

**Banka Kombetare Tregtare sh.a.**

**Independent Auditors' Report and  
Financial Statements as of and  
for the year ended 31 December 2006**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Banka Kombetare Tregtare sh.a. (the "Bank"), which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### ***Auditor's Responsibility***

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

As explained in Note 3.3, 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, 2006 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 and retained earnings and reserves should be translated using the historical rate. Accordingly, although this has no effect on total shareholders' equity, if share capital had been treated as a non-monetary item, and retained earnings and reserves had been translated using the historical rate, the reported profit for the year ended December 31, 2006 would be lower by USD 2,675,541 the retained earnings and reserves would be lower by USD 6,822,555 and the balance of translation reserve would be higher by USD 9,498,096.

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, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Deloitte & Touche d.o.o*

Ljubljana, Slovenia

January 30, 2007

## **Banka Kombetare Tregtare Sh.A.**

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### Balance sheet as of 31 December 2006

(amounts in USD, unless otherwise stated)

	Notes	31 December 2006	31 December 2005
<b>Assets</b>			
Cash and balances with Central Bank	6	98,690,893	69,933,720
Placement and balances with banks	7	140,613,900	72,951,178
Treasury bills held-to-maturity	8	241,343,691	234,781,917
Investment securities available-for-sale	9	7,444,820	8,375,170
Investment securities held-to-maturity	10	119,890,480	67,038,508
Loans and advances to customers	11	229,168,373	125,010,396
Capital equivalency deposit	12	6,577,969	-
Property and equipment	13	11,442,960	8,836,714
Intangible assets	14	631,180	639,776
Deferred tax assets	15	75,246	108,631
Other assets	16	1,889,142	1,188,274
<b>Total assets</b>		<b>857,768,654</b>	<b>588,864,284</b>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Customer deposits	17	798,499,340	551,131,662
Due to banks	18	8,565,519	968,364
Accruals and other liabilities	19	5,176,567	4,131,204
<b>Total liabilities</b>		<b>812,241,426</b>	<b>556,231,230</b>
<b>Shareholders' equity</b>			
Share capital		33,000,000	24,644,250
Translation difference		450,372	(277,955)
Reserves		229,877	208,927
Retained earnings	20	(62,012)	(337,717)
Net profit for the year		11,908,991	8,395,549
<b>Total shareholders' equity</b>		<b>45,527,228</b>	<b>32,633,054</b>
<b>Total liabilities and shareholders' equity</b>		<b>857,768,654</b>	<b>588,864,284</b>

The financial statements were authorized for release by the Board of Directors on 22 January 2007.

*The accompanying notes 1 to 35 are an integral part of these financial statements*

**Banka Kombetare Tregtare Sh.A.****Income statement for the year ended 31 December 2006***(amounts in USD, unless otherwise stated)*

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Interest			
Interest income	21	47,741,886	36,066,195
Interest expense	22	<u>(20,630,520)</u>	<u>(16,037,638)</u>
Net interest margin		<b>27,111,366</b>	<b>20,028,557</b>
Non-interest income, net			
Fees and commissions, net	23	2,220,678	1,670,370
Foreign exchange revaluation gain (loss), net	24	(305,913)	188,959
Profit from FX trading activities, net		1,349,241	1,198,934
Other income, net	25	<u>53,719</u>	<u>112,925</u>
Total non-interest income, net		<b>3,317,725</b>	<b>3,171,188</b>
Operating expenses			
Personnel	26	(6,663,253)	(5,249,484)
Administrative	27	(6,514,325)	(4,773,597)
Depreciation and amortization	13, 14	<u>(1,840,529)</u>	<u>(1,821,403)</u>
Total operating expenses		<b>(15,018,107)</b>	<b>(11,844,484)</b>
Impairment of loans	11	<u>(595,468)</u>	<u>(394,829)</u>
<b>Profit before taxes</b>		<b>14,815,516</b>	<b>10,960,432</b>
Income tax expense	28	<u>(2,906,525)</u>	<u>(2,564,883)</u>
<b>Net profit for the year</b>		<b><u>11,908,991</u></b>	<b><u>8,395,549</u></b>

*The accompanying notes 1 to 35 are an integral part of these financial statements*

## **Banka Kombetare Tregtare Sh.A.**

### Statement of changes in equity for the year ended 31 December 2006

(amounts in USD, unless otherwise stated)

	Share Capital	Translation Difference	Reserves	Retained Earnings	Net profit for the year	Total
<b>Balance at 1 January 2005</b>	<b>14,644,250</b>	<b>535,713</b>	<b>1,032,741</b>	<b>3,964,427</b>	<b>5,102,481</b>	<b>25,279,612</b>
Appropriation of prior year net profit	-	-	-	5,102,481	(5,102,481)	-
Adjustment of retained earnings with 2005 year end exchange rate	-	-	-	(705,093)	-	(705,093)
Adjustment of reserves with 2005 year end exchange rate	-	-	(59,059)	-	-	(59,059)
Appropriation of retained earnings into reserves	-	-	627,929	(627,929)	-	-
Increase in share capital	10,000,000	-	(1,392,684)	(8,607,316)	-	-
Net profit for the year	-	-	-	-	8,395,549	<b>8,395,549</b>
Appropriation of 2004 year translation difference	-	(535,713)	-	535,713	-	-
Translation difference for the year	-	(277,955)	-	-	-	(277,955)
<b>Balance at 31 December 2005</b>	<b>24,644,250</b>	<b>(277,955)</b>	<b>208,927</b>	<b>(337,717)</b>	<b>8,395,549</b>	<b>32,633,054</b>
Appropriation of prior year net profit	-	-	-	8,395,549	(8,395,549)	-
Adjustment of retained earnings with 2006 year end exchange rate	-	-	-	513,861	-	<b>513,861</b>
Capitalization of retained earnings into share capital	8,355,750	-	-	(8,355,750)	-	-
Adjustment of reserves with 2006 year end exchange rate	-	-	20,950	-	-	<b>20,950</b>
Net profit for the year	-	-	-	-	11,908,991	<b>11,908,991</b>
Appropriation of 2005 year translation difference	-	277,955	-	(277,955)	-	-
Translation difference for the year	-	450,372	-	-	-	<b>450,372</b>
<b>Balance at 31 December 2006</b>	<b>33,000,000</b>	<b>450,372</b>	<b>229,877</b>	<b>(62,012)</b>	<b>11,908,991</b>	<b>45,527,228</b>

*The accompanying notes 1 to 35 are an integral part of these financial statements*

