

Banka Kombetare Tregtare sh.a.

**Independent Auditors' Review Report
and
Condensed Consolidated Interim
Financial Information
as at and for the three-month period ended
31 March 2016**

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Grant Thornton Sh.p.k.
Rr: Sami Frasherri, Kompleksi T.I.D, Shk. B,
Floor 1, 10 000
Tirana, Albania

T +355 4 22 74 832
F +355 4 22 56 560
www.grantthornton.al

Independent Auditor's Review Report

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

We have reviewed the accompanying Condensed Consolidated Statement of Financial Position of Banka Kombetare Tregtare Sh.a (hereafter referred as the “Bank”, “BKT” or the “Group”) as of 31 March 2016 and the related Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the three-month period then ended, and a summary of selected explanatory notes. Management is responsible for the preparation and fair presentation of the Condensed Consolidated Interim Financial Statements in accordance with the International Financial Reporting Standards. Our responsibility is to express a conclusion on the Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Basis for Qualified Conclusion

The Bank has treated its share capital issued in United States Dollar (USD) as a monetary item in the condensed consolidated financial statements and recognized the revaluation differences for the three-month period ended 31 March 2016 within net profits in the consolidated statement of profit or loss and other comprehensive income. This treatment is not in accordance with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" which requires share capital to be treated as a non-monetary item and carried at the exchange rate of the date of the transaction. Had the Bank treated its share capital in accordance with IAS 21 requirements, the translation reserve as at 31 March 2016 would have been decreased by USD 22,454,453, retained earnings would have been increased by USD 28,846,202 and the net profit would have been decreased by USD 6,391,749 for the three month period ended 31 March 2016. Nevertheless, this would not have affected the total shareholders' equity.

Qualified Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not give a true and fair view of the financial position of the Bank as at 31 March 2016, and of its financial performance and its cash flows for the three-month period then ended in accordance with International Financial Reporting Standards.

Grant Thornton sh.p.k.

Tirana, Albania

3 August 2016

Kledian Kocwa, FCCA



Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of financial position as at 31 March 2016

(amounts in USD)

	31 March 2016	31 December 2015
Assets		
Cash and balances with Central Bank	226,129,757	230,545,546
Placement and balances with banks	133,411,556	156,716,297
Treasury bills available-for-sale	125,430,084	169,428,720
Held-for-trading securities	-	2,977,921
Available-for-sale securities	830,429,339	784,404,120
Held-to-maturity securities	174,083,764	156,558,947
Loans to banks	287,063,813	249,292,090
Loans to customers	969,293,141	917,006,930
Investment in associates	1,361,594	1,309,175
Property and equipment	20,444,344	20,445,790
Intangible assets	1,218,735	1,203,635
Other assets	36,437,233	40,024,082
Total assets	2,805,303,360	2,729,913,253
Liabilities and shareholder's equity		
Liabilities		
Customer deposits	2,294,205,630	2,222,648,807
Due to banks and financial institutions	133,306,216	168,365,729
Due to third parties	9,094,039	2,828,259
Deferred tax liabilities	997,686	722,574
Accruals and other liabilities	11,635,633	14,488,478
Subordinated debt	28,753,521	27,291,374
Total liabilities	2,477,992,725	2,436,345,221
Shareholder's equity		
Share capital	250,000,000	206,911,900
Translation reserve	368,579	(2,229)
Fair value reserve	17,636,433	976,965
Retained earnings	59,305,623	85,681,396
Total shareholder's equity	327,310,635	293,568,032
Total liabilities and shareholder's equity	2,805,303,360	2,729,913,253

The condensed consolidated interim financial information was authorised for release by the Board of Directors on 20 April 2016 and signed on its behalf by:

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes set out in pages 7 to 10 that form part of the condensed consolidated interim financial statements.



