

Banka Kombetare Tregtare Sh.A.

**Financial Statements as at
31 December 2003
(with independent auditor's report thereon)**



KPMG Polska Audyt Sp. z o.o.

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Independent Auditors' Report

To the Shareholders of Bank Kombetare Tregtare Sh.A.

We have audited the accompanying balance sheet of Banka Kombetare Tregtare Sh.A. (the Bank) as at 31 December 2003, and the related statements of income, changes in equity and cash flows for the year then ended. These 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 applicable to audit engagements. This Standard requires 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.

As discussed in Note 3.2 to the financial statements, 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 year in the profit and loss account 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 the 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 year would be lower by USD 3,262,285 and balance of share capital at 31 December 2003, would be higher by USD 3,262,285.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2003, and the results of its operations and its cash flows for the year then ended are in accordance with International Financial Reporting Standards.

KPMG Polska Audyt Sp. z o.o.

KPMG Polska Audyt Sp. z o.o.

Warsaw, 25 March 2004



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

Krajowego Rejestru Sądowego
KRS 0000104753
Zarząd: Andrzej Ścisłowski
Graham Dennis, Bogdan Dębicki,
Bożena Graczyk

Zofia Popławska, Leszek Dubicki
Kapitał zakładowy
PLN 125.000
NIP: 526-10-24-841

Banka Kombetare Tregtare Sh.A.

Balance sheets as at 31 December 2003 and 2002

(amounts in USD, unless otherwise stated)

	Notes	31 December 2003	31 December 2002
Assets			
Cash and balances with Central Bank	5	44,824,327	28,174,857
Placement and balances with banks	6	55,468,012	44,309,956
Treasury bills	7	188,826,705	129,325,035
Investment securities	8	24,140,812	19,665,457
Loans and advances to customers	9	29,976,575	9,756,974
Property and equipment	10	9,235,171	7,189,687
Intangible assets	11	472,715	496,643
Deferred tax assets	12	102,287	126,554
Other assets	13	<u>1,030,767</u>	<u>744,211</u>
Total assets		<u><u>354,077,371</u></u>	<u><u>239,789,374</u></u>
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	14	329,991,970	221,316,179
Short term borrowing		-	897,534
Due to third parties	15	701,629	-
Accruals and other liabilities	16	<u>4,395,953</u>	<u>3,022,336</u>
Total liabilities		335,089,552	225,236,049
Shareholders' equity			
Share capital		14,644,250	10,000,000
Translation difference		495,400	94,943
Retained earnings	17	(114,096)	2,553,022
Net profit for the year		<u>3,962,265</u>	<u>1,905,360</u>
Total shareholders' equity		<u><u>18,987,819</u></u>	<u><u>14,553,325</u></u>
Total liabilities and shareholders' equity		<u><u>354,077,371</u></u>	<u><u>239,789,374</u></u>

The financial statements were authorised for release by the Board of Directors on 9 March 2004.

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Income statements for the years ended 31 December 2003 and 2002

(amounts in USD, unless otherwise stated)

	Notes	Year ended 31 December 2003	Year ended 31 December 2002
Interest			
Interest income	18	22,199,780	14,764,450
Interest expense	19	<u>(13,063,305)</u>	<u>(8,537,836)</u>
Net interest margin		9,136,475	6,226,614
Non-interest income, net			
Fees and commissions, net	20	1,126,884	1,041,065
Foreign exchange revaluation gain (loss), net	21	496,232	(110,714)
Profit from FX trading activities, net		682,530	439,356
Other income, net	22	<u>365,390</u>	<u>146,950</u>
Total non-interest income, net		2,671,036	1,516,657
Operating expenses			
Personnel	23	(2,869,287)	(2,387,366)
Administrative	24	(2,453,090)	(1,701,544)
Depreciation and amortization	10, 11	<u>(1,110,237)</u>	<u>(878,136)</u>
Total operating expenses		(6,432,614)	(4,967,046)
Impairment of loans	9	<u>(8,321)</u>	<u>(280,594)</u>
Profit before taxes		5,366,576	2,495,631
Income tax expense	25	(1,404,311)	(590,271)
Net profit for the year		<u>3,962,265</u>	<u>1,905,360</u>

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Statement of changes in equity for the years ended 31 December 2003 and 2002

(amounts in USD, unless otherwise stated)

	Notes	Share Capital	Translation Difference	Retained Earnings	Net profit for the year	Total
Balance at 1 January 2002		10,000,000	26,452	2,474,032	-	12,500,484
Adjustment of RE with 2002 year end exchange rate		-	-	52,538	-	52,538
Net profit for the year		-	-	-	1,905,360	1,905,360
Appropriation of 2001 year translation difference		-	(26,452)	26,452	-	-
Translation difference for the year		-	94,943	-	-	94,943
Balance at 31 December 2002		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 year end exchange rate		-	-	(23,171)	-	(23,171)
Increase in share capital	1	4,644,250	-	-	-	4,644,250
Capitalisation of retained earnings into share capital	1	-	-	(4,644,250)	-	(4,644,250)
Net profit for the year		-	-	-	3,962,265	3,962,265
Appropriation of 2002 year translation difference		-	(94,943)	94,943	-	-
Translation difference for the year		-	495,400	-	-	495,400
Balance at 31 December 2003		14,644,250	495,400	(114,096)	3,962,265	18,987,819

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Statement of cash flows for the years ended 31 December 2003 and 2002

(amounts in USD, unless otherwise stated)