## **Banka Kombetare Tregtare Sh.A.**

### Cash flow statement for the year ended 31 December 2006

(amounts in USD, unless otherwise stated)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
<b>Cash flows from operating activities:</b>			
Profit before taxes		14,815,516	10,960,432
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	22	20,630,520	16,037,638
Interest income	21	(47,741,886)	(36,066,195)
Depreciation and amortization	13, 14	1,840,529	1,821,403
Gain on sale of property and equipment		(4,141)	(57,594)
Deferred tax asset/liabilities		42,491	(30,579)
Gain on sale of treasury bills available-for-sale		(17,345)	(6,321)
Write-off of property and equipment		7,408	40,841
Impairment of loans	11	595,468	394,829
Write-off of small inventory		-	485
Cash flows from operating profits before changes in operating assets and liabilities		(9,831,440)	(6,905,061)
(Increase)/decrease in operating assets:			
Placements and balances with banks		(57,812,087)	(9,308,187)
Loans and advances to customers		(87,997,342)	(65,234,688)
Other assets		(558,230)	(1,035,995)
		(146,367,659)	(75,578,870)
Increase/(decrease) in operating liabilities:			
Due to customers		181,642,583	133,235,572
Due to third parties		-	(768,626)
Accruals and other liabilities		353,535	718,236
		181,996,118	133,185,182
Interest paid		(17,922,457)	(15,682,861)
Interest received		48,593,129	35,458,619
Income taxes paid		(2,654,434)	(2,403,365)
Net cash flows from operating activities		53,813,257	68,073,644
<b>Cash flows from investing activities</b>			
Purchases of investment securities		(41,970,023)	(48,086,392)
Purchases/(decrease) of treasury bills		4,936,454	(12,025,869)
Investment in capital equivalency deposit		(6,312,436)	-
Purchases of property and equipment		(3,428,792)	(2,079,668)
Proceeds from sale of property and equipment		4,112	58,121
Proceeds from sale of treasury bills available-for-sale		9,305,335	3,871,700
Net cash used in investing activities		(37,465,350)	(58,262,108)
<b>Cash flows from financing activities</b>			
Proceeds from due to banks		7,194,361	83,658
Net cash from financing activities		7,194,361	83,658
<b>Net increase in cash and cash equivalents</b>		<b>23,542,268</b>	<b>9,895,194</b>
Translation difference		5,214,905	(5,330,123)
<b>Cash and cash equivalents at the beginning of the year</b>	6	<b>69,933,720</b>	<b>65,368,649</b>
<b>Cash and cash equivalents at the end of the year</b>	6	<b>98,690,893</b>	<b>69,933,720</b>

The accompanying notes 1 to 35 are an integral part of these financial statements



# **Banka Kombetare Tregtare Sh.A**

## **Notes to the Financial Statements as of and for the year ended 31 December 2006**

*(amounts in USD, unless otherwise stated)*

### **1. General**

BKT is a commercial bank offering a wide range of universal services. The Bank provides banking services to state and privately owned enterprises and to individuals in the Republic of Albania. The main source of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both Lek and foreign currency. BKT offers: a variety of corporate and consumer loans, EMV-compliant debit and credit cards, ATMs, on-line banking facilities, qualified international banking services and various treasury products. It also invests in government securities and takes part actively in the local and international inter-bank markets.

BKT 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.

On 19 December 2005, the Bank convened an extraordinary general meeting of shareholders to transfer the 60 per cent of the Bank's shares to Calik/Seker Investment Consortium. The transfer was finalized and registered in the Tirana Court on June 09, 2006, following the approvals by the Bank of Albania and Competition Authority.

The Bank, upon the new Shareholders Decision taken on 22 June 2006, increased its paid-up capital by USD 8,355,750 by allocation of the balance of retained earnings of Lek 811,677,555 as at 31 May 2006 translated into USD using the exchange rate announced by Bank of Albania as of 22 June 2006 (1USD=97.14 Lek). As a result 835,575 shares were issued to the shareholders with a nominal value of USD 10 per share.

The total number of issued and paid-up shares of the Bank following this increase in capital is 3,300,000, and the composition is as follows:

	<i>No. of shares</i>	<i>%</i>	<i>Total USD</i>
Calik/Seker Consortium	1,980,002	60	19,800,020
EBRD	659,999	20	6,599,990
IFC	<u>659,999</u>	<u>20</u>	<u>6,599,990</u>
	<b><u>3,300,000</u></b>	<b><u>100</u></b>	<b><u>33,000,000</u></b>

The increase of Paid-up Capital was registered in the Tirana Court on 27 July 2006 (Decision No. 17469/8).

The headquarters of BKT is located in Tirana. Currently the Bank has a network of 21 branches, 9 agencies and 3 custom agencies. Seven of branches are in Tirana, while the others are located in Durres, Elbasan, Korca, Gjirokaster, Vlora, Lushnje, Shkodra, Fier, Berat, Pogradec, Saranda, Lezha, Kukes and Peshkopi. Similarly, most of the agencies are in Tirana (four of them), whereas the others are placed in Kamza, Vore, Bilisht, Delvina and Kavaja, followed by custom agencies in Kakavija, Kapshtica and Durres Seaport. Five of the branches were opened during 2003, while other ten new branches and agencies started their activity in 2005. Even in 2006 year, the Bank has expanded further its network by opening another one new branch and six agencies. The Bank had 439 employees as of 31 December 2006.

# **Banka Kombetare Tregtare Sh.A**

## **Notes to the Financial Statements as of and for the year ended 31 December 2006**

*(amounts in USD, unless otherwise stated)*

### **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 functional currency used in preparing the financial statements is Albanian Lek (ALL). They are prepared on the historical cost basis.

The accounting policies applied by the Bank, are consistent with those used in the annual financial statements for the year ended 31 December 2005.

#### **3.2 Interpretations issued but not yet effective**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The Bank has chosen not to early adopt the following standard and interpretations that were issued, but not yet effective for accounting periods beginning on 1 January 2006:

- IFRS 7, Financial Instruments: Disclosures (effective 1 January 2007);
- IAS 1 Amendment, Additional disclosures regarding capital (effective 1 January 2007);

The application of these new interpretations would not have a material impact on the Bank's financial statements in the period of initial application.

#### **3.3 Foreign currency**

##### **a) 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.

##### **b) 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".

## **Notes to the Financial Statements as of and for the year ended 31 December 2006**

*(amounts in USD, unless otherwise stated)*

### **3.3 Foreign currency (continued)**

#### **b) Foreign currency transaction**

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.

#### **c) Translation of financial statements from functional currency to presentation currency**

Translation of financial statements from functional currency to presentation currency is done as follows:

- assets and liabilities for each balance sheet presented (including comparatives) are translated at the closing rate at the date of that balance sheet.
- income and expenses for each income statement (including comparatives) are translated at exchange rates at the dates of the transactions.
- equity items other than the net profit for the period and share capital are translated at the closing rate existing at the date of balance.
- share capital has been translated as described in paragraph 3.3 b) above; and
- all resulting exchange differences are recognised as a separate component of equity in the "Translation difference" account.