Seyhan Pencablil
CEO and Board Member



Skender Emini
Head of Financial and IT Group

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of comprehensive income for the three-month period ended 31 March 2016
(amounts in USD)

	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015
Interest		
Interest income	30,582,437	31,342,629
Interest expense	(7,301,712)	(9,291,693)
Net interest margin	23,280,725	22,050,936
Non-interest income, net		
Fees and commissions, net	3,153,934	2,631,765
Fees and commissions, income	3,282,647	2,679,088
Fees and commissions, expense	(128,713)	(47,323)
Foreign exchange revaluation (loss)/gain, net	(761,971)	5,340,658
Foreign exchange trading activities gain/(loss), net	581,811	(266,740)
Securities trading gain, net	2,031,129	3,063,071
Other (expense)/income, net	(596,064)	318,000
Total non-interest income, net	4,408,839	11,086,754
Operating expenses		
Personnel expenses	(4,121,603)	(4,034,971)
Administrative expenses	(4,651,167)	(4,214,337)
Depreciation and amortization	(1,025,420)	(1,064,089)
Total operating expenses	(9,798,190)	(9,313,397)
Impairment of loans	(546,885)	(535,532)
Profit before taxes	17,344,489	23,288,761
Income tax	(2,642,937)	(3,483,841)
Net profit for the period	14,701,552	19,804,920
Foreign currency translation differences	370,808	2,522,463
Net change in fair value reserves	16,659,468	3,329,376
Other comprehensive income for the period, net of income tax	17,030,276	5,851,839
Total comprehensive income for the period	31,731,828	25,656,759

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the notes set out in pages 7 to 10 that form part of the condensed consolidated interim financial statements.

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of changes in equity for the three-month period ended 31 March 2016

(amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2015	166,403,900	-	(3,403,714)	(3,835,505)	87,470,104	246,634,785
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	40,508,000	-	-	-	(40,508,000)	-
Appropriation of year 2014 translation difference	-	-	-	-	(3,403,714)	(3,403,714)
Adjustment of retained earnings with March 2015 exchange rate	-	-	-	-	(9,285,563)	(9,285,563)
<i>Total transactions with owners recorded in equity</i>	40,508,000	-	-	-	(53,197,277)	(12,689,277)
Comprehensive income for the period						
Net profit for the period	-	-	-	-	19,804,920	19,804,920
Other comprehensive income / (expense), net of income tax						
Net change in fair value reserve	-	-	-	3,329,376	-	3,329,376
Foreign currency translation differences	-	-	2,522,463	-	-	2,522,463
Total other comprehensive income	-	-	2,522,463	3,329,376	-	5,851,839
<i>Total comprehensive income for the period</i>	-	-	2,522,463	3,329,376	19,804,920	25,656,759
Balance as at 31 March 2015	206,911,900	-	(881,251)	(506,129)	54,077,747	259,602,267

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes set out in pages 7 to 10 that form part of the condensed consolidated interim financial statements.

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of cash flows for the three-month period ended 31 March 2016

(amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2016	206,911,900	-	(2,229)	976,965	85,681,396	293,568,032
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Increase in share capital	43,088,100	-	-	-	(43,088,100)	-
Appropriation of year 2015 translation difference	-	-	-	-	(2,229)	(2,229)
Adjustment of retained earnings with March 2016 exchange rate	-	-	-	-	2,013,004	2,013,004
<i>Total transactions with owners recorded in equity</i>	43,088,100	-	-	-	(41,077,325)	2,010,775
Comprehensive income for the period						
Net profit for the period	-	-	-	-	14,701,552	14,701,552
Other comprehensive income / (expense), net of income tax						
Net change in fair value reserve	-	-	-	16,659,468	-	16,659,468
Foreign currency translation differences	-	-	370,808	-	-	370,808
Total other comprehensive income	-	-	370,808	16,659,468	-	17,030,276
<i>Total comprehensive (loss)/income for the period</i>	-	-	370,808	16,659,468	14,701,552	31,731,828
Balance as at 31 March 2016	250,000,000	-	368,579	17,636,433	59,305,623	327,310,635

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes set out in pages 7 to 10 that form part of the condensed consolidated interim financial statements.

Banka Kombetare Tregtare sh.a.

Condensed consolidated interim statement of cash flows for the three-month period ended 31 March 2016
(amounts in USD)