	Year ended 31 December 2003	Year ended 31 December 2002
Cash flows from operating activities:		
Net profit after tax	3,962,265	1,905,360
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,110,237	878,136
Gain on sale of property and equipment	(12,817)	(142,728)
Deferred tax asset	49,405	(120,547)
Gain on sale of treasury bills	(1,324)	(8,477)
Write-off of property and equipment	18,393	52,593
Write-off printed stationery	23,401	-
Impairment of loans	8,321	280,594
Reversal of impairment for loan losses	(319,390)	-
Write-off of small inventory	8,936	-
Cash flows from operating profits before changes in operating assets and liabilities	4,847,427	2,844,931
(Increase)/decrease in operating assets:		
Placements and balances with banks	116,740	19,902,272
Loans and advances to customers	(15,190,945)	(8,893,379)
Other assets	(117,051)	68,712
	(15,191,256)	11,077,605
Increase/(decrease) in operating liabilities:		
Due to customers	45,699,790	8,758,858
Due to third parties	613,350	-
Accruals and other liabilities	527,505	126,632
	46,840,645	8,885,490
Net cash flows from operating activities	36,496,814	22,808,026
Cash flows from investing activities		
Purchases of investment securities	468,589	(14,035,008)
Purchases of treasury bills	(23,404,150)	(23,450,520)
Purchases of property and equipment	(1,185,400)	(630,413)
Proceeds from sale of property and equipment	14,661	187,305
Proceeds from sale of treasury bills	199,929	6,601,790
Net cash used in investing activities	(23,906,371)	(31,326,846)
Cash flows from financing activities		
Proceeds from short term borrowings	(984,549)	854,933
Net cash from financing activities	(984,549)	854,933
Net (decrease)/increase in cash and cash equivalents	11,605,896	(7,663,887)
Translation difference	5,043,574	157,698
Cash and cash equivalents at the beginning of the year	28,174,857	35,681,046
Cash and cash equivalents at the end of the year	44,824,327	28,174,857

The Bank has prepaid tax of USD 1,313,567 as per the tax authority's estimated tax payable calculated at the beginning of 2003.

The interest paid for the year ended 31 December 2003 is USD 11,112,393 while the interest received for the same period is USD 18,289,609.

See accompanying notes to the financial statements

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 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 are in the process of identifying a new shareholder to acquire the shareholding of Kent Bank during 2004.

In March 2003, based on a Shareholders Decision taken on 25 February 2003, the Bank increased its paid-up capital by USD 4,644,250 by allocation of the balance of 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 following the 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 inter-bank market.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 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 BKT is located in Tirana. Currently the Bank has a network of 15 branches, four of them in Tirana, and the others located in Durres, Elbasan, Korca, Gjirokaster, Vlora, Lushnje, Shkodra, Fier, Berat, Pogradec and Saranda. Five of these branches were opened during 2003 (Lapraka in Tirana, Fier, Berat, Pogradec and Saranda) and started their activity in August. The Bank had 269 employees as at 31 December 2003.

2. Statement of compliance

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

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 Albanian Lek (ALL). They are prepared on the historical cost basis.

The accounting policies have been consistently applied by the Bank and, except for the changes in accounting policy (refer note 4), are consistent with those used in the previous year.

3.2 Foreign currency

Presentation currency

The Bank has chosen to present its financial statements in US Dollars, as its equity is wholly owned by international investors, who have issued the start-up capital in USD and view the performance of the investment in terms of USD.

a) Foreign currency transaction

Transactions in foreign currencies are translated into the measurement currency 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, with the exception of the share

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Notes to the financial statements for the year ended 31 December 2003

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capital, which is issued and maintained in USD as per the legislation in Albania as well as per special law no. 8634 between the Bank's shareholders and the Republic of Albania on the Bank's privatisation. Share capital, therefore, is treated as a monetary item, as doing otherwise would not be in line with the legislation in force and would distort the financial statements by inflating share capital and reducing earnings.

b) Translation of financial statements from measurement currency to presentation currency

The Bank applies *SIC 30 – Reporting Currency – Translation from Measurement Currency to Presentation Currency* as detailed below:

- Assets and liabilities for all balance sheets presented (including comparatives) are translated at the closing rate existing at the date of each balance sheet presented;
- Income and expense items for all periods presented (including comparatives) are translated at the closing rate existing at the date of the transaction or a rate that approximates the actual exchange rates;
- Equity items other than the net profit for the period and share capital are translated at the closing rate existing at the date of each balance sheet presented.
- Share capital has been translated as described in paragraph 3.2 a) above; and
- Exchange differences resulting from the translations described above are recognised directly in equity in the "Translation difference" account.

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 2003

(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.

Placements and balances with banks

Placements and balances with banks includes inter-bank placements and current account balances.

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. Held-to-maturity instruments and 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 allowances to reflect the estimated recoverable amounts.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans. Expected cash flows are estimated based on previous experience of customers' repayment history and any late payments of interest or penalties. Changes in the allowance 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 of the allowance is reversed through the income statement.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 2003

(amounts in USD, unless otherwise stated)

3.5 Interest income and expense

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate 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 are generally recognized on an accrual basis when the service has been provided. Loan origination fees, which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan.

3.7 Spot foreign exchange transactions

The Bank during the normal course of business enters into spot foreign exchange transactions with settlement dates 1 or 2 days after the trade date. These transactions are recorded as off balance sheet items on the trade date and recorded in the financial statements on the settlement date.

As at the balance sheet date the outstanding spot foreign exchange transactions are marked to market with the resulting gain or loss recognised in the profit and loss account.

3.8 Repurchase agreements

Securities purchased from the Central Bank under agreements to resell ('reverse repos') within a short period of time (usually 1 week) are recorded as amounts due from the Central Bank. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective yield method.

3.9 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of income and expenditures except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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Notes to the financial statements for the year ended 31 December 2003

(amounts in USD, unless otherwise stated)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.10 Pension plan

The Bank has created a fully employer sponsored pension plan fund (refer to note 16 “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.

The benefit due to employees is calculated based on the number of years they have worked at the Bank, starting from 1 January 2002, and the most recent monthly salary. Only employees that have worked at the Bank for at least 5 years starting from 1 January 2002 are entitled to the benefit.