### **3.4 Financial instruments**

#### **(i) Classification**

*Loans and receivables* are 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, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized 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 amortized to income through interest income in the income statement based on the effective interest rate of the instrument, when applicable.

## **Notes to the Financial Statements as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

### **3.4 Financial instruments (continued)**

#### **(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 recognised directly in equity. The total amount of the available-for-sale portfolio is not exceeding 2% 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 Available-for-sale*

Investment securities 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 recognised directly in equity.

##### *Investment securities Held-to-maturity*

Investment securities held-to-maturity, 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 loans and receivables. Loans and advances are reported net of provisions for loan losses to reflect the estimated recoverable amounts (refer to accounting policy 3.5).

#### **(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.

### **3.5 Loans and advances to customers**

Loans and advances to customers are reported at amortized 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.

## **Notes to the Financial Statements as of and for the year ended 31 December 2006**

*(amounts in USD, unless otherwise stated)*

### **3.5 Loans and advances to customers (continued)**

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 recognized 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.

### **3.6 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.

### **3.7 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 recognized as an adjustment to the effective yield on the loan.

### **3.8 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.

### **3.9 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.

### **3.10 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.

# **Banka Kombetare Tregtare Sh.A**

## **Notes to the Financial Statements as of and for the year ended 31 December 2006**

*(amounts in USD, unless otherwise stated)*

### **3.10 Taxation (continued)**

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.

### **3.11 Pension plan**

The Bank has created a fully employer sponsored pension plan fund (refer to note 19 “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 yearly budgeted personnel salary 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.

### **3.12 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%

### **3.13 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%.

### **3.14 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.

## **Notes to the Financial Statements as of and for the year ended 31 December 2006**

*(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 recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

### **3.16 Non-current assets as held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### **3.17 Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

- The unamortized deferred fee on loans amounting USD 2,107,647 (2005: USD 1,352,711) is reclassified from other liabilities to loans and advances to customers.
- The accrued interest income of an amount of USD 4,160,439 (2005: USD 2,625,730) is reclassified from other assets to respective line of the asset, such as cash and balances with central bank, placements and balances with banks, investment securities available for sale, investment securities held-to-maturity and loans and advances to customers.
- The unamortized origination fee from loans and advances to customers amounting USD 800,002 at year ended December 31, 2006 (2005: USD 427,383) is reclassified from fee and commission income from lending activities to income from lending activities.

## **4. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Bank's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## **Notes to the Financial Statements as of and for the year ended 31 December 2006**

*(amounts in USD, unless otherwise stated)*

### **4. Critical accounting judgements and key sources of estimation uncertainty (continued)**

#### *a) Impairment losses on loans to customers*

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### *b) Held-to maturity investments*

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortized cost. The estimation of the fair value of treasury bills and investments held to maturity is disclosed in note 30.

### **5 Change in accounting estimation**

During year 2006, the Bank revised its method of loan provisioning as per IFRS due to new information and historical experience. In the assessment of any indication for impairment, the Bank was referred only to the loans with payments in arrears.

The new internal calculating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on any of the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (eg equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The effect of change in accounting estimate is not material for 2006.



## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

*(amounts in USD, unless otherwise stated)*

#### **6. Cash and balances with the Central Bank**

Cash and balances with the Central Bank as of 31 December 2006 and 2005, are detailed as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Cash in hand	29,722,867	13,058,514
Bank of Albania		
Current account	64,718	4,921,292
Statutory reserve	68,859,908	51,931,830
Accrued interest	43,400	22,084
	<u>68,968,026</u>	<u>56,875,206</u>
	<b><u>98,690,893</u></b>	<b><u>69,933,720</u></b>

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, which during the month can be decreased up to 80% of its level, provided that the monthly average is obtained.

#### **7. Placements and balances with banks**

Placements and balances with banks as of 31 December 2006 and 31 December 2005 consisted as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Placements	133,622,895	71,598,579
Cash collateral held by correspondent banks and financial institutions	769,570	367,382
Current accounts	5,901,840	771,453
Accrued interest	319,595	213,764
	<u>140,613,900</u>	<u>72,951,178</u>

Placements are held with non-resident banks from OECD countries and have contractual maturities from 4 days to 6 months. Current accounts represent balances with correspondent banks in the OECD countries.

Cash collateral represents mostly collateral held by correspondent banks and financial institutions against letters of credit issued to the Bank's clients by the correspondent banks and a cash deposit for the security of risks, which might rise from the issuance of credit cards by the Bank.

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

#### **8. Treasury bills held-to-maturity**

Treasury bills bear interest at market rates ranging from 5.49% p.a. to 8.98% p.a. on a compound basis and are all denominated in Lek. Treasury bills by original maturity are presented as follows:

	<b>31 December 2006</b>			<b>31 December 2005</b>		
	Purchase value	Amortized discount	Amortized cost	Purchase value	Amortized discount	Amortized cost
3 months	9,554,877	84,409	9,639,286	10,307,395	61,804	10,369,199
6 months	78,540,303	1,354,935	79,895,238	55,641,796	874,622	56,516,418
12 months	<u>148,327,170</u>	<u>3,481,997</u>	<u>151,809,167</u>	<u>162,398,154</u>	<u>5,498,146</u>	<u>167,896,300</u>
	<b><u>236,422,350</u></b>	<b><u>4,921,341</u></b>	<b><u>241,343,691</u></b>	<b><u>228,347,345</u></b>	<b><u>6,434,572</u></b>	<b><u>234,781,917</u></b>

As of 31 December 2006, the fair value of the Treasury bills portfolio was USD 240,616,431, which is lower than carrying value by USD 727,260, while as of 31 December 2005, the fair value of the Treasury bills portfolio was USD 235,435,746, which exceeded the carrying value by USD 653,829.

#### **9. Investment securities available-for-sale**

Investment securities available-for-sale comprise only one Lek denominated bond as of 31 December 2006 as follows:

<b>Issuer</b>	<b>31 December 2006</b>				
	<b>Nominal value</b>	<b>Unamortized discount</b>	<b>Accrued interest</b>	<b>Net value</b>	<b>Maturity date</b>
<i><u>Lek Denominated Bond</u></i> <i>Government of Albania</i>	<u>7,435,734</u>	<u>(13,201)</u>	<u>22,287</u>	<u>7,444,820</u>	18 December 2008
	<b><u>7,435,734</u></b>	<b><u>(13,201)</u></b>	<b><u>22,287</u></b>	<b><u>7,444,820</u></b>	

During 2006 year, the three of the USD available-for-sale bonds purchased in February 2005 matured, totalling to a face value of USD 8 million.

