

Banka Kombetare Tregtare sh.a.

**Independent Auditors' Report and
Financial Statements
for the year ended 31 December 2004**

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Contents

	Page
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS:	
BALANCE SHEET	4
STATEMENT OF OPERATIONS	5
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	6
STATEMENT OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8 – 34

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Banka Kombetare Tregtare sh.a. (the "Bank") as at December 31, 2004, and the related statements of operations, changes in shareholders' 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. The financial statements of the Bank as of December 31, 2003, were audited by another auditor whose report dated March 25, 2004, expressed a qualified opinion due to a departure from International Accounting Standard 21, "The Effects of Changes in Foreign Exchange Rates".

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 explained in Note 3.2, the Bank has treated its share capital issued in United States Dollars as a monetary item in the financial statements and recognised the revaluation difference during the year ended December 31, 2004 in the profit and loss account which is not in accordance with International Accounting Standard 21, "The Effects of Changes in Foreign Exchange Rates". Share capital should be treated as a non-monetary item and carried at the exchange rate at the date of transaction. Accordingly, although this has no effect on total shareholders' equity, if share capital had been treated as a non-monetary item, the reported net profit for the year ended December 31, 2004 would be lower by USD 1,986,772, balance of translation reserve accumulated by December 31, 2004 would be higher by USD 7,868,010 and accumulated retained earnings would be lower by USD 5,881,238.

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 of December 31, 2004, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche d.o.o.

Ljubljana,
January 27, 2005

Audit, Tax, Consulting, Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Banka Kombetare Tregtare Sh.A.

Balance sheet as of 31 December 2004 and 2003

(amounts in USD, unless otherwise stated)

	Notes	31 December 2004	31 December 2003
Assets			
Cash and balances with Central Bank	5	65,338,886	44,824,327
Placement and balances with banks	6	71,298,527	55,789,100
Treasury bills held-to-maturity	7	254,681,395	188,826,705
Investment securities held-to-maturity	8	30,731,107	24,140,812
Loans and advances to customers	9	69,724,672	29,976,575
Property and equipment	10	10,082,719	9,235,171
Intangible assets	11	279,063	472,715
Deferred tax assets	12	88,497	102,287
Other assets	13	<u>1,523,057</u>	<u>1,030,767</u>
Total assets		<u>503,747,923</u>	<u>354,398,459</u>
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	14	472,212,104	329,991,970
Due to banks	15	994,225	338,723
Due to third parties	16	828,530	701,629
Accruals and other liabilities	17	<u>4,433,452</u>	<u>4,378,318</u>
Total liabilities		478,468,311	335,410,640
Shareholders' equity			
Share capital		14,644,250	14,644,250
Translation difference		535,713	495,400
Reserves	18	1,032,741	-
Retained earnings		3,964,427	(114,096)
Net profit for the year		<u>5,102,481</u>	<u>3,962,265</u>
Total shareholders' equity		<u>25,279,612</u>	<u>18,987,819</u>
Total liabilities and shareholders' equity		<u>503,747,923</u>	<u>354,398,459</u>

The financial statements were authorised for release by the Board of Directors on 24 January 2005.

The accompanying notes 1 to 34 are an integral part of these financial statements

Banka Kombetare Tregtare Sh.A.

Statement of operations for the years ended 31 December 2004 and 2003

(amounts in USD, unless otherwise stated)

	Notes	Year ended 31 December 2004	Year ended 31 December 2003
Interest			
Interest income	19	28,769,813	22,199,780
Interest expense	20	<u>(15,419,531)</u>	<u>(13,063,305)</u>
Net interest margin		13,350,282	9,136,475
Non-interest income, net			
Fees and commissions, net	21	1,709,378	1,126,884
Foreign exchange revaluation gain (loss), net	22	(184,624)	496,232
Profit from FX trading activities, net		1,021,683	682,530
Other income, net	23	<u>126,686</u>	<u>365,390</u>
Total non-interest income, net		2,673,123	2,671,036
Operating expenses			
Personnel	24	(3,856,828)	(2,869,287)
Administrative	25	(3,293,700)	(2,453,090)
Depreciation and amortization	10, 11	<u>(1,479,237)</u>	<u>(1,110,237)</u>
Total operating expenses		(8,629,765)	(6,432,614)
Impairment of loans	9	<u>(343,506)</u>	<u>(8,321)</u>
Profit before taxes		7,050,134	5,366,576
Income tax expense	26	<u>(1,947,653)</u>	<u>(1,404,311)</u>
Net profit for the year		<u>5,102,481</u>	<u>3,962,265</u>

The accompanying notes 1 to 34 are an integral part of these financial statements

Banka Kombetare Tregtare Sh.A.

Statement of changes in shareholders' equity for the years ended 31 December 2004 and 2003

(amounts in USD, unless otherwise stated)

	Notes	Share Capital	Translation Difference	Reserves	Retained Earnings	Net profit for the year	Total
Balance at 1 January 2003		10,000,000	94,943	-	2,553,022	1,905,360	14,553,325
Appropriation of prior year net Profit		-	-	-	1,905,360	(1,905,360)	-
Adjustment of RE with 2003 year end exchange rate		-	-	-	(23,171)	-	(23,171)
Increase in share capital		4,644,250	-	-	-	-	4,644,250
Capitalisation of retained earnings into share capital		-	-	-	(4,644,250)	-	(4,644,250)
Net profit for the 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
Appropriation of prior year net profit		-	-	-	3,962,265	(3,962,265)	-
Adjustment of RE with 2004 Year end exchange rate		-	-	-	653,599	-	653,599
Creation of reserves	18	-	-	1,032,741	-	-	1,032,741
Appropriation of retained earnings into reserves		-	-	-	(1,032,741)	-	(1,032,741)
Net profit for the year		-	-	-	-	5,102,481	5,102,481
Appropriation of 2003 year translation difference		-	(495,400)	-	495,400	-	-
Translation difference for the year		-	535,713	-	-	-	535,713
Balance at 31 December 2004		14,644,250	535,713	1,032,741	3,964,427	5,102,481	25,279,612

The accompanying notes 1 to 34 are an integral part of these financial statements

Banka Kombetare Tregtare Sh.A.