The amount due to employees based on the above plan will be grossed up by the interest that will accrue from the date the employees leave the Bank until their retirement. It will be paid to employees only when they reach the Albanian statutory retirement age, in monthly instalments equal to 75% or more of their state monthly pension.

3.11 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of items of property and equipment. 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 comprise of software acquired by the Bank. Intangibles assets are stated at cost less accumulated amortization and impairment losses. Amortization is charged to the income statement on a straight-line basis over the estimated useful life of the intangible asset. Software is amortized at an annual rate of 25%.

3.13 Leases

To date, the leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

3.14 Comparative information

Comparative information has been restated in respect of a change in accounting policy for the measurement currency used by the Bank (refer note 4).

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 2003

(amounts in USD, unless otherwise stated)

3.15 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.

4. Changes in accounting policy

As at 31 December 2003, the Bank changed its measurement currency from US Dollar (USD) to the domestic currency, the Albanian Lek (ALL). 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, as the Bank is financed from customer deposits denominated mainly in Lek; invests and conducts financing activities mostly in Lek; incurs labour, materials and other costs of providing services denominated and settled in Lek and performs the majority of its transactions on a Lek basis, which reflects the operating environment in Albania.

The change in accounting policy has been accounted for by adjusting the balance of opening retained earnings and restating comparatives for 2002.

5. Cash and balances with the Central Bank

Cash and balances with the Central Bank as at 31 December 2003 and 2002, are detailed as follows:

	<i>31 December 2003</i>	<i>31 December 2002</i>
<i>Cash</i>	11,410,595	7,024,084
<i>Bank of Albania</i>		
Current account	1,120,562	317,888
Statutory reserve	31,353,843	20,832,885
Repurchase agreement	<u>939,327</u>	<u>-</u>
	<u>33,413,732</u>	<u>21,150,773</u>
	<u>44,824,327</u>	<u>28,174,857</u>

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

"Repurchase agreement" represents securities purchased from the Central Bank under agreements to resell ('reverse repos') within a week.

Banka Kombetare Tregtare Sh.A.

Notes to the financial statements for the year ended 31 December 2003

(amounts in USD, unless otherwise stated)

6. Placements and balances with banks

Placements and balances with banks at 31 December 2003 and 2002 consisted as follows:

	<i>31 December 2003</i>	<i>31 December 2002</i>
Placements	53,837,312	41,683,774
Cash collateral held by correspondent banks	670,347	1,239,006
Current accounts	<u>960,353</u>	<u>1,387,176</u>
	<u>55,468,012</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 in the OECD countries.

Cash collateral represents collateral held by correspondent banks against letters of credit issued to the Bank's clients by the correspondent banks.

7. Treasury bills

Treasury bills bear interest at market rates ranging from 8.99% p.a. to 14.29% p.a. on a compound basis and are all denominated in Lek. Treasury bills by original maturity are presented as follows:

	<i>31 December 2003</i>			<i>31 December 2002</i>		
	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	7,192,470	36,558	7,229,028	54,770,409	1,433,935	56,204,344
12 months	<u>172,412,913</u>	<u>9,184,764</u>	<u>181,597,677</u>	<u>61,010,735</u>	<u>4,040,791</u>	<u>65,051,526</u>
	<u>179,605,383</u>	<u>9,221,322</u>	<u>188,826,705</u>	<u>123,769,031</u>	<u>5,556,004</u>	<u>129,325,035</u>

As at 31 December 2003, the fair value of the Treasury bills portfolio was USD 189,706,084, which exceeds the carrying value by USD 879,379.

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Notes to the financial statements for the year ended 31 December 2003

(amounts in USD, unless otherwise stated)

8. Investment securities

Investment securities comprise USD and Lek denominated bonds at 31 December 2003 as follows:

Issuer	Nominal Value	Premium/ (Discount)	31 December 2003		S & P* Bond Ratings
			Net Value	Maturity Date	
<i>USD Denominated Bonds</i>					
Republic of Turkey	5,000,000	(133,482)	4,866,518	15 June 2010	B+
Republic of Portugal	2,000,000	38,737	2,038,737	21 September 2004	AA
Kingdom of Sweden	3,000,000	36,904	3,036,904	27 May 2004	AA+
Kingdom of Spain	1,000,000	6,602	1,006,602	18 May 2004	AA+
Republic of Finland	1,000,000	19,809	1,019,809	28 July 2004	AAA
Kingdom of Denmark	2,000,000	29,715	2,029,715	02 September 2004	AAA
Government of Canada	1,000,000	22,120	1,022,120	30 November 2004	AAA
European Investment Bank	1,000,000	14,141	1,014,141	08 September 2004	AAA
Inter-American Development Bank	2,000,000	40,623	2,040,623	20 October 2004	AAA
Republic of Hungary	2,000,000	182,881	2,182,881	19 April 2006	A-
	<u>20,000,000</u>	<u>258,050</u>	<u>20,258,050</u>		
<i>Lek Denominated Bonds</i>					
Government of Albania	1,563,802	1,318	1,565,120	18 December 2004	
Government of Albania	1,876,525	33,866	1,910,391	17 July 2005	
Government of Albania	312,754	49	312,803	17 October 2005	
Government of Albania	93,826	622	94,448	18 November 2005	
	<u>3,846,907</u>	<u>35,855</u>	<u>3,882,762</u>		
	<u>23,846,907</u>	<u>293,905</u>	<u>24,140,812</u>		

* These are Standard & Poor's long-term credit ratings by issuers for sovereign and supranational bonds issued in foreign currency.

As at 31 December 2003, the fair value of the bond portfolio was USD 26,007,752, which exceeds the carrying value by USD 1,866,940, while as at 31 December 2002, the fair value of this portfolio was USD 20,562,015, which exceeded the carrying value by USD 896,558. The USD bond issued by the Republic of Hungary and three Lek bonds issued by the Government of Albania have been purchased during 2003.