## Banka Kombetare Tregtare Sh.A

### Notes to the Financial Statements as of and for the year ended 31 December 2006

(amounts in USD, unless otherwise stated)

#### 10. Investment securities held-to-maturity

Investment securities held-to-maturity comprise USD and Lek denominated bonds as of 31 December 2006 as follows:

Issuer	Nominal Value	Unamortized Premium / (Discount)	31 December 2006			S & P* Bond Rating
			Accrued interest	Net Value	Maturity Date	
<i>USD Denominated Bonds</i>						
Republic of Turkey	5,000,000	(68,811)	26,111	4,957,300	15 June 2010	BB-
	<b><u>5,000,000</u></b>	<b><u>(68,811)</u></b>	<b><u>26,111</u></b>	<b><u>4,957,300</u></b>		
<i>Lek Denominated Bonds</i>						
Government of Albania	1,062,248	22	44,520	1,106,790	17 January 2007	
Government of Albania	1,062,248	560	34,927	1,097,735	18 February 2007	
Government of Albania	9,560,229	-	214,720	9,774,949	18 March 2007	
Government of Albania	2,443,170	-	38,147	2,481,317	18 April 2007	
Government of Albania	2,124,495	365	19,286	2,144,146	18 May 2007	
Government of Albania	2,414,199	(2,435)	81,982	2,493,746	18 July 2007	
Government of Albania	637,349	(579)	21,643	658,413	18 July 2007	
Government of Albania	1,062,248	(3,706)	29,433	1,087,975	18 August 2007	
Government of Albania	1,385,541	(14,938)	31,406	1,402,009	19 September 2007	
Government of Albania	212,450	(2,249)	4,816	215,017	19 September 2007	
Government of Albania	5,311,239	-	14,163	5,325,402	19 December 2007	
Government of Albania	1,062,248	(2,064)	37,515	1,097,699	18 January 2008	
Government of Albania	15,933,716	121,940	446,454	16,502,110	20 February 2008	
Government of Albania	4,780,115	(10,893)	91,194	4,860,416	20 March 2008	
Government of Albania	1,593,372	2,270	12,180	1,607,822	18 May 2008	
Government of Albania	4,248,991	(10,499)	8,781	4,247,273	19 June 2008	
Government of Albania	2,124,495	(24,265)	33,602	2,133,832	18 October 2008	
Government of Albania	2,124,495	-	20,324	2,144,819	20 November 2008	
Government of Albania	531,124	609	10,658	542,391	05 April 2008	
Government of Albania	21,244,954	53,280	489,755	21,787,989	05 October 2008	
Government of Albania	1,593,372	(14,333)	62,319	1,641,358	05 January 2009	
Government of Albania	1,593,372	(3,598)	54,529	1,644,303	05 July 2009	
Government of Albania	16,995,962	(244,482)	332,932	17,084,412	05 October 2009	
Government of Albania	11,684,724	-	166,532	11,851,256	08 November 2011	
	<b><u>112,786,356</u></b>	<b><u>(154,995)</u></b>	<b><u>2,301,819</u></b>	<b><u>114,933,180</u></b>		
	<b><u>117,786,356</u></b>	<b><u>(223,806)</u></b>	<b><u>2,327,930</u></b>	<b><u>119,890,480</u></b>		

\* This is Standard & Poor's long-term credit rating by issuers for sovereign and supranational bonds issued in foreign currency.

As of 31 December 2006, the fair value of the bond portfolio was USD 118,561,361, which exceeds the carrying value by USD 998,811, while as of 31 December 2005, the fair value of the bond portfolio was USD 66,966,314, which exceeded the carrying value by USD 1,234,087. Eleven of the Lek bonds issued by the Government of Albania have been purchased during 2006, totalling to a face value of USD 63.7 million, while during the year one EUR and one USD denominated bond matured, totalling to a nominal value of USD 4 million.

## **Banka Kombetare Tregtare Sh.A**

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### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

#### **11. Loans and advances to customers**

Loans and advances to customers consisted of the following:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Loans and advances to customers, gross	231,243,051	126,263,578
Accrued interest	1,447,227	820,931
Less allowances for impairment on loans and advances	(1,414,258)	(721,402)
Less unamortized deferred fee income	(2,107,647)	(1,352,711)
	<b>229,168,373</b>	<b>125,010,396</b>

Movements in the allowance for impairment on loans and advances:

	<b>2006</b>	<b>2005</b>
At 1 January	721,402	380,994
Impairment charge for the year	595,468	394,829
Reversals during the year	-	-
Translation difference	97,388	(54,421)
At the end of the year	<b>1,414,258</b>	<b>721,402</b>

As of 31 December 2006, the Bank's loans in arrears for more than 30 days totalled USD 3,804,660 (2005: USD 1,724,969). All loans are secured by mortgages and personal guarantees.

As of 31 December 2006 the breakdown of the loan portfolio is as follows:

Private Enterprises	36%
Individuals	64%

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

All the loans are in Lek, Euro, USD and CHF and bear interest at the following rates:

Loans in Lek	1.50% to 19.00%
Loans in Euro	2.00% to 14.80%
Loans in USD	3.60% to 16.30%
Loans in CHF	4.40% to 7.90%

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

#### **11. Loans and advances to customers (continued)**

The classification of loans is as follows:

<b>Corporate loans by industry</b>	<b>31 December 2006</b>		<b>31 December 2005</b>	
	<b>USD</b>	<b>%</b>	<b>USD</b>	<b>%</b>
Wholesale Trade	33,374,376	20%	17,255,399	18%
Construction	21,219,352	13%	12,958,077	13%
Hotels and Restaurants	16,811,915	10%	10,908,214	11%
Personal Needs	16,058,542	10%	5,123,702	5%
Retail Trade	11,784,117	7%	9,965,848	10%
Manufacturing of Other Non-metallic Products	11,534,130	7%	7,614,407	8%
Manufacturing of Basic Metallic	8,242,609	5%	3,179,017	3%
Real Estate, Renting and Business Activity	8,055,922	5%	6,873,428	7%
Other Community, Social and Personal Activities	7,489,069	5%	5,335,470	6%
Manufacture of Wood and Wood Products	5,198,677	3%	3,196,422	3%
Manufacture of Food Products, Beverages	5,015,964	3%	3,366,341	4%
Financial Intermediation	2,826,462	2%	2,724,391	3%
Education	2,435,116	2%	1,125,706	1%
Manufacture of Rubber and Plastic Products	2,277,039	1%	1,055,860	1%
Transport, Storage and Communication	1,908,676	1%	678,773	1%
Manufacture of Textile and Textile Products	1,795,761	1%	1,172,246	1%
Furniture	1,514,480	1%	458,484	1%
Agriculture, Hunting and Forestry	1,224,883	1%	1,172,327	1%
Manufacture of Pulp, Paper & Paper Products	1,153,618	1%	720,724	1%
Other Sectors	<u>3,125,064</u>	<u>2%</u>	<u>1,870,975</u>	<u>2%</u>
	<b><u>163,045,772</u></b>	<b><u>100%</u></b>	<b><u>96,755,811</u></b>	<b><u>100%</u></b>
<b>Retail loans by type</b>	<b>31 December 2006</b>		<b>31 December 2005</b>	
	<b>USD</b>	<b>%</b>	<b>USD</b>	<b>%</b>
Home purchase	38,747,601	56%	15,263,731	52%
Home improvement	6,555,211	10%	3,493,354	12%
Home reconstruction	6,428,360	9%	3,151,980	11%
Super Loan	5,913,638	9%	-	-
Home advances	5,117,261	7%	3,722,753	13%
Shop purchase	3,306,501	5%	2,126,523	7%
Car purchase	1,256,156	2%	1,063,828	3%
Technical equipment	263,887	1%	338,829	1%
Other types	<u>608,664</u>	<u>1%</u>	<u>346,769</u>	<u>1%</u>
	<b><u>68,197,279</u></b>	<b><u>100%</u></b>	<b><u>29,507,767</u></b>	<b><u>100%</u></b>