Statement of cash flows for the years ended 31 December 2004 and 2003

(amounts in USD, unless otherwise stated)

	Year ended 31 December 2004	Year ended 31 December 2003
Cash flows from operating activities:		
Net profit after tax	5,102,481	3,962,265
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,479,237	1,110,237
Gain on sale of property and equipment	(9,945)	(12,817)
Deferred tax asset	26,311	49,405
Gain on sale of treasury bills available-for-sale	(5,026)	(1,324)
Write-off of property and equipment	14,274	18,393
Write-off printed stationery	-	23,401
Impairment of loans	343,506	8,321
Reversal of impairment for loan losses	(9,873)	(319,390)
Write-off of small inventory	-	8,936
Cash flows from operating profits before changes in operating assets and liabilities	6,940,965	4,847,427
(Increase)/decrease in operating assets:		
Placements and balances with banks	(6,414,534)	(163,949)
Loans and advances to customers	(32,103,855)	(15,190,945)
Other assets	(304,008)	(117,051)
	(38,822,397)	(15,471,945)
Increase/(decrease) in operating liabilities:		
Due to customers	83,456,790	45,699,790
Due to third parties	19,225	613,350
Accruals and other liabilities	(544,294)	636,240
	82,931,721	46,949,380
Net cash flows from operating activities	51,050,289	36,324,862
Cash flows from investing activities		
Purchases of investment securities	(2,666,685)	468,589
Purchases of treasury bills	(34,893,373)	(23,404,150)
Purchases of property and equipment	(765,795)	(1,185,400)
Proceeds from sale of property and equipment	9,732	14,661
Proceeds from sale of treasury bills available-for-sale	1,141,375	199,929
Net cash used in investing activities	(37,174,746)	(23,906,371)
Cash flows from financing activities		
Proceeds from due to banks	545,051	(812,596)
Net cash from financing activities	545,051	(812,596)
Net increase in cash and cash equivalents	14,420,594	11,605,895
Translation difference	6,093,965	5,043,575
Cash and cash equivalents at the beginning of the year	44,824,327	28,174,857
Cash and cash equivalents at the end of the year	65,338,886	44,824,327

The accompanying notes 1 to 34 are an integral part of these financial statements

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(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 Savings Deposit Insurance Fund owned by the Turkish Government. The present shareholders are in the process of identifying a new shareholder to acquire the shareholding of Kent Bank during 2005.

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 2004

(amounts in USD, unless otherwise stated)

1. General (continued)

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. During 2004, the Bank has decided to open five new branches in Kombinat (Tirana 5), Medrese (Tirana 6), Lezhe, Peshkopi, Kukes and two custom agencies in Kakavija and Kapshtica. The Bank had 296 employees as at 31 December 2004.

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.

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

3.2 Foreign currency (continued)

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 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. 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.

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.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

3.3 Financial instruments (continued)

(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 to income through interest income in the income statement based on the effective interest rate of the instrument, when applicable.

(iv) Specific instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and cash deposited with the Central Bank.

Placements and balances with banks

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

Treasury bills Available-for-sale

Treasury bills available-for-sale after initial recognition are re-measured at fair value. Gains and losses arising from change in the fair value of such available-for-sale investments are included in net profit or loss for the period when they arise. The total amount of the available-for-sale portfolio is not exceeding 1% of the total held-to-maturity portfolio of Treasury Bills.

Treasury Bills Held-to-maturity

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.

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

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 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.

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 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.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

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.

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 17 "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 maximum 100% 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%.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

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.

3.15 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.

3.16 Comparatives

Certain comparatives figures have been reclassified to conform to the current year presentation.

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.

5. Cash and balances with the Central Bank

Cash and balances with the Central Bank as at 31 December 2004 and 31 December 2003, are detailed as follows:

	<i>31 December 2004</i>	<i>31 December 2003</i>
<i>Cash</i>	17,750,665	11,410,595
<i>Bank of Albania</i>		
Current account	2,921,922	1,120,562
Statutory reserve	44,666,299	31,353,843
Repurchase agreement	-	939,327
	<u>47,588,221</u>	<u>33,413,732</u>
	<u>65,338,886</u>	<u>44,824,327</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 2004

(amounts in USD, unless otherwise stated)

6. Placements and balances with banks

Placements and balances with banks at 31 December 2004 and 31 December 2003 consisted as follows:

	<i>31 December 2004</i>	<i>31 December 2003</i>
Placements	70,211,866	53,837,312
Cash collateral held by correspondent banks	595,973	670,347
Current accounts	<u>490,688</u>	<u>1,281,441</u>
	<u>71,298,527</u>	<u>55,789,100</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 and as a cash deposit for the security of risks, which might raise from the new credit card project of the Bank.