	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015
Cash flows from operating activities		
Profit before taxes	17,344,489	23,288,761
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>		
Interest expense	7,301,712	9,291,693
Interest income	(30,582,437)	(31,342,629)
Depreciation and amortization	1,025,420	1,064,089
Gain on sale of property and equipment	(30,236)	(1,407)
Gain on sale of treasury bills	(22,493)	(2,873)
Gain on sale of non-current assets	(13,514)	-
Gain on recovery of written-off loans to customers	(9,405)	(799)
Write-off of property and equipment	31,143	22,634
Loss from sale of repossessed collaterals	586,135	-
Movement in the fair value reserve	16,198,023	3,015,965
Impairment of loans	546,885	535,532
Cash flows from operating profits before changes in operating assets and liabilities	12,375,722	5,870,966
(Increase)/decrease in operating assets:		
Placements and balances with banks	27,073,796	(14,443,915)
Loans and advances to banks	(29,440,028)	(15,347,135)
Loans and advances to customers	(25,071,866)	(16,343,663)
Other assets	4,883,516	(2,289,178)
	(22,554,582)	(48,423,891)
Increase/(decrease) in operating liabilities:		
Customer deposits	8,350,084	43,654,171
Due to third parties	6,023,026	5,473,698
Accruals and other liabilities	(1,080,642)	(1,961,043)
	13,292,468	47,166,826
Interest paid	(8,138,814)	(10,485,526)
Interest received	31,379,712	31,072,535
Income taxes paid	(4,748,251)	(3,935,516)
Net cash flows from operating activities	21,606,255	21,265,394
Cash flows for investing activities		
Purchases of investment securities	(32,226,545)	(99,496,400)
Redemptions / (purchases) of treasury bills	39,101,178	28,574,169
Investment in associates	(14,239)	(1,925)
Purchases of property and equipment	(654,278)	(593,244)
Proceeds from sale of property and equipment	254,595	123,608
Proceeds from sale of treasury bills	6,022,037	6,797,474
Net cash flows used in investing activities	12,482,748	(64,596,318)
Cash flows from financing activities		
Proceeds from short term borrowings	(38,843,714)	26,191,758
Subordinated debt	296,742	24,073
Net cash flows from financing activities	(38,546,972)	26,215,831
Net (decrease) / increase in cash and Central Bank	(4,457,969)	(17,115,093)
Translation difference	42,180	(5,834,985)
Cash and Central Bank at the beginning of the year	230,545,546	227,950,918
Cash and Central Bank at the end of the three months	226,129,757	205,000,840

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes set out in pages 7 to 10 that form part of the condensed consolidated interim financial statements.

Banka Kombetare Tregtare sh.a.

Explanatory notes as of and for the three-month period ended 31 March 2016

(amounts in USD, unless otherwise stated)

1. General

Banka Kombetare Tregtare sh.a (the “Bank”) is a commercial bank offering a wide range of universal services. The Bank provides banking services to state and privately owned enterprises and to individuals in Albania and in Kosovo.

2. Share capital

The Bank’s share capital is issued and maintained in United States Dollars (“USD”) as allowed by the legislation in Albania as well as by a special Law no.8634 between the Bank’s shareholders and the Republic of Albania on the Bank’s privatisation. Furthermore, the Operating Policy Guidelines of the Bank require that the share capital be hedged by USD assets and it is therefore treated as a monetary item, with the revaluation difference being taken to the profit and loss account together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

Upon the Shareholder’s Decision dated 24 March 2016, the Bank increased its paid-up capital by Lek 5,339,908 thousand (equivalent of USD 43,088,100.25), using part of the statutory net profit for the year ended December 31, 2015. The capital increase was translated into USD using the exchange rate published by Bank of Albania as at 24 March 2016 (123.93 Lek per USD).

Following this increase, the shareholding structure remained the same as did the nominal value of shares at USD 12.35, while the number of shares increased by 3,488,915. The shareholding structure as at 31 March 2016 and 31 December 2015 was as follows:

	31 March 2016			31 December 2015		
	No. of shares	Total in USD	%	No. of shares	Total in USD	%
Calik Finansal Hizmetler A.S.	20,242,915	250,000,000.25	100	16,754,000	206,911,900	100

3. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Bank as at and for the year ended 31 December 2015.

4. Functional and presentation currency

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

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

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

	31 March 2016	31 December 2015	31 March 2015
USD/LEK	122.26	125.79	130.63
EUR/LEK	138.77	137.28	140.34

Banka Kombetare Tregtare sh.a.

Explanatory notes as of and for the three-month period ended 31 March 2016

(amounts in USD, unless otherwise stated)

5. Significant accounting policies

The accounting policies applied by the Bank in these condensed consolidated interim financial statements are the same as those applied by the Bank in its consolidated financial statements as at and for the year ended 31 December 2015.

The costs that are incurred evenly during the financial year are anticipated or deferred in the interim financial statements only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

6. Estimates

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

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2015.

7. Financial risk management

During the three months ended 31 March 2016 the Bank's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2015.