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

#### **12. Capital equivalency deposit**

Capital equivalency deposit represent the amount of EUR 5 million (USD 6,577,969) transferred on December 15, 2006 in favour of the Central Banking Authority of Kosovo, as a minimum required capital necessary to be blocked in order to obtain the license for Kosovo Branch, planned to be opened in the beginning of 2007.

#### **13. Property and equipment**

Property and equipment as of 31 December 2006 and 2005 are composed as follows:

(In USD)	Land and buildings	Plant and equipment	IT Equipment	Office equipment	Total
<b>Gross value</b>					
At 31 December 2005	10,379,692	1,616,464	3,851,750	474,235	16,322,141
Additions	1,094,921	433,351	1,780,257	89,369	3,397,898
Disposals / transfers	-	(45,493)	(31,092)	-	(76,585)
Translation difference	<u>1,040,836</u>	<u>162,093</u>	<u>386,238</u>	<u>47,554</u>	<u>1,636,721</u>
At 31 December 2006	<u>12,515,449</u>	<u>2,166,415</u>	<u>5,987,153</u>	<u>611,158</u>	<u>21,280,175</u>
<b>Accumulated depreciation</b>					
At 31 December 2005	(3,377,382)	(954,320)	(2,834,111)	(319,614)	(7,485,427)
Charge for the year	(486,841)	(270,687)	(748,641)	(97,202)	(1,603,371)
Disposals / write offs	-	38,488	31,092	-	69,580
Translation difference	<u>(358,389)</u>	<u>(106,613)</u>	<u>(317,005)</u>	<u>(35,990)</u>	<u>(817,997)</u>
At 31 December 2006	<u>(4,222,612)</u>	<u>(1,293,132)</u>	<u>(3,868,665)</u>	<u>(452,806)</u>	<u>(9,837,215)</u>
<b>Net book value</b>					
At 31 December 2005	<u>7,002,310</u>	<u>662,144</u>	<u>1,017,639</u>	<u>154,621</u>	<u>8,836,714</u>
At 31 December 2006	<u>8,292,837</u>	<u>873,283</u>	<u>2,118,488</u>	<u>158,352</u>	<u>11,442,960</u>

#### **14. Intangible assets**

Intangible assets at 31 December 2006 and 2005 are composed as follows:

(In USD)	Software
<b>Gross value</b>	
At 31 December 2005	1,652,794
Additions	170,747
Translation difference	<u>165,736</u>
At 31 December 2006	<u>1,989,277</u>
<b>Accumulated depreciation</b>	
At 31 December 2005	(1,013,018)
Charge for the year	(237,158)
Translation difference	<u>(107,921)</u>
At 31 December 2006	<u>(1,358,097)</u>
<b>Net book value</b>	
At 31 December 2005	<u>639,776</u>
At 31 December 2006	<u>631,180</u>

Software represents mostly the Bank's operating and accounting system implemented during 2001, which was upgraded during the first half of 2005.

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

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#### **15. Deferred tax assets**

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 20% (2005: 23%). The movement on the deferred income tax account is as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Balance at 1 January	108,631	88,497
Income statement benefit/(expense)	(42,491)	30,579
Exchange differences	9,106	(10,445)
	<u>75,246</u>	<u>108,631</u>
Balance at the end of the year	<b>75,246</b>	<b>108,631</b>

Deferred income tax assets are attributable to the following items:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Deferred income on fees on loans	421,529	311,124
Allowance for loan impairment	(609,500)	(300,440)
Decelerated depreciation	235,856	57,575
Start up costs written off	27,361	40,372
	<u>75,246</u>	<u>108,631</u>

#### **16. Other assets**

Other assets, net as of 31 December 2006 and 2005 are as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Cheques for collection and payments in transit	4,333	102,267
Inventory	65,702	22,799
Spot transactions revaluation gain	13,585	-
Fiscal administration	1,318,899	238,590
Other debtors, net	486,623	824,618
	<u>1,889,142</u>	<u>1,188,274</u>

“Cheques for collection and payments in transit” represent customers’ cheques and payments 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. During 2006, the Bank acquired two real estates from the execution of the property collateral on unrecoverable loans amounting USD 57,412.

“Fiscal administration” represents the net year-end outstanding amount of payments and collections made by the Bank to and from the third parties, on behalf of tax authorities.

Other debtors is composed as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Other debtors	489,277	830,888
Provision	(2,654)	(6,270)
	<u>486,623</u>	<u>824,618</u>

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

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#### **16. Other assets (continued)**

“Other debtors” are composed of three items. The first item of USD 113,175 (2005: USD 47,543) consists mostly of USD 69,715 (2005: USD 13,931), which is continuously recoverable from the credit clients of the bank and of USD 26,365, which is fully cash collateralised. The other two items represent advance payments to suppliers (due to opening of new branches) of USD 302,018 (2005: USD 692,410) and prepaid expenses of USD 74,084 (2005: USD 90,935).