7. Treasury bills held-to-maturity

Treasury bills bear interest at market rates ranging from 6.38% p.a. to 12.42% p.a. on a compound basis and are all denominated in Lek. Treasury bills by original maturity are presented as follows:

	<i>31 December 2004</i>			<i>31 December 2003</i>		
	Purchase Value	Amortised discount	Amortised cost	Purchase Value	Amortised discount	Amortised cost
3 months	8,053,271	81,466	8,134,737	-	-	-
6 months	42,774,277	765,169	43,539,446	7,192,470	36,558	7,229,028
12 months	<u>195,689,197</u>	<u>7,318,015</u>	<u>203,007,212</u>	<u>172,412,913</u>	<u>9,184,764</u>	<u>181,597,677</u>
	<u>246,516,745</u>	<u>8,164,650</u>	<u>254,681,395</u>	<u>179,605,383</u>	<u>9,221,322</u>	<u>188,826,705</u>

As at 31 December 2004, the fair value of the Treasury bills portfolio was USD 255,280,627, which exceeds the carrying value by USD 599,232, while as at 31 December 2003, the fair value of the Treasury bills portfolio was USD 189,706,084, which exceeded the carrying value by USD 879,379.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

8. Investment securities held-to-maturity

Investment securities comprise USD, EUR and Lek denominated bonds at 31 December 2004 as follows:

Issuer	Nominal Value	Premium/ (Discount)	31 December 2004		S & P* Bond Ratings
			Net Value	Maturity Date	
<i>USD Denominated Bonds</i>					
Republic of Turkey	5,000,000	(114,531)	4,885,469	15 June 2010	BB-
Republic of Hungary	2,000,000	104,064	2,104,064	19 April 2006	A-
	<u>7,000,000</u>	<u>(10,467)</u>	<u>6,989,533</u>		
<i>EUR Denominated Bonds</i>					
Republic of Lithuania	2,045,823	15,338	2,061,161	22 February 2005	A-
Republic of South Africa	2,045,823	98,806	2,144,629	19 May 2006	BBB
Malaysia	2,045,823	70,943	2,116,766	24 November 2005	A-
Republic of Slovenia	295,962	3,610	299,572	27 May 2005	AA-
Republic of Slovenia	566,010	6,866	572,876	27 May 2005	AA-
	<u>6,999,441</u>	<u>195,563</u>	<u>7,195,004</u>		
<i>Lek Denominated Bonds</i>					
Government of Albania	2,158,895	13,712	2,172,607	17 July 2005	
Government of Albania	359,815	26	359,841	17 October 2005	
Government of Albania	107,945	281	108,226	18 November 2005	
Government of Albania	539,724	515	540,239	19 January 2006	
Government of Albania	2,158,895	-	2,158,295	18 March 2006	
Government of Albania	5,397,236	58,230	5,455,466	17 September 2006	
Government of Albania	5,721,071	30,225	5,751,296	17 December 2006	
	<u>16,443,581</u>	<u>102,989</u>	<u>16,546,570</u>		
	<u>30,443,022</u>	<u>288,085</u>	<u>30,731,107</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 2004, the fair value of the bond portfolio was USD 32,103,490, which exceeds the carrying value by USD 1,372,383, while as at 31 December 2003, the fair value of the bond portfolio was USD 26,007,752, which exceeded the carrying value by USD 1,866,940. All of the Euro bonds and four of the Lek bonds issued by the Government of Albania have been purchased during 2004, while are matured during the year eight USD denominated bonds amounting at a nominal value of USD 13 million.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

9. Loans and advances to customers

Loans and advances to customers consisted of the following:

	<i>31 December 2004</i>	<i>31 December 2003</i>
Loans and advances to customers, gross	70,105,666	29,986,093
Less allowances for impairment on loans and advances	<u>(380,994)</u>	<u>(9,518)</u>
	<u>69,724,672</u>	<u>29,976,575</u>

Movements in the allowance for impairment on loans and advances:

	<i>2004</i>	<i>2003</i>
At 1 January	9,518	303,889
Impairment charge for the year	343,506	8,321
Reversals during the year	(9,873)	(319,390)
Translation difference	<u>37,843</u>	<u>16,698</u>
At the end of the year	<u>380,994</u>	<u>9,518</u>

At 31 December 2004, the Bank's loans in arrears for more than 30 days totalled USD 749,277 (2003: USD 123,734). All loans are secured by mortgages and personal guarantees.

BKT began extending loans to private enterprises and individuals in 2001. As at 31 December 2004 the breakdown of the loan portfolio is as follows:

Private Enterprises	63%
Individuals	37%

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

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

Loans in USD	3.60% to 14.58%
Loans in Euro	4.30% to 13.33%
Loans in Lek	8.00% to 18.12%

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

9. Loans and advances to customers (continued)

The classification of loans is as follows:

Corporate loans by industry	31 December 2004		31 December 2003	
	USD	%	USD	%
Wholesale and Retail Trade	18,112,353	34%	6,943,138	30%
Construction	6,866,325	13%	3,401,320	14%
Hotels and Restaurants	4,598,686	9%	2,552,927	11%
Manufacturing of Other Non-metallic Products	2,974,996	6%	2,423,549	10%
Other Community, Social and Personal Activities	2,941,274	5%	-	-
Personal Needs	2,793,799	5%	1,234,101	5%
Manufacture of Food Products, Beverages	2,127,064	4%	1,643,596	7%
Real Estate, Renting and Business Activity	1,873,334	3%	-	-
Manufacture of Wood and Wood Products	1,871,283	3%	817,400	3%
Manufacturing of Basic Metallic	1,688,688	3%	1,298,176	6%
Financial Intermediation	1,381,159	3%	-	-
Manufacture of Textile and Textile Products	929,831	2%	185,202	1%
Education	821,778	2%	405,177	2%
Transport, Storage and Communication	571,041	1%	-	-
Agriculture, Hunting and Forestry	554,767	1%	419,476	2%
Manufacture of Furniture	526,954	1%	311,244	1%
Manufacture of Rubber and Plastic Products	523,302	1%	391,920	2%
Manufacture of Pulp, Paper & Paper Products	504,360	1%	461,859	2%
Other Sectors	<u>1,419,448</u>	<u>3%</u>	<u>977,173</u>	<u>4%</u>
	<u>53,080,442</u>	<u>100%</u>	<u>23,466,258</u>	<u>100%</u>
Retail loans by type	31 December 2004		31 December 2003	
	USD	%	USD	%
Home purchase	9,285,989	55%	3,369,992	52%
Home advances	2,795,343	16%	1,659,416	25%
Home improvement	2,788,953	16%	799,292	12%
Car purchase	1,231,399	7%	485,594	8%
Home reconstruction	393,907	2%	-	-
Technical equipment	321,843	2%	149,956	2%
General purpose staff loan	97,195	1%	-	-
Other types	<u>110,595</u>	<u>1%</u>	<u>55,585</u>	<u>1%</u>
	<u>17,025,224</u>	<u>100%</u>	<u>6,519,835</u>	<u>100%</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

10. Property and equipment

Property and equipment at 31 December 2004 and 31 December 2003 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 2003	10,086,262	1,130,623	2,627,466	386,803	-	14,231,154
Additions	-	152,001	691,556	1,904	-	845,461
Disposals / transfers	-	(81,703)	(194,858)	(10,091)	-	(286,652)
Translation difference	<u>1,517,730</u>	<u>170,131</u>	<u>395,367</u>	<u>58,204</u>	-	<u>2,141,432</u>
At 31 December 2004	<u>11,603,992</u>	<u>1,371,052</u>	<u>3,519,531</u>	<u>436,820</u>	-	<u>16,931,395</u>
Accumulated depreciation						
At 31 December 2003	(2,443,923)	(717,160)	(1,661,566)	(173,334)	-	(4,995,983)
Charge for the year	(435,441)	(141,241)	(588,177)	(75,348)	-	(1,240,207)
Disposals / deductions	-	68,207	193,039	10,104	-	271,350
Translation difference	<u>(414,667)</u>	<u>(122,839)</u>	<u>(312,114)</u>	<u>(34,216)</u>	-	<u>(883,836)</u>
At 31 December 2004	<u>(3,294,031)</u>	<u>(913,033)</u>	<u>(2,368,818)</u>	<u>(272,794)</u>	-	<u>(6,848,676)</u>
Net book value						
At 31 December 2003	<u>7,642,339</u>	<u>413,463</u>	<u>965,900</u>	<u>213,469</u>	-	<u>9,235,171</u>
At 31 December 2004	<u>8,309,961</u>	<u>458,019</u>	<u>1,150,713</u>	<u>164,026</u>	-	<u>10,082,719</u>

11. Intangible assets

Intangible assets at 31 December 2004 and 31 December 2003 are composed as follows:

(In USD)	Software
Gross value	
At 31 December 2003	920,607
Additions	-
Translation difference	<u>138,528</u>
At 31 December 2004	<u>1,059,135</u>
Accumulated depreciation	
At 31 December 2003	(447,892)
Charge for the year	(239,030)
Translation difference	<u>(93,150)</u>
At 31 December 2004	<u>(780,072)</u>
Net book value	
At 31 December 2003	<u>472,715</u>
At 31 December 2004	<u>279,063</u>

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

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

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 2004</i>	<i>31 December 2003</i>
Balance at 1 January	102,287	126,554
Charge to expenses for the year	(26,311)	(49,405)
Exchange differences	<u>12,521</u>	<u>25,138</u>
Balance at the end of the year	<u>88,497</u>	<u>102,287</u>

Deferred income tax assets are attributable to the following items:

	<i>31 December 2004</i>	<i>31 December 2003</i>
Deferred income on fees on loans	190,677	72,738
Allowance for loan impairment	(228,235)	(81,218)
Decelerated depreciation	67,177	51,061
Start up costs written off	<u>58,878</u>	<u>59,706</u>
	<u>88,497</u>	<u>102,287</u>

13. Other assets

Other assets, net at 31 December 2004 and 31 December 2003 are as follows:

	<i>31 December 2004</i>	<i>31 December 2003</i>
Cheques for collection	33,369	158,928
Inventory	46,309	50,647
Accrued interest on bank placements, bonds, deposits with Central Bank and on loans to customers	1,310,671	721,374
Spot transactions revaluation gain	177	4,112
Other debtors, net	<u>132,531</u>	<u>95,706</u>
	<u>1,523,057</u>	<u>1,030,767</u>

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

“Inventory” represents stationary, supplies and printed-paper waiting to be deployed in use.

Other debtors is composed as follows:

	<i>31 December 2004</i>	<i>31 December 2003</i>
Other debtors	143,381	107,002
Provision	<u>(10,850)</u>	<u>(11,296)</u>
	<u>132,531</u>	<u>95,706</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

13. Other assets (continued)

“Other debtors” are composed of three items. The first item of USD 50,060 (2003: 40,501) is the remaining amount after the write off performed last year of the balances inherited from transactions prior to the Bank’s privatisation, which are provisioned for the whole amount, except for the amount of USD 26,792, which is fully cash collateralised and for the amount of USD 11,962, which are continuously recoverable from the credit clients of the bank. The other two items represent advance payments to suppliers and bank personnel of USD 64,352 (2003: USD 14,540) and prepaid expenses of USD 28,969 (2003: USD 51,961).