8. Fair value of financial assets

On February and March 2016 based on Internal and Regulatory Policies, BKT has transferred the trading securities portfolio into the available for sale after six month holding period. The fair value of trading portfolio reclassified was USD 2,778,863.

9. Impairment of loans

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

As at 31 December 2015 the impairment for loan losses was USD 26,801,415. Following the assessments made by 31 March 2016, an additional allowance for impairment of USD 546,885 for the three months ended 31 March 2016 (for the three months ended 31 March 2015: USD 535,532) was charged.

10. Seasonality of operations

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

11. Income tax

The Bank's effective tax rate for the three months ended 31 March 2016 was 15.24 per cent (for the three months ended 31 March 2015: 14.96 per cent), while the income tax rate in Albania is 15%.

Banka Kombetare Tregtare sh.a.

Explanatory notes as of and for the three-month period ended 31 March 2016

(amounts in USD, unless otherwise stated)

12. Contingencies

In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 31 March 2016.

13. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Identity of related parties

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank's sole shareholder is Calik Finansal Hizmetler, which is owned by Calik Holding at 100% as at 31 March 2016. The ultimate controlling party is Mr. Ahmet Calik.

ALBtelecom Sh.a., Eagle Mobile Sh.a., Albania Leasing, Aktif Yatirim Bankasi A.S. ("Aktifbank"), GAP Pazarlama FZE, Gap İnşaat Yatırım ve Dış Ticaret A.Ş., Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S, Kosovo Electricity Distribution and Supply Company J.S.C (KEDS) and Kosovo Electricity Supply Company J.S.C (KESCO) are controlled by Calik Holding.

Balances and transactions with related parties

	31 March 2016	31 December 2015
Assets		
<i>Placement and balances with banks:</i>		
Current accounts with Aktifbank	14,345	10,935
Placement with Albania Leasing	572,022	547,655
<i>Loans to customers:</i>		
KEDS / KESCO	616,414	770,493
ALBtelecom	11,236,358	8,058,495
GAP Pazarlama FZE	1,139,675	1,096,572
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	13,569,000	13,114,251
Albania Leasing	321,696	323,921
<i>Other assets:</i>		
Receivables from ALBtelecom Sh.a	5,540	-
Total assets	27,475,050	23,922,322
Liabilities		
<i>Due to banks and financial institutions:</i>		
Borrowings from Aktifbank	418,352	5,684,735
Borrowings from Albania Leasing	603,360	601,540
<i>Customer deposits:</i>		
ALBtelecom Sh.a.	3,967,116	1,096,735
<i>Other liabilities:</i>		
Payables to Calik Holding	-	174,811
Total liabilities	4,988,828	7,557,821

Banka Kombetare Tregtare sh.a.

Explanatory notes as of and for the three-month period ended 31 March 2016

(amounts in USD, unless otherwise stated)

13. Related party transactions (continued)

Balances and transactions with related parties (continued)

	Three months period ended 31 March 2016	Three months period ended 31 March 2015
Statement of comprehensive income		
Interest income from:		
GAP Pazarlama FZE	20,104	109,560
KEDS / KESCO	12,688	26,364
ALBtelecom Sh.a.	125,751	77,105
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	243,734	64,245
Albania Leasing	6,363	-
Interest expenses for:		
ALBtelecom Sh.a. and Eagle Mobile Sh.a.	(72)	(1,287)
Aktifbank	(15,784)	(38,047)
Albania Leasing	(1,820)	-
Fees and commissions:		
Letters of guarantee:		
ALBtelecom Sh.a.	30	24
KEDS / KESCO	-	2,820
Calik Enerji Sanayi Ve. Ticaret A.S	24,018	-
Account maintenance and lending fees from ALBtelecom Sh.a. and Eagle Mobile Sh.a.	1,102	678
Other income:		
Operating lease income from ALBtelecom Sh.a.	16,136	10,968
Operating expenses:		
ALBtelecom Sh.a., Eagle Mobile Sh.a. and Calik Holding	(125,939)	(168,076)
Net	306,311	84,354

Balances and transactions with directors and executive officers

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

	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015
Directors	28,381	28,989
Executive officers	672,943	672,193
	701,323	701,182

The remuneration of directors and executive officers for the year ended 31 December 2015 was USD 2,893,752.

As at 31 March 2016, the total deposits of directors held with the Bank were USD 1,570,563 (31 December 2015: USD 1,074,956), while the outstanding loans granted to directors were USD 310,043 (31 December 2015: USD 174,098).

14. Subsequent events

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