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

	<b>2006</b>	<b>2005</b>
At 1 January	6,270	10,850
Additions during the year	-	-
Reversals during the year	(3,883)	(3,842)
Translation difference	267	(738)
At the end of the year	<b>2,654</b>	<b>6,270</b>

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

#### **17. Customer deposits**

Customer deposits as of 31 December 2006 and 2005 are composed as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
<b>Current accounts:</b>		
Individuals	24,014,173	14,629,757
Private enterprises	63,404,256	46,915,368
State owned entities	45,726,772	37,097,648
	<b>133,145,201</b>	<b>98,642,773</b>
<b>Deposits:</b>		
Individuals	573,609,141	406,884,844
Private enterprises	34,848,599	19,320,571
State owned entities	24,003,773	16,848,266
	<b>632,461,513</b>	<b>443,053,681</b>
<b>Other customer accounts:</b>		
Individuals	16,813,958	4,054,209
Private enterprises	15,022,040	4,717,930
State owned entities	1,056,628	663,069
	<b>32,892,626</b>	<b>9,435,208</b>
	<b>798,499,340</b>	<b>551,131,662</b>



## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

#### **17. Customer deposits (continued)**

Current accounts and deposits can be further analysed as follows:

	<b>31 December 2006</b>			<b>31 December 2005</b>		
	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>	<i>Local currency</i>	<i>Foreign currency</i>	<i>Total</i>
<b>Current accounts</b>	<b>87,322,020</b>	<b>45,823,181</b>	<b>133,145,201</b>	<b>60,124,068</b>	<b>38,518,705</b>	<b>98,642,773</b>
<b>Deposits</b>						
On demand	97,223	177,569	<b>274,792</b>	82,483	130,454	<b>212,937</b>
One month	20,970,168	45,936,186	<b>66,906,354</b>	13,790,766	40,764,471	<b>54,555,237</b>
Three months	68,000,532	45,737,629	<b>113,738,161</b>	52,605,412	35,536,941	<b>88,142,353</b>
Six months	100,043,119	36,791,090	<b>136,834,209</b>	84,761,080	25,920,146	<b>110,681,226</b>
Twelve months	191,115,507	75,183,509	<b>266,299,016</b>	135,625,059	32,499,977	<b>168,125,036</b>
Two years and over	31,548,307	7,925,176	<b>39,473,483</b>	14,200,477	1,577,279	<b>15,777,756</b>
Accrued interest on deposits	<u>7,086,730</u>	<u>1,848,768</u>	<u><b>8,935,498</b></u>	<u>4,927,051</u>	<u>632,085</u>	<u><b>5,559,136</b></u>
<b>Total deposits</b>	<b><u>418,861,586</u></b>	<b><u>213,599,927</u></b>	<b><u>632,461,513</u></b>	<b><u>305,992,328</u></b>	<b><u>137,061,353</u></b>	<b><u>443,053,681</u></b>
<b>Other customer accounts</b>	<b><u>16,839,523</u></b>	<b><u>16,053,103</u></b>	<b><u>32,892,626</u></b>	<b><u>5,861,590</u></b>	<b><u>3,573,618</u></b>	<b><u>9,435,208</u></b>
<b>Total customer deposits</b>	<b><u>523,023,129</u></b>	<b><u>275,476,211</u></b>	<b><u>798,499,340</u></b>	<b><u>371,977,986</u></b>	<b><u>179,153,676</u></b>	<b><u>551,131,662</u></b>

Other customer accounts are composed as follows:

	<b>31 December 2006</b>			<b>31 December 2005</b>		
	<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	957,828	23,706	<b>981,534</b>	871,108	22,804	<b>893,912</b>
Deposit guarantees for letters of credit	-	366,382	<b>366,382</b>	-	226,448	<b>226,448</b>
Escrow accounts	13,696,027	12,594,064	<b>26,290,091</b>	3,051,300	1,740,899	<b>4,792,199</b>
Bank drafts	-	6,309	<b>6,309</b>	-	6,087	<b>6,087</b>
Payment orders to be executed	20,944	332,563	<b>353,507</b>	99,790	196,616	<b>296,406</b>
Other	<u>2,164,724</u>	<u>2,730,079</u>	<u><b>4,894,803</b></u>	<u>1,839,392</u>	<u>1,380,764</u>	<u><b>3,220,156</b></u>
	<b><u>16,839,523</u></b>	<b><u>16,053,103</u></b>	<b><u>32,892,626</u></b>	<b><u>5,861,590</u></b>	<b><u>3,573,618</u></b>	<b><u>9,435,208</u></b>

“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 Bank against similar collateral provided by Bank to correspondent banks for letters of credit opened on behalf of its customers.

“Escrow accounts” balance represents sums momentarily 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 as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

#### **18. Due to banks**

Due to banks as of 31 December 2006 and 2005 consisted as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Deposits from resident banks	2,627,561	-
Current accounts of non resident banks	5,921,750	956,888
Current accounts of resident banks	<u>16,208</u>	<u>11,476</u>
	<b><u>8,565,519</u></b>	<b><u>968,364</u></b>

The Bank as of 31 December 2006, has borrowed from two resident banks in Lek and USD. The contractual maturities and their balances are detailed as follows:

<b>Bank</b>	<b>Currency</b>	<b>Principal</b>	<b>Accrued Interest</b>	<b>Total Deposit</b>	<b>Maturity Date</b>
Banka Popullore	ALL	2,124,496	1,187	2,125,683	04 January 2007
International Commercial Bank	USD	<u>500,000</u>	<u>1,878</u>	<u>501,878</u>	08 January 2007
		<b><u>2,624,496</u></b>	<b><u>3,065</u></b>	<b><u>2,627,561</u></b>	

#### **19. Accruals and other liabilities**

A breakdown of accruals and other liabilities as of 31 December 2006 and 2005 is presented as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Creditors	1,842,012	1,837,911
Transit account	326,548	269,089
Due to tax authorities	603,642	374,258
Reserve fund for retiring employees	726,888	506,959
Social insurance	78,816	71,040
Accrued expenses	732,975	462,452
Other	<u>865,686</u>	<u>609,495</u>
	<b><u>5,176,567</u></b>	<b><u>4,131,204</u></b>

“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. As at the date of the report, a decision is not yet taken.

“Transit account” represents the undefined customer accounts that are cleared within a couple of days after the end of the year.

“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 3.11.

“Accrued expenses” includes USD 303,729 (2005: USD 223,624) of deposit insurance premium due for the last quarter of 2006 according to the Law no. 8873 “On the Insurance of Deposits” dated 29 March 2002, that provides insurance coverage to individual depositors against bank failures.

## **Banka Kombetare Tregtare Sh.A**

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### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

*(amounts in USD, unless otherwise stated)*

#### **19. Accruals and other liabilities (continued)**

Accrued expenses for personnel is another important item amounting at USD 429,246 (2005: nil), which represent the accrued amounts of yearly performance bonus for management and branch/agency managers planned to be paid within the 1<sup>st</sup> quarter of 2007.

“Other” consists of two items. The first item of USD 827,989 (2005: USD 600,206) are payments due to construction companies in relation to semi finished home loans and the second item of USD 37,697 (2005: USD 8,857) represents cash guarantees received from the suppliers.

#### **20. Retained earnings**

Retained earnings represent the balance of earnings from 2005 year’s profit. As described in note 1, the Bank has used its statutory retained earnings amounting to Lek 811,677,555 or USD 8,355,750 to increase its share capital on 22 June 2006.