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

	2004	2003
At 1 January	11,296	3,079,473
Additions during the year	-	1,999
Reversals during the year	(1,623)	(7,656)
Write off of debtors	-	(3,388,065)
Translation difference	<u>1,177</u>	<u>325,545</u>
At the end of the year	<u>10,850</u>	<u>11,296</u>

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

14. Customer deposits

Customer deposits at 31 December 2004 and 31 December 2003 are composed as follows:

	31 December 2004	31 December 2003
Current accounts:		
Individuals	9,492,736	3,578,445
Private enterprises	42,535,143	31,910,146
State owned entities	<u>28,458,180</u>	<u>24,053,761</u>
	80,486,059	59,542,352
Deposits:		
Individuals	358,725,181	241,209,973
Private enterprises	16,968,053	12,455,044
State owned entities	<u>7,923,476</u>	<u>7,617,539</u>
	383,616,710	261,282,556
Other customer accounts:		
Individuals	2,050,649	1,242,629
Private enterprises	5,314,267	7,158,996
State owned entities	<u>744,419</u>	<u>765,437</u>
	<u>8,109,335</u>	<u>9,167,062</u>
	<u>472,212,104</u>	<u>329,991,970</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

14. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

	31 December 2004			31 December 2003		
	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>
Current accounts	48,316,954	32,169,105	80,486,059	32,480,334	27,062,018	59,542,352
Deposits						
On demand	75,468	331,985	407,453	55,566	228,103	283,669
One month	11,188,636	38,888,403	50,077,039	7,304,037	25,536,387	32,840,424
Three months	50,560,218	31,289,370	81,849,588	45,458,542	23,220,536	68,679,078
Six months	83,121,171	17,657,977	100,779,148	58,128,771	9,885,113	68,013,884
Twelve months and over	122,681,267	21,990,706	144,671,973	74,385,703	12,267,775	86,653,478
Accrued interest on deposits	<u>5,538,976</u>	<u>292,533</u>	<u>5,831,509</u>	<u>4,678,226</u>	<u>133,797</u>	<u>4,812,023</u>
Total deposits	<u>273,165,736</u>	<u>110,450,974</u>	<u>383,616,710</u>	<u>190,010,845</u>	<u>71,271,711</u>	<u>261,282,556</u>
Other customer accounts	<u>4,835,914</u>	<u>3,273,421</u>	<u>8,109,335</u>	<u>5,752,896</u>	<u>3,414,166</u>	<u>9,167,062</u>
Total customer deposits	<u>326,318,604</u>	<u>145,893,500</u>	<u>472,212,104</u>	<u>228,244,075</u>	<u>101,747,895</u>	<u>329,991,970</u>

Other customer accounts are composed as follows:

	31 December 2004			31 December 2003		
	<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	979,426	23,525	1,002,951	2,384,151	124,367	2,508,518
Deposit guarantees for letters of credit	-	457,477	457,477	-	820,225	820,225
Escrow accounts	3,257,889	1,687,107	4,944,996	3,043,249	1,842,426	4,885,675
Bank drafts	-	6,291	6,291	-	6,147	6,147
Payment orders to be executed	18,586	284,242	302,828	35,954	273,686	309,640
Other	<u>580,013</u>	<u>814,779</u>	<u>1,394,792</u>	<u>289,541</u>	<u>347,316</u>	<u>636,857</u>
	<u>4,835,914</u>	<u>3,273,421</u>	<u>8,109,335</u>	<u>5,752,895</u>	<u>3,414,167</u>	<u>9,167,062</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.

“Escrow accounts” balance represents sums momentary blocked until the completion of an operation or the extinction of a risk. Amounts registered in these accounts are related to cash coverage received from customers due to the issuance of bid and performance bonds by the bank or due to treasury bills’ transactions with Bank of Albania intermediated by the bank.

“Other” represents deposits that are pending to be allocated into the relevant deposit category the next business day (value date).

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

15. Due to banks

Due to banks at 31 December 2004 and 31 December 2003 consisted as follows:

	<i>31 December 2004</i>	<i>31 December 2003</i>
Deposits from resident banks	676,687	-
Current accounts of non resident banks	303,071	321,088
Current accounts of resident banks	<u>14,467</u>	<u>17,635</u>
	<u>994,225</u>	<u>338,723</u>

The Bank as at 31 December 2004, has borrowed from one resident bank in Usd. The contractual maturity and its balance is detailed as follows:

Bank	Principal	Accrued Interest	Total Deposit	Maturity Date
Banka Popullore	675,000	1,687	676,687	20 May 2005

16. 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 2004 represents the amount collected from the taxpayers, which has not yet been transferred to the tax authorities account.

17. Accruals and other liabilities

A breakdown of accruals and other liabilities at 31 December 2004 and 31 December 2003 is presented as follows:

	<i>31 December 2004</i>	<i>31 December 2003</i>
Creditors	1,842,831	1,785,698
Transit account	291,208	1,174,725
Due to tax authorities	355,907	367,063
Reserve fund for retiring employees	325,300	193,300
Social insurance	59,361	44,786
Accrued expenses	332,048	379,172
Other	<u>1,226,797</u>	<u>433,574</u>
	<u>4,433,452</u>	<u>4,378,318</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. “Transit account” represents the undefined customer accounts that are cleared within a couple of days after the end of the period.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

17. Accruals and other liabilities (continued)

“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 197,764 (2003: USD 136,193) of deposit insurance premium due for the last quarter of 2004 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 762,707 (2003: USD 290,951), represents deferred income from fee and commissions raised on lending activity; the second of USD 462,890 (2003: USD 138,440) are payments due to construction companies in relation to semi finished home loans and the last item of USD 1,200 (2003: USD 4,183) represents cash guarantees received from the suppliers.

