contingencies and commitments including off-balance sheets items

Guarantees

	<i>31 December 2002</i>	<i>31 December 2001</i>
Guarantees in favour of customers	1,489,922	490,715
Guarantees received from credit institutions	1,409,634	385,646
Letters of credit issued to customers	3,518,761	1,126,727

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.

Other

	<i>31 December 2002</i>	<i>31 December 2001</i>
Undrawn credit commitments	52,340	-
Outstanding cheques of non-resident banks	332,350	30,169
Spot foreign currency contract	-	2,677,230

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Notes to the financial statements for the year ended 31 December 2002

(amounts in USD, unless otherwise stated)

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

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 31 December 2002.

Lease commitments

Such commitments for the years ended 31 December 2002 and 2001 are composed as follows:

	<i>31 December 2002</i>	<i>31 December 2001</i>
Not later than 1 year	73,812	76,312
Later than 1 year and not later than 5 years	292,248	259,248
Later than 5 years	<u>178,233</u>	<u>243,045</u>
Total	<u>544,293</u>	<u>578,605</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.

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