9. Loans and advances to customers

Loans and advances to customers consisted of the following:

	31 December 2003	31 December 2002
Loans and advances to customers, gross	29,986,093	10,060,863
Less allowances for impairment on loans and advances	<u>(9,518)</u>	<u>(303,889)</u>
	<u>29,976,575</u>	<u>9,756,974</u>

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(amounts in USD, unless otherwise stated)

9. Loans and advances to customers (continued)

Movements in the allowance for impairment on loans and advances:

	<i>2003</i>	<i>2002</i>
At 1 January	303,889	13,060
Impairment charge for the year	8,321	365,847
Reversals during the year	(319,390)	(85,253)
Translation difference	<u>16,698</u>	<u>10,235</u>
At 31 December	<u>9,518</u>	<u>303,889</u>

At 31 December 2003, the Bank's loans in arrears for more than 30 days totalled USD 123,734 (2002: nil). All loans are secured by mortgages and personal guarantees.

BKT began extending loans to private enterprises and individuals in 2001. As at 31 December 2003 the breakdown of the loan portfolio is as follows:

Private Enterprises	73%
Individuals	27%

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

The classification of loans is as follows:

Corporate loans by industry	<i>31 December 2003</i>		<i>31 December 2002</i>	
	USD	%	USD	%
Wholesale and Retail Trade	6,943,138	30%	2,108,469	24%
Hotels and Restaurants	3,401,320	14%	1,486,259	17%
Construction	2,552,927	11%	1,168,745	13%
Manufacturing of Other Non-metallic Products	2,423,549	10%	636,307	7%
Manufacture of Food Products, Beverages	1,643,596	7%	1,324,926	15%
Manufacturing of Basic Metallic	1,298,176	6%	380,000	5%
Personal Needs	1,234,101	5%	100,972	1%
Manufacture of Wood and Wood Products	817,400	3%	302,826	4%
Manufacture of Pulp, Paper & Paper Products	461,859	2%	250,000	3%
Agriculture, Hunting and Forestry	419,476	2%	-	0%
Education	405,177	2%	-	0%
Manufacture of Rubber and Plastic Products	391,920	2%	-	0%
Manufacture of Furniture	311,244	1%	287,386	3%
Manufacture of Textile and Textile Products	185,202	1%	289,324	3%
Other Sectors	<u>977,173</u>	<u>4%</u>	<u>414,248</u>	<u>5%</u>
	<u>23,466,258</u>	<u>100%</u>	<u>8,749,462</u>	<u>100%</u>

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9. Loans and advances to customers (continued)

Retail loans by type	31 December 2003		31 December 2002	
	USD	%	USD	%
Home purchase	3,369,992	52%	506,346	38%
Home improvement	1,659,416	25%	746,406	57%
Home advances	799,292	12%	-	0%
Car purchase	485,594	8%	-	0%
Technical equipment	149,956	2%	50,930	4%
Education support	4,050	0%	7,719	1%
Other types	<u>51,535</u>	<u>1%</u>	<u>-</u>	<u>0%</u>
	<u>6,519,835</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	2.50% to 13.00%
Loans in Euro	4.00% to 13.00%
Loans in Lek	8.00% to 18.62%

10. Property and equipment

Property and equipment at 31 December 2003 and 2002 are composed as follows:

(In USD)	Land and buildings	Plant and equipment	IT Equipment	Office equipment	Work in progress	Total
Gross value						
At 31 December 2002	7,615,278	788,963	1,793,517	212,618	-	10,410,376
Additions	544,336	239,050	412,413	120,423	-	1,316,222
Disposals / transfers	(13,969)	(98,443)	(35,510)	(421)	-	(148,343)
Translation difference	<u>1,940,617</u>	<u>201,053</u>	<u>457,046</u>	<u>54,183</u>	<u>-</u>	<u>2,652,899</u>
At 31 December 2003	<u>10,086,262</u>	<u>1,130,623</u>	<u>2,627,466</u>	<u>386,803</u>	<u>-</u>	<u>14,231,154</u>
Accumulated depreciation						
At 31 December 2002	(1,634,932)	(561,099)	(931,147)	(93,511)	-	(3,220,689)
Charge for the year	(348,025)	(87,151)	(435,248)	(49,828)	-	(920,252)
Disposals / deductions	4,133	85,799	2,111	427	-	92,470
Translation difference	<u>(465,099)</u>	<u>(154,709)</u>	<u>(297,282)</u>	<u>(30,422)</u>	<u>-</u>	<u>(947,512)</u>
At 31 December 2003	<u>(2,443,923)</u>	<u>(717,160)</u>	<u>(1,661,566)</u>	<u>(173,334)</u>	<u>-</u>	<u>(4,995,983)</u>
Net book value						
At 31 December 2002	<u>5,980,346</u>	<u>227,864</u>	<u>862,370</u>	<u>119,107</u>	<u>-</u>	<u>7,189,687</u>
At 31 December 2003	<u>7,642,339</u>	<u>413,463</u>	<u>965,900</u>	<u>213,469</u>	<u>-</u>	<u>9,235,171</u>

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Notes to the financial statements for the year ended 31 December 2003

(amounts in USD, unless otherwise stated)

11. Intangible assets

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

(In USD)	Software
Gross value	
At 31 December 2002	681,110
Additions	65,929
Translation difference	<u>173,568</u>
At 31 December 2003	<u>920,607</u>
Accumulated depreciation	
At 31 December 2002	(184,467)
Charge for the year	(189,985)
Translation difference	<u>(73,440)</u>
At 31 December 2003	<u>(447,892)</u>
Net book value	
At 31 December 2002	<u>496,643</u>
At 31 December 2003	<u>472,715</u>

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

12. Deferred tax assets

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:

	<i>31 December 2003</i>	<i>31 December 2002</i>
Balance at 1 January	126,554	-
Income statement credit / (debit)	(56,517)	126,554
Translation difference	<u>32,250</u>	<u>-</u>
Balance at 31 December	<u>102,287</u>	<u>126,554</u>

Deferred income tax assets are attributable to the following items:

	<i>31 December 2003</i>	<i>31 December 2002</i>
Deferred income on fees on loans	72,738	-
Allowance for loan impairment	(81,218)	49,096
Decelerated depreciation	51,061	23,079
Start up costs written off	<u>59,706</u>	<u>54,379</u>
	<u>102,287</u>	<u>126,554</u>

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13. Other assets

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

	<i>31 December 2003</i>	<i>31 December 2002</i>
Cheques for collection	158,928	129,711
Inventory	50,647	76,674
Accrued interest on bank placements, bonds, deposits with Central Bank and on loans to customers	721,374	477,585
Spot transactions revaluation gain	4,112	-
Other debtors, net	<u>95,706</u>	<u>60,241</u>
	<u>1,030,767</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 printed-paper and PCs waiting to be deployed in use. During 2003 the amount of USD 32,971 was written-off from printed stationery and small inventory.

Other debtors is composed as follows:

	<i>31 December 2003</i>	<i>31 December 2002</i>
Other debtors	107,002	3,139,715
Provision	<u>(11,296)</u>	<u>(3,079,473)</u>
	<u>95,706</u>	<u>60,242</u>

“Other debtors” are composed of three items. The first item of USD 40,501 (2002: 3,098,031) is the remaining amount of balances inherited from transactions prior to the Bank’s privatisation, which were not recoverable. The write off was performed against the provision made for the whole amount, except for the amount of USD 23,288, which is fully cash collateralised. The other two items represent advance payments to suppliers of USD 14,540 (2002: USD 23,407) and prepaid expenses of USD 51,961 (2002: USD 18,277).

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

	<i>2003</i>	<i>2002</i>
At 1 January	3,079,473	3,016,964
Additions during the year	1,999	4,533
Reversals during the year	(7,656)	(3,755)
Write off of debtors	(3,388,065)	-
Translation difference	<u>325,545</u>	<u>61,731</u>
	<u>11,296</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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(amounts in USD, unless otherwise stated)

14. Customer deposits

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

	<i>31 December 2003</i>	<i>31 December 2002</i>
Current accounts:		
Individuals	3,578,445	2,331,169
Private enterprises	31,910,146	21,920,543
State owned entities	<u>24,053,761</u>	<u>19,376,096</u>
	59,542,352	43,627,808
Deposits:		
Individuals	241,209,973	150,165,056
Private enterprises	12,455,044	8,830,720
State owned entities	<u>7,617,539</u>	<u>9,866,075</u>
	261,282,556	168,861,851
Other customer accounts:		
Individuals	605,772	653,703
Private enterprises	7,795,853	7,403,979
State owned entities	<u>765,437</u>	<u>768,838</u>
	9,167,062	8,826,520
	<u>329,991,970</u>	<u>221,316,179</u>

Current accounts and deposits can be further analysed as follows:

	<i>31 December 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	32,480,334	27,062,018	59,542,352	24,486,935	19,140,873	43,627,808
Deposits						
On demand	55,566	228,103	283,669	68,719	550,157	618,876
One month	7,304,037	25,536,387	32,840,424	6,110,552	14,811,425	20,921,977
Three months	45,458,542	23,220,536	68,679,078	35,873,599	16,184,710	52,058,309
Six months	58,128,771	9,885,113	68,013,884	34,705,879	8,659,318	43,365,197
Twelve months	74,385,703	12,267,775	86,653,478	41,173,325	7,863,594	49,036,919
Accrued interest on deposits	<u>4,678,226</u>	<u>133,797</u>	<u>4,812,023</u>	<u>2,695,436</u>	<u>165,137</u>	<u>2,860,573</u>
Total deposits	<u>190,010,845</u>	<u>71,271,711</u>	<u>261,282,556</u>	<u>120,627,510</u>	<u>48,234,341</u>	<u>168,861,851</u>
Other customer accounts	<u>5,752,896</u>	<u>3,414,166</u>	<u>9,167,062</u>	<u>4,994,088</u>	<u>3,832,432</u>	<u>8,826,520</u>
Total customer deposits	<u>228,244,075</u>	<u>101,747,895</u>	<u>329,991,970</u>	<u>150,108,533</u>	<u>71,207,646</u>	<u>221,316,179</u>

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14. Customer deposits (continued)

Other customer accounts are composed as follows:

	31 December 2003			31 December 2002		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Deposits from liquidation of Xhaferi Foundation	2,384,151	124,367	2,508,518	1,901,439	94,041	1,995,480
Deposit guarantees for letters of credit	-	820,225	820,225	-	1,267,989	1,267,989
Escrow accounts	3,043,249	1,842,426	4,885,675	2,831,552	1,951,194	4,782,746
Bank drafts	-	6,147	6,147	12,254	11,948	24,202
Payment orders to be executed	35,954	273,686	309,640	40,939	398,730	439,669
Other	289,541	347,316	636,857	207,904	108,260	316,164
Accrued interest on other customer accounts	-	-	-	-	270	270
	<u>5,752,895</u>	<u>3,414,167</u>	<u>9,167,062</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 escrow accounts given by the Government. “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” represents deposits that are pending to be allocated into the relevant deposit category the next business day (value date).