18. Reserves

Reserves represent the balances created by using the previous year statutory profit, in accordance with the local legislation, in order to provide for coverage for possible losses that can arise during the normal course of the business.

19. Interest income

Interest income is composed as follows:

	<i>Year ended</i> <i>31 December 2004</i>	<i>Year ended</i> <i>31 December 2003</i>
Treasury bills and investment securities	21,045,269	17,529,316
Placements with banks and balances with Central Bank	2,649,913	2,411,007
Loans and advances to customers	<u>5,074,631</u>	<u>2,259,457</u>
	<u>28,769,813</u>	<u>22,199,780</u>

20. Interest expense

Interest expense is composed as follows:

	<i>Year ended</i> <i>31 December 2004</i>	<i>Year ended</i> <i>31 December 2003</i>
Due to banks	52,690	15,387
Customer deposits	<u>15,366,841</u>	<u>13,047,918</u>
	<u>15,419,531</u>	<u>13,063,305</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

21. Fees and commissions, net

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

	<i>Year ended</i> 31 December 2004	<i>Year ended</i> 31 December 2003
<i>Fee and commission income</i>		
Lending activity	657,763	273,718
Inter bank transactions	25,067	13,339
Cash transactions with clients	164,144	181,302
Customer accounts' maintenance	244,697	186,095
Payment services to clients	669,615	522,717
Other fees and commissions	<u>32,893</u>	<u>23,586</u>
	<u>1,794,179</u>	<u>1,200,757</u>
<i>Fee and commission expense</i>		
Inter bank transactions	7,907	7,700
Customer accounts' maintenance	76,049	64,933
Payment services to clients	845	1,186
Other fees and commissions	<u>-</u>	<u>54</u>
	<u>84,801</u>	<u>73,873</u>
Fees and commissions, net	<u>1,709,378</u>	<u>1,126,884</u>

22. 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 the year ended 31 December 2004 is USD 1,986,772 (2003: USD 3,262,285).

23. Other income, net

Other income and expenses are composed as follows:

	<i>Year ended</i> 31 December 2004	<i>Year ended</i> 31 December 2003
<i>Other income</i>		
Reversal of loan loss provisions	9,873	319,390
Gain on sale of fixed assets	10,183	13,250
Sundry	<u>121,932</u>	<u>70,788</u>
	<u>141,988</u>	<u>403,428</u>
<i>Other expense</i>		
Loss on sale or write off of fixed assets	14,503	17,508
Provision on other assets	8	10,944
Sundry	<u>791</u>	<u>9,586</u>
	<u>15,302</u>	<u>38,038</u>
Other income, net	<u>126,686</u>	<u>365,390</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

24. Personnel expenses

Personnel expenses are composed as follows:

	<i>Year ended 31 December 2004</i>	<i>Year ended 31 December 2003</i>
Salaries	2,796,167	2,064,608
Social insurance	456,924	301,488
Performance bonus	278,167	308,050
Training	168,214	71,005
Reserve fund for retiring employees	131,699	102,459
Life insurance	2,939	5,746
Other	<u>22,718</u>	<u>15,931</u>
	<u>3,856,828</u>	<u>2,869,287</u>

25. Administrative expenses

Administrative expenses are composed as follows:

	<i>Year ended 31 December 2004</i>	<i>Year ended 31 December 2003</i>
Telephone, electricity and IT expenses	835,403	670,033
Deposit insurance expense	714,114	477,722
Security expenses	469,359	342,567
Marketing expenses	301,554	240,873
Transportation and business related travel	273,845	201,238
Repairs and maintenance	157,960	144,128
Lease payments	151,974	119,409
Office stationery and supplies	129,173	85,753
Taxes other than tax on profits	103,962	13,716
Other external services (including external audit fees)	86,944	50,536
Representation expenses	45,234	52,332
Write off of printed stationery	-	23,401
Sundry	<u>24,178</u>	<u>31,382</u>
	<u>3,293,700</u>	<u>2,453,090</u>

26. Income tax expense

Income tax expense is comprised of:

	<i>Year ended 31 December 2004</i>	<i>Year ended 31 December 2003</i>
Current tax expense	1,921,342	1,354,906
Deferred tax expense / (benefit) (note 12)	<u>26,311</u>	<u>49,405</u>
	<u>1,947,653</u>	<u>1,404,311</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

26. Income tax expense (continued)

Income tax in Albania is assessed at the rate of 25% (2003: 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 2004</i>	<i>Year ended</i> <i>31 December 2003</i>
Profit (loss) before taxes	7,050,134	5,366,576
Computed tax using applicable tax rate	1,762,534	1,341,644
Non tax deductible expenses	108,299	80,829
Start up costs amortized for tax purposes	(53,085)	(52,194)
Foreign exchange difference	<u>129,905</u>	<u>34,032</u>
Tax expense (benefit)	<u>1,947,653</u>	<u>1,404,311</u>

27. 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 2004 is shown in note 30.

(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 31.

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

27. Financial risk management (continued)

(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 29.