15. Due to third parties

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

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Notes to the financial statements for the year ended 31 December 2003

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16. Accruals and other liabilities

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

	<i>31 December 2003</i>	<i>31 December 2002</i>
Creditors	1,785,698	1,775,535
Suspense account	1,174,725	604,705
Due to tax authorities	367,063	157,204
Due to banks	17,635	113,179
Reserve fund for retiring employees	193,300	90,000
Social insurance	44,786	26,778
Accrued expenses	379,172	251,918
Other	<u>433,574</u>	<u>3,017</u>
	<u>4,395,953</u>	<u>3,022,336</u>

“Creditors” represent balances 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 in 2002 by the Bank, which will be paid to staff on their retirement. Also refer note 3.10.

“Accrued expenses” among other items, also include USD 136,193 (2002: USD 82,274) of deposit insurance premium due for 2003 according to the new Law no. 8873 “On the Insurance of Deposits” dated 29 March 2002, that provides insurance coverage to individual depositors against bank failures.

“Other” consists of three items. The first item of USD 290,951 (2002: nil), represents deferred income from fee and commissions raised on lending activity; the second of USD 138,440 (2002: nil) are payments due to construction companies in relation to semi finished home loans and the third item of USD 4,183 (2002: USD 3,017) represents cash guarantees received from the suppliers.

17. Retained earnings

Retained earnings represents the balance of earnings from prior periods. As described previously in note 1, the Bank has used part of its statutory retained earnings amounting to Lek 621,121,995 or USD 4,644,250 to increase the share capital.

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18. Interest income

Interest income is composed as follows:

	<i>Year ended</i> <i>31 December 2003</i>	<i>Year ended</i> <i>31 December 2002</i>
Treasury bills and investment securities	17,529,316	12,427,560
Placements with banks and balances with Central Bank	2,411,007	1,839,830
Loans and advances to customers	<u>2,259,457</u>	<u>497,060</u>
	<u>22,199,780</u>	<u>14,764,450</u>

19. Interest expense

Interest expense is composed as follows:

	<i>Year ended</i> <i>31 December 2003</i>	<i>Year ended</i> <i>31 December 2002</i>
Due to banks	15,387	30,796
Customer deposits	<u>13,047,918</u>	<u>8,507,040</u>
	<u>13,063,305</u>	<u>8,537,836</u>

20. Fees and commissions, net

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

	<i>Year ended</i> <i>31 December 2003</i>	<i>Year ended</i> <i>31 December 2002</i>
<i>Fee and commission income</i>		
Lending activity	273,718	230,762
Inter bank transactions	13,339	10,807
Cash transactions with clients	181,302	228,494
Customer accounts' maintenance	186,095	152,990
Payment services to clients	522,717	449,664
Other fees and commissions	<u>23,586</u>	<u>26,046</u>
	<u>1,200,757</u>	<u>1,098,764</u>
<i>Fee and commission expense</i>		
Inter bank transactions	7,700	5,097
Customer accounts' maintenance	64,933	52,089
Payment services to clients	1,186	477
Other fees and commissions	<u>54</u>	<u>36</u>
	<u>73,873</u>	<u>57,699</u>
Fees and commissions, net	<u>1,126,884</u>	<u>1,041,065</u>

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21. Foreign exchange revaluation gain/(loss)

Foreign exchange revaluation gain/(loss) represents the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in note 3.2 it also includes the revaluation of the Bank's share capital. The revaluation gain on this item for 2003 was USD 3,262,285 and 2002 USD 200,142.

22. Other income, net

Other income and expenses are composed as follows:

	<i>Year ended</i> <i>31 December 2003</i>	<i>Year ended</i> <i>31 December 2002</i>
<i>Other income</i>		
Reversal of loan loss provisions	319,390	-
Gain on sale of fixed assets	13,250	186,717
Sundry	<u>70,788</u>	<u>89,629</u>
	<u>403,428</u>	<u>276,346</u>
<i>Other expense</i>		
Loss on sale or write off of fixed assets	17,508	73,295
Provision on other assets	10,944	5,264
Sundry	<u>9,586</u>	<u>50,837</u>
	<u>38,038</u>	<u>129,396</u>
Other income, net	<u>365,390</u>	<u>146,950</u>

23. Personnel expenses

Personnel expenses are composed as follows:

	<i>Year ended</i> <i>31 December 2003</i>	<i>Year ended</i> <i>31 December 2002</i>
Salaries	2,064,608	1,795,839
Performance bonus	308,050	233,045
Social insurance	301,488	225,888
Reserve fund for retiring employees	102,459	87,762
Training	71,005	35,465
Life insurance	5,746	1,871
Other	<u>15,931</u>	<u>7,496</u>
	<u>2,869,287</u>	<u>2,387,366</u>

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24. Administrative expenses

Administrative expenses are composed as follows:

	<i>Year ended</i> <i>31 December 2003</i>	<i>Year ended</i> <i>31 December 2002</i>
Telephone, electricity and IT expenses	670,033	564,972
Deposit insurance expense	477,722	128,032
Security expenses	342,567	260,273
Marketing expenses	240,873	130,474
Transportation and business related travel	201,238	157,720
Repairs and maintenance	144,128	134,105
Lease payments	119,409	79,883
Office stationery and supplies	85,753	105,772
Other external services (including external audit fees)	50,536	98,259
Representation expenses	52,332	6,382
Sundry	31,382	20,724
Write off of printed stationery	23,401	-
Taxes other than tax on profits	13,716	14,948
	<u>2,453,090</u>	<u>1,701,544</u>

25. Income tax expense

Income tax expense is comprised of:

	<i>Year ended</i> <i>31 December 2003</i>	<i>Year ended</i> <i>31 December 2002</i>
Current tax expense	1,354,906	710,818
Deferred tax expense / (benefit) (note 12)	56,517	(126,554)
Translation difference	(7,112)	6,007
	<u>1,404,311</u>	<u>590,271</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>Year ended</i> <i>31 December 2003</i>	<i>Year ended</i> <i>31 December 2002</i>
Profit (loss) before taxes	5,366,576	2,495,631
Computed tax using applicable tax rate	1,341,644	623,908
Non tax deductible expenses	80,829	93,385
Start up costs amortized for tax purposes	(52,194)	(113,709)
Foreign exchange difference	34,032	(13,313)
Tax expense (benefit)	<u>1,404,311</u>	<u>590,271</u>

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26. Financial risk management

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are discussed below.

(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 Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over USD 250,000 are approved only upon decision of the Board of Directors of the Bank. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

(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 procedures for the independent checking of open foreign currency positions. The Bank’s net open foreign currency position at 31 December 2003 is shown in note 29.

(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 re-pricing or reallocation decisions with the approval of the Asset and Liability Committee. Refer to note 30.

(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 daily tracking of 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 its operating policy guidelines, the Banks procedure is to maintain total assets maturing within 90 days at least at 70% of total liabilities with a similar maturity. An analysis of the Bank’s expected timing of cash flows is shown in note 28.

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27. 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.

Placements and balances with Banks

Placements and balances with banks include inter-bank placements and items in the course of collection. As all the placements and overnight deposits are short term and at floating rates their fair value is considered to be equal to their carrying amount.

Treasury bills

Treasury bills are interest-bearing assets held to maturity. Since no active market exists for these investments, fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

As at 31 December 2003, the fair value of the Treasury bills portfolio was USD 189,706,084 (2002: USD 129,325,035), which exceeds the carrying amount by USD 879,379 (2002: nil).

Investment securities

Investment securities include only interest-bearing assets held to maturity. Fair value is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

As at 31 December 2003, the fair value of the entire bond portfolio was USD 26,007,752 (2002: USD 20,562,015), which exceeds the carrying amount by USD 1,866,940 (2002: USD 896,558).

Loans and advances to customers

Loans and advances are net of allowances for impairment. The Bank's loan portfolio has an estimated fair value approximately equal to its book value due to either their short-term nature or underlying interest rates, which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The time deposits have an estimated fair value approximately equal to their carrying amount, because of either their short-term nature and underlying interest rates, which approximate market rates.

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28. Liquidity risk

At 31 December 2003, the Bank's assets, liabilities and shareholders' equity 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	44,824,327	-	-	-	-	44,824,327
Placement and balances with banks	54,207,738	1,260,274	-	-	-	55,468,012
Treasury bills	21,469,072	27,408,511	139,949,122	-	-	188,826,705
Investment securities	-	-	14,773,771	4,500,523	4,866,518	24,140,812
Loans and advances to customers	1,710,671	2,960,162	8,530,389	15,228,788	1,546,565	29,976,575
Property and equipment	-	-	-	1,592,832	7,642,339	9,235,171
Intangible assets	-	-	-	472,715	-	472,715
Deferred tax asset	-	-	-	102,287	-	102,287
Other assets	<u>727,964</u>	<u>23,167</u>	<u>56,408</u>	<u>213,081</u>	<u>10,147</u>	<u>1,030,767</u>
Total assets	<u>122,939,772</u>	<u>31,652,114</u>	<u>163,309,690</u>	<u>22,110,226</u>	<u>14,065,569</u>	<u>354,077,371</u>
Liabilities and shareholders' equity						
Customer deposits	142,205,018	83,174,979	104,611,973	-	-	329,991,970
Due to third parties	701,629	-	-	-	-	701,629
Accruals and other liabilities	3,721,195	190,507	116,480	174,471	193,300	4,395,953
Shareholders' equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,987,819</u>	<u>18,987,819</u>
Total liabilities and shareholders' equity	<u>146,627,842</u>	<u>83,365,486</u>	<u>104,728,453</u>	<u>174,471</u>	<u>19,181,119</u>	<u>354,077,371</u>
Net Position	<u>(23,688,070)</u>	<u>(51,713,372)</u>	<u>58,581,237</u>	<u>21,935,755</u>	<u>(5,115,550)</u>	<u>-</u>
Cumulative Net Position	<u>(23,688,070)</u>	<u>(75,401,442)</u>	<u>(16,820,205)</u>	<u>5,115,550</u>	<u>-</u>	<u>-</u>

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(amounts in USD, unless otherwise stated)

28. Liquidity risk (continued)

At 31 December 2002, the Bank's assets, liabilities and shareholders' equity 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	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
Property and equipment	-	-	-	1,209,341	5,980,346	7,189,687
Intangible assets	-	-	-	496,643	-	496,643
Deferred tax asset	-	-	-	126,554	-	126,554
Other assets	323,590	12,406	21,462	358,953	27,800	744,211
Total assets	<u>105,789,647</u>	<u>26,521,268</u>	<u>74,407,787</u>	<u>21,972,773</u>	<u>11,097,899</u>	<u>239,789,374</u>
Liabilities and shareholders' equity						
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	2,867,290	65,046	-	-	90,000	3,022,336
Shareholders' equity	-	-	-	-	14,553,325	14,553,325
Total liabilities and shareholders' equity	<u>104,261,031</u>	<u>56,063,292</u>	<u>64,821,726</u>	<u>-</u>	<u>14,643,325</u>	<u>239,789,374</u>
Net Position	<u>1,528,616</u>	<u>(29,542,024)</u>	<u>9,586,061</u>	<u>21,972,773</u>	<u>(3,545,426)</u>	<u>-</u>
Cumulative Net Position	<u>1,528,616</u>	<u>(28,013,408)</u>	<u>(18,427,347)</u>	<u>3,545,426</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. Refer to note 30.