28. 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 2004, the fair value of the Treasury bills portfolio was USD 255,280,627 (2003: USD 189,706,084), which exceeds the carrying amount by USD 599,232 (2003: USD 879,379).

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 2004, the fair value of the entire bond portfolio was USD 32,103,490 (2003: USD 26,007,752), which exceeds the carrying amount by USD 1,372,383 (2003: USD 1,866,940).

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.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

28. Estimation of fair value (continued)

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.

29. Liquidity risk

At 31 December 2004, 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	65,338,886	-	-	-	-	65,338,886
Placement and balances with banks	53,491,419	11,714,087	6,093,021	-	-	71,298,527
Treasury bills held-to-maturity	26,424,943	49,020,566	179,235,886	-	-	254,681,395
Investment securities held-to-maturity	-	2,061,161	5,629,888	18,154,589	4,885,469	30,731,107
Loans and advances to customers	2,635,865	5,940,888	19,032,464	35,609,649	6,505,806	69,724,672
Property and equipment	-	-	-	1,772,759	8,309,960	10,082,719
Intangible assets	-	-	-	279,063	-	279,063
Deferred tax asset	-	-	-	88,497	-	88,497
Other assets	<u>276,927</u>	<u>210,224</u>	<u>332,680</u>	<u>631,001</u>	<u>72,225</u>	<u>1,523,057</u>
Total assets	<u>148,168,040</u>	<u>68,946,926</u>	<u>210,323,939</u>	<u>56,535,558</u>	<u>19,773,460</u>	<u>503,747,923</u>
Liabilities and shareholders' equity						
Customer deposits	196,557,862	109,953,408	162,807,160	2,893,674	-	472,212,104
Due to banks	317,538	-	676,687	-	-	994,225
Due to third parties	828,530	-	-	-	-	828,530
Accruals and other liabilities	3,254,352	182,795	208,852	462,153	325,300	4,433,452
Shareholders' equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,279,612</u>	<u>25,279,612</u>
Total liabilities and shareholders' equity	<u>200,958,282</u>	<u>110,136,203</u>	<u>163,692,699</u>	<u>3,355,827</u>	<u>25,604,912</u>	<u>503,747,923</u>
Net Position	<u>(52,790,242)</u>	<u>(41,189,277)</u>	<u>46,631,240</u>	<u>53,179,731</u>	<u>(5,831,452)</u>	<u>-</u>
Cumulative Net Position	<u>(52,790,242)</u>	<u>(93,979,519)</u>	<u>(47,348,279)</u>	<u>5,831,452</u>	<u>-</u>	<u>-</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

29. Liquidity risk (continued)

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	54,528,826	1,260,274	-	-	-	55,789,100
Treasury bills held-to-maturity	21,469,072	27,408,511	139,949,122	-	-	188,826,705
Investment securities held-to-maturity	-	-	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	727,964	23,167	56,408	213,081	10,147	1,030,767
Total assets	<u>123,260,860</u>	<u>31,652,114</u>	<u>163,309,690</u>	<u>22,110,226</u>	<u>14,065,569</u>	<u>354,398,459</u>
Liabilities and shareholders' equity						
Customer deposits	142,205,018	83,174,979	104,611,973	-	-	329,991,970
Due to banks	338,723	-	-	-	-	338,723
Due to third parties	701,629	-	-	-	-	701,629
Accruals and other liabilities	3,703,560	190,507	116,480	174,471	193,300	4,378,318
Shareholders' equity	-	-	-	-	18,987,819	18,987,819
Total liabilities and shareholders' equity	<u>146,948,930</u>	<u>83,365,486</u>	<u>104,728,453</u>	<u>174,471</u>	<u>19,181,119</u>	<u>354,398,459</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>

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 31.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

30. Foreign currency risk

The following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency at 31 December 2004 and 31 December 2003 in accordance with the Bank of Albania foreign currency disclosure requirements:

<i>2004</i>	<i>Lek</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
Assets					
Cash and balances with Central Bank	36,595,051	9,811,202	18,460,925	471,708	65,338,886
Placements and balances with banks	-	51,211,937	12,047,036	8,039,554	71,298,527
Treasury bills held-to-maturity	254,681,395	-	-	-	254,681,395
Investment securities held-to-maturity	16,546,570	6,989,533	7,195,004	-	30,731,107
Loans and advances to customers	14,730,321	17,675,805	37,318,546	-	69,724,672
Property and equipment	10,082,719	-	-	-	10,082,719
Intangible assets	279,063	-	-	-	279,063
Deferred tax assets	88,497	-	-	-	88,497
Other assets	690,881	287,576	518,595	26,005	1,523,057
Total assets	<u>333,694,497</u>	<u>85,976,053</u>	<u>75,540,106</u>	<u>8,537,267</u>	<u>503,747,923</u>
Off balance sheet items	434,801	1,782,386	915,729	-	3,132,916
Liabilities and shareholders' equity					
Customer deposits	326,318,604	66,854,206	70,659,516	8,379,778	472,212,104
Due to banks	1,230	686,000	305,103	1,892	994,225
Due to third parties	828,530	-	-	-	828,530
Accruals and other liabilities	1,020,907	2,530,636	864,390	17,519	4,433,452
Shareholders' equity	10,635,362	14,644,250	-	-	25,279,612
Total liabilities and shareholders' equity	<u>338,804,633</u>	<u>84,715,092</u>	<u>71,829,009</u>	<u>8,399,189</u>	<u>503,747,923</u>
Off balance sheet items	407,006	505,741	2,100,757	119,412	3,132,916
Net position	<u>(5,082,341)</u>	<u>2,537,606</u>	<u>2,526,069</u>	<u>18,666</u>	<u>-</u>
<i>2003</i>	<i>Lek</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
Assets					
Cash and balances with Central Bank	25,351,727	6,381,901	12,664,142	426,557	44,824,327
Placements and balances with banks	-	33,958,282	18,666,832	3,163,986	55,789,100
Treasury bills held-to-maturity	188,826,705	-	-	-	188,826,705
Investment securities held-to-maturity	3,882,762	20,258,050	-	-	24,140,812
Loans and advances to customers	6,729,121	13,327,612	9,919,842	-	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	441,123	521,268	66,326	2,050	1,030,767
Total assets	<u>235,041,611</u>	<u>74,447,113</u>	<u>41,317,142</u>	<u>3,592,593</u>	<u>354,398,459</u>
Off balance sheet items	-	2,194,561	-	-	2,194,561
Liabilities and shareholders' equity					
Customer deposits	228,244,074	58,874,072	39,370,475	3,503,349	329,991,970
Due to banks	534	11,592	324,790	1,807	338,723
Due to third parties	701,629	-	-	-	701,629
Accruals and other liabilities	1,746,726	2,346,281	251,118	34,193	4,378,318
Shareholders' equity	3,848,169	15,139,650	-	-	18,987,819
Total liabilities and shareholders' equity	<u>234,541,132</u>	<u>76,371,595</u>	<u>39,946,383</u>	<u>3,539,349</u>	<u>354,398,459</u>
Off balance sheet items	300,760	-	1,877,808	15,993	2,194,561
Net position	<u>199,719</u>	<u>270,079</u>	<u>(507,049)</u>	<u>37,251</u>	<u>-</u>

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

31. Interest rate risk

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2004 were as follows:

	<i>Lek</i>	<i>USD</i>	<i>Euro</i>
Assets			
Cash and balances with Central Bank	3.68%	1.69%	1.52%
Placement and balances with banks	N/A	2.31%	2.07%
Treasury bills held-to-maturity	8.42%	N/A	N/A
Investment securities held-to-maturity	9.56%	5.24%	2.79%
Loans and advances to customers	15.84%	9.75%	9.20%
Liabilities			
Customer deposits	5.07%	1.15%	1.17%
Due to banks	1%	2.04%	0.10%

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

	<i>Lek</i>	<i>USD</i>	<i>Euro</i>
Assets			
Cash and balances with Central Bank	4.98%	0.77%	1.35%
Placement and balances with banks	N/A	1.06%	2.13%
Treasury bills held-to-maturity	10.71%	N/A	N/A
Investment securities held-to-maturity	12.48%	2.59%	N/A
Loans and advances to customers	18.40%	10.09%	10.09%
Liabilities			
Customer deposits	6.16%	0.53%	1.04%
Due to banks	1.5%	0.10%	0.10%

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2004 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	65,338,886	-	-	-	-	65,338,886
Placement and balances with banks	53,491,419	11,714,087	6,093,021	-	-	71,298,527
Treasury bills held-to-maturity	26,424,943	49,020,566	179,235,886	-	-	254,681,395
Investment securities held-to-maturity	-	2,061,161	5,629,888	18,154,589	4,885,469	30,731,107
Loans and advances to customers	1,240,868	3,323,372	10,090,038	40,170,233	14,900,161	69,724,672
Total	146,496,116	66,119,186	201,048,833	58,324,822	19,785,630	491,774,587
Liabilities						
Customer deposits	196,557,862	109,953,408	162,807,160	2,893,674	-	472,212,104
Due to banks	317,538	-	676,687	-	-	994,225
Total	196,875,400	109,953,408	163,483,847	2,893,674	-	473,206,329

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

32. Related party transactions

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

Identity of related parties

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

Transactions with shareholders

The Bank did not have any related party transactions during 2004.

Transactions with directors and executive officers

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

	<i>Year ended</i> <i>31 December 2004</i>	<i>Year ended</i> <i>31 December 2003</i>
Directors	39,996	42,336
Executive officers	<u>726,377</u>	<u>724,068</u>
	<u>766,373</u>	<u>766,404</u>

33. Contingencies and commitments including off-balance sheets items

Guarantees

	<i>31 December 2004</i>	<i>31 December 2003</i>
Guarantees in favour of customers	5,816,433	5,236,148
Guarantees received from credit institutions	857,524	410,706
Letters of credit issued to customers	446,480	824,503

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.

Banka Kombetare Tregtare Sh.A

Notes to the Financial Statements for the year ended 31 December 2004

(amounts in USD, unless otherwise stated)

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

Other

	<i>31 December 2004</i>	<i>31 December 2003</i>
Undrawn credit commitments	376,332	626,027
Outstanding cheques of non-resident banks	148,450	429,387
Spot foreign currency contract	3,132,916	2,194,561
Collaterals for loan portfolio	151,330,765	72,296,640

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 2004.

Lease commitments

Such commitments for the years ended 31 December 2004 and 2003 are composed as follows:

	<i>31 December 2004</i>	<i>31 December 2003</i>
Not later than 1 year	178,920	132,636
Later than 1 year and not later than 5 years	693,720	518,544
Later than 5 years	<u>462,713</u>	<u>364,123</u>
Total	<u>1,335,353</u>	<u>1,015,303</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.

During 2004, the Bank has rented the buildings of four new branches in Kombinat (Tirana 5), Lezhe, Peshkopi, Kukes and of two agencies in Kakavija and Kapshtica.

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