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Notes to the financial statements for the year ended 31 December 2003

(amounts in USD, unless otherwise stated)

29. Foreign currency risk

The following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency at 31 December 2003 and 2002 in accordance with the Bank of Albania foreign currency disclosure requirements:

2003	USD	Euro	Lek	Other	Total
Assets					
Cash and balances with Central Bank	6,381,901	12,664,142	25,351,727	426,557	44,824,327
Placements and balances with banks	33,958,282	18,345,744	-	3,163,986	55,468,012
Treasury bills	-	-	188,826,705	-	188,826,705
Investment securities	20,258,050	-	3,882,762	-	24,140,812
Loans and advances to customers	13,327,612	9,919,842	6,729,121	-	29,976,575
Property and equipment	-	-	9,235,171	-	9,235,171
Intangible assets	-	-	472,715	-	472,715
Deferred tax assets	-	-	102,287	-	102,287
Other assets	521,268	66,326	441,123	2,050	1,030,767
Total assets	<u>74,447,113</u>	<u>40,996,054</u>	<u>235,041,611</u>	<u>3,592,593</u>	<u>354,077,371</u>
Off balance sheet items	2,194,561	-	-	-	2,194,561
Liabilities and shareholders' equity					
Customer deposits	58,874,072	39,370,475	228,244,074	3,503,349	329,991,970
Due to third parties	-	-	701,629	-	701,629
Accruals and other liabilities	2,357,873	254,820	1,747,260	36,000	4,395,953
Shareholders' equity	15,139,650	-	3,848,169	-	18,987,819
Total liabilities and shareholders' equity	<u>76,371,595</u>	<u>39,625,295</u>	<u>234,541,132</u>	<u>3,539,349</u>	<u>354,077,371</u>
Off balance sheet items	-	1,877,808	300,760	15,993	2,194,561
Net position	<u>270,079</u>	<u>(507,049)</u>	<u>199,719</u>	<u>37,251</u>	<u>-</u>
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
Property and equipment	-	-	7,189,687	-	7,189,687
Intangible assets	-	-	496,643	-	496,643
Deferred tax assets	-	-	126,554	-	126,554
Other assets	406,638	28,513	308,862	198	744,211
Total assets	<u>58,338,780</u>	<u>23,486,666</u>	<u>157,004,872</u>	<u>959,056</u>	<u>239,789,374</u>
Liabilities and shareholders' equity					
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	701,909	108,569	3,022,336
Shareholders' equity	10,094,943	-	4,458,382	-	14,553,325
Total liabilities and shareholders' equity	<u>59,302,943</u>	<u>23,506,278</u>	<u>156,166,358</u>	<u>813,795</u>	<u>239,789,374</u>
Net position	<u>(964,163)</u>	<u>(19,612)</u>	<u>838,514</u>	<u>145,261</u>	<u>-</u>

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Notes to the financial statements for the year ended 31 December 2003

(amounts in USD, unless otherwise stated)

30. Interest rate risk

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2003 were as follows:

	<i>USD</i>	<i>Euro</i>	<i>Lek</i>
Assets			
Cash and balances with Central Bank	0.77%	1.35%	4.98%
Placement and balances with banks	1.06%	2.13%	N/A
Treasury bills	N/A	N/A	10.71%
Investment securities	2.59%	N/A	12.48%
Loans and advances to customers	10.09%	10.09%	18.40%
Liabilities			
Customer deposits	0.53%	1.04%	6.16%
Accruals and other liabilities	0.1%	0.1%	1.5%

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%
Short term borrowings	N/A	N/A	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 16.

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2003 were 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>	<i>Total</i>
Assets						
Cash and balances with Central Bank	44,824,327	-	-	-	-	44,824,327
Placement and balances with banks	54,207,738	1,260,274	-	-	-	55,468,012
Treasury bills	21,469,072	27,408,511	139,949,122	-	-	188,826,705
Investment securities	-	-	14,773,771	4,500,523	4,866,518	24,140,812
Loans and advances to customers	485,668	1,744,436	21,361,243	5,987,006	398,222	29,976,575
Total	120,986,805	30,413,221	176,084,136	10,487,529	5,264,740	343,236,431
Liabilities						
Customer deposits	142,205,018	83,174,979	104,611,973	-	-	329,991,970
Accruals and other liabilities	3,721,195	190,507	116,480	174,471	193,300	4,395,953
Total	145,926,213	83,365,486	104,728,453	174,471	193,300	334,387,923

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31. 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 a related party relationship with its shareholders as detailed in Note 1.

The Bank also has related party relationships with its directors and executive officers.

Transactions with shareholders

The Bank did not have any related party transactions during 2003.

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>Year ended</i> <i>31 December 2003</i>	<i>Year ended</i> <i>31 December 2002</i>
Directors	42,336	42,336
Executive officers	<u>724,068</u>	<u>812,204</u>
	<u>766,404</u>	<u>854,540</u>

32. Contingencies and commitments including off-balance sheets items

Guarantees

	<i>31 December 2003</i>	<i>31 December 2002</i>
Guarantees in favour of customers	5,236,148	6,211,085
Guarantees received from credit institutions	410,706	1,409,634
Letters of credit issued to customers	824,503	3,518,761

These guarantees are counter guaranteed by other financial institutions or fully cash collateralised.

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 year ended 31 December 2003

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

Other

	<i>31 December 2003</i>	<i>31 December 2002</i>
Undrawn credit commitments	626,027	52,340
Outstanding cheques of non-resident banks	429,387	332,350
Spot foreign currency contract	2,194,561	-
Collaterals for loan portfolio	72,296,640	24,186,362

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 2003.

Lease commitments

Such commitments for the years ended 31 December 2003 and 2002 are composed as follows:

	<i>31 December 2003</i>	<i>31 December 2002</i>
Not later than 1 year	132,636	73,812
Later than 1 year and not later than 5 years	518,544	292,248
Later than 5 years	<u>364,123</u>	<u>178,233</u>
Total	<u>1,015,303</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, while in year 2002, the Bank has entered into a lease commitment for space dedicated to off site disaster recovery.

In addition in year 2003, the Bank has rented the buildings of five new branches opened in Lapraka (Tirana 4), Fier, Berat, Pogradec and Saranda.

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