#### **21. Interest income**

Interest income is composed as follows:

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
Treasury bills and investment securities	23,566,667	22,474,299
Placements with banks and balances with Central Bank	7,552,893	4,192,770
Loans and advances to customers	<u>16,622,326</u>	<u>9,399,126</u>
	<b><u>47,741,886</u></b>	<b><u>36,066,195</u></b>

#### **22. Interest expense**

Interest expense is composed as follows:

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
Due to banks	314,720	71,487
Customer deposits	<u>20,315,800</u>	<u>15,966,151</u>
	<b><u>20,630,520</u></b>	<b><u>16,037,638</u></b>

## **Banka Kombetare Tregtare Sh.A**

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### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

#### **23. Fees and commissions, net**

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

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
<i>Fee and commission income</i>		
Lending activity	816,026	490,936
Payment services to clients	806,733	728,876
Customer accounts' maintenance	332,554	278,691
Cash transactions with clients	249,856	188,930
Inter bank transactions	42,884	34,420
Card transactions	17,109	-
Other fees and commissions	<u>38,986</u>	<u>33,023</u>
	<u>2,304,148</u>	<u>1,754,876</u>
<i>Fee and commission expense</i>		
Inter bank transactions	2,260	6,525
Customer accounts' maintenance	77,635	73,873
Payment services to clients	3,575	4,108
	<u>83,470</u>	<u>84,506</u>
<b>Fees and commissions, net</b>	<b><u>2,220,678</u></b>	<b><u>1,670,370</u></b>

#### **24. 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 3.3 it also includes the revaluation of the Bank's share capital. The revaluation gain (2005: loss) on this item for the year ended 31 December 2006 is USD 2,627,003 (2005: (USD 1,976,849)).

#### **25. Other income, net**

Other income and expenses are composed as follows:

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
<i>Other income</i>		
Reversal of other debtors provisions	3,883	3,842
Gain on sale of fixed assets	4,141	57,585
Sundry	<u>53,131</u>	<u>98,619</u>
	<u>61,155</u>	<u>160,046</u>
<i>Other expense</i>		
Write off of fixed assets	7,408	40,841
Provision on other assets	-	485
Sundry	<u>28</u>	<u>5,795</u>
	<u>7,436</u>	<u>47,121</u>
<b>Other income, net</b>	<b><u>53,719</u></b>	<b><u>112,925</u></b>

## **Banka Kombetare Tregtare Sh.A**

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### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

*(amounts in USD, unless otherwise stated)*

#### **26. Personnel expenses**

Personnel expenses are composed as follows:

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
Salaries	4,143,715	3,703,549
Performance bonus	1,438,551	572,156
Social insurance	694,087	625,827
Reserve fund for retiring employees	188,989	163,911
Training	161,577	169,676
Life insurance	4,824	4,200
Other	<u>31,510</u>	<u>10,165</u>
	<b><u>6,663,253</u></b>	<b><u>5,249,484</u></b>

#### **27. Administrative expenses**

Administrative expenses are composed as follows:

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
Marketing expenses	1,507,983	938,656
Telephone, electricity and IT expenses	1,204,434	1,098,607
Deposit insurance expense	1,166,833	928,486
Security expenses	562,396	534,445
Transportation and business related travel	482,622	332,568
Lease payments	319,835	234,895
Repairs and maintenance	405,241	197,369
Office stationery and supplies	234,418	175,130
Representation expenses	119,096	128,892
Credit/debit cards expenses	299,119	61,385
Other external services (including external audit fees)	124,337	54,945
Taxes other than tax on profits	32,716	22,638
Sundry	<u>55,295</u>	<u>65,581</u>
	<b><u>6,514,325</u></b>	<b><u>4,773,597</u></b>

#### **28. Income tax expense**

Income tax expense is comprised of:

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
Current tax expense	2,864,034	2,595,462
Deferred tax expense / (benefit) (note 15)	<u>42,491</u>	<u>(30,579)</u>
	<b><u>2,906,525</u></b>	<b><u>2,564,883</u></b>

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

*(amounts in USD, unless otherwise stated)*

#### **28. Income tax expense (continued)**

Income tax in Albania is assessed at the rate of 20% (2005: 23%) of taxable income. The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
Profit (loss) before taxes	<b>14,815,516</b>	<b>10,960,432</b>
Computed tax using applicable tax rate	2,963,103	2,520,899
Non tax deductible expenses	104,654	120,959
Start up costs amortized for tax purposes	(26,256)	(41,876)
Foreign exchange difference	<u>(134,976)</u>	<u>(35,099)</u>
<b>Tax expense</b>	<b><u>2,906,525</u></b>	<b><u>2,564,883</u></b>

#### **29. 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 credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risk.

##### ***(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 1,000,000 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) 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 31.

**29. Financial risk management (continued)**

*(c) Market risk:*

*1) 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 2006 is shown in note 32.

*2) 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 33.

**30. 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 of 31 December 2006, the fair value of the Treasury bills portfolio was USD 240,616,431 (2005: USD 235,435,746), which is lower than the carrying amount by USD 727,260 (2005: higher by USD 653,829).

*Investment securities held-to-maturity*

Fair value of investment securities held-to-maturity 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 of 31 December 2006, the fair value of the entire bond portfolio was USD 118,561,361 (2005: USD 66,966,314), which exceeds the carrying amount by USD 998,811 (2005: USD 1,234,087).

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

#### **30. Estimation of fair value (continued)**

##### *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, mostly because of their short-term nature and underlying interest rates, which approximate market rates.

#### **31. Liquidity risk**

As of 31 December 2006, 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>	<b>Total</b>
<b>Assets</b>						
Cash and balances with Central Bank	98,690,893	-	-	-	-	98,690,893
Placement and balances with banks	122,112,902	13,446,217	5,054,781	-	-	140,613,900
Treasury bills held-to-maturity	30,152,798	47,119,847	164,071,046	-	-	241,343,691
Investment securities available-for-sale	-	-	-	7,444,820	-	7,444,820
Investment securities held-to-maturity	1,106,790	10,872,685	15,808,022	92,102,983	-	119,890,480
Loans and advances to customers	15,237,282	16,569,207	42,834,473	92,330,734	62,196,677	229,168,373
Capital equivalency deposit	-	-	-	-	6,577,969	6,577,969
Property and equipment	-	-	-	3,150,123	8,292,837	11,442,960
Intangible assets	-	-	-	631,180	-	631,180
Deferred tax asset	-	-	-	75,246	-	75,246
Other assets	1,889,142	-	-	-	-	1,889,142
<b>Total assets</b>	<b><u>269,189,807</u></b>	<b><u>88,007,956</u></b>	<b><u>227,768,322</u></b>	<b><u>195,735,086</u></b>	<b><u>77,067,483</u></b>	<b><u>857,768,654</u></b>
<b>Liabilities and shareholders' equity</b>						
Customer deposits	307,632,937	172,012,273	277,653,395	41,200,735	-	798,499,340
Due to banks	8,565,519	-	-	-	-	8,565,519
Due to third parties	-	-	-	-	-	-
Accruals and other liabilities	4,449,680	-	-	-	726,887	5,176,567
Shareholders' equity	-	-	-	-	<u>45,527,228</u>	<u>45,527,228</u>
<b>Total liabilities and shareholders' equity</b>	<b><u>320,648,136</u></b>	<b><u>172,012,273</u></b>	<b><u>277,653,395</u></b>	<b><u>41,200,735</u></b>	<b><u>46,254,115</u></b>	<b><u>857,768,654</u></b>
<b>Net Position</b>	<b><u>(51,458,329)</u></b>	<b><u>(84,004,317)</u></b>	<b><u>(49,885,073)</u></b>	<b><u>154,534,351</u></b>	<b><u>30,813,368</u></b>	<b><u>-</u></b>
<b>Cumulative Net Position</b>	<b><u>(51,458,329)</u></b>	<b><u>(135,462,646)</u></b>	<b><u>(185,347,719)</u></b>	<b><u>(30,813,368)</u></b>	<b><u>-</u></b>	<b><u>-</u></b>



## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

#### **31. Liquidity risk (continued)**

As of 31 December 2005, 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>	<b>Total</b>
<b>Assets</b>						
Cash and balances with Central Bank	69,933,720	-	-	-	-	69,933,720
Placement and balances with banks	61,771,132	8,101,141	3,078,905	-	-	72,951,178
Treasury bills held-to-maturity	17,823,646	60,305,279	156,652,992	-	-	234,781,917
Investment securities available-for-sale	2,624,757	-	5,750,413	-	-	8,375,170
Investment securities held-to-maturity	14,841,694	1,987,224	4,631,122	45,578,468	-	67,038,508
Loans and advances to customers	4,224,751	10,657,832	26,677,626	58,457,038	24,993,149	125,010,396
Property and equipment	-	-	-	1,834,404	7,002,310	8,836,714
Intangible assets	-	-	-	639,776	-	639,776
Deferred tax asset	-	-	-	108,631	-	108,631
Other assets	1,188,274	-	-	-	-	1,188,274
<b>Total assets</b>	<b><u>172,407,974</u></b>	<b><u>81,051,476</u></b>	<b><u>196,791,058</u></b>	<b><u>106,618,317</u></b>	<b><u>31,995,459</u></b>	<b><u>588,864,284</u></b>
<b>Liabilities and shareholders' equity</b>						
Customer deposits	219,330,744	126,710,117	188,775,846	16,314,955	-	551,131,662
Due to banks	968,364	-	-	-	-	968,364
Due to third parties	-	-	-	-	-	-
Accruals and other liabilities	3,624,245	-	-	-	506,959	4,131,204
Shareholders' equity	-	-	-	-	<u>32,633,054</u>	<u>32,633,054</u>
<b>Total liabilities and shareholders' equity</b>	<b><u>223,923,353</u></b>	<b><u>126,710,117</u></b>	<b><u>188,775,846</u></b>	<b><u>16,314,955</u></b>	<b><u>33,140,013</u></b>	<b><u>588,864,284</u></b>
<b>Net Position</b>	<b><u>(51,515,379)</u></b>	<b><u>(45,658,641)</u></b>	<b><u>8,015,212</u></b>	<b><u>90,303,362</u></b>	<b><u>(1,144,554)</u></b>	<b><u>-</u></b>
<b>Cumulative Net Position</b>	<b><u>(51,247,714)</u></b>	<b><u>(96,906,354)</u></b>	<b><u>(89,132,696)</u></b>	<b><u>1,144,554</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

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 33.

## Banka Kombetare Tregtare Sh.A

### Notes to the Financial Statements as of and for the year ended 31 December 2006

(amounts in USD, unless otherwise stated)

#### 32. Foreign currency risk

The following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency as of 31 December 2006 and 2005 in accordance with the Bank of Albania foreign currency disclosure requirements:

<i>2006</i>	<i>Lek</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
<b>Assets</b>					
Cash and balances with Central Bank	51,530,167	13,208,790	33,159,971	791,965	98,690,893
Placements and balances with banks	-	110,314,134	15,810,586	14,489,180	140,613,900
Treasury bills held-to-maturity	241,343,691	-	-	-	241,343,691
Investment securities available-for-sale	7,444,820	-	-	-	7,444,820
Investment securities held-to-maturity	114,933,180	4,957,300	-	-	119,890,480
Loans and advances to customers	97,944,717	23,495,821	104,103,260	3,624,575	229,168,373
Capital equivalency deposit	-	-	6,577,969	-	6,577,969
Property and equipment	11,442,960	-	-	-	11,442,960
Intangible assets	631,180	-	-	-	631,180
Deferred tax assets	75,246	-	-	-	75,246
Other assets	1,628,396	51,876	208,749	121	1,889,142
<b>Total assets</b>	<b><u>526,974,357</u></b>	<b><u>152,027,921</u></b>	<b><u>159,860,535</u></b>	<b><u>18,905,841</u></b>	<b><u>857,768,654</u></b>
Off balance sheet items	<u>616,040</u>	<u>4,616,682</u>	<u>713,657</u>	<u>1,001,226</u>	<u>6,947,605</u>
<b>Liabilities and shareholders' equity</b>					
Customer deposits	523,023,129	105,517,651	154,832,772	15,125,788	798,499,340
Due to banks	2,128,151	5,416,323	1,021,044	1	8,565,519
Due to third parties	-	-	-	-	-
Accruals and other liabilities	1,175,970	3,135,282	766,684	98,631	5,176,567
Shareholders' equity	12,527,228	33,000,000	-	-	45,527,228
<b>Total liabilities and shareholders' equity</b>	<b><u>538,854,478</u></b>	<b><u>147,069,256</u></b>	<b><u>156,620,500</u></b>	<b><u>15,224,420</u></b>	<b><u>857,768,654</u></b>
Off balance sheet items	<u>-</u>	<u>1,734,309</u>	<u>526,237</u>	<u>4,687,059</u>	<u>6,947,605</u>
<b>Net position</b>	<b><u>(11,264,081)</u></b>	<b><u>7,841,038</u></b>	<b><u>3,427,455</u></b>	<b><u>(4,412)</u></b>	<b><u>-</u></b>
<i>2005</i>	<i>Lek</i>	<i>USD</i>	<i>Euro</i>	<i>Other</i>	<i>Total</i>
<b>Assets</b>					
Cash and balances with Central Bank	42,538,753	8,213,661	18,666,625	514,681	69,933,720
Placements and balances with banks	-	55,776,704	7,208,293	9,966,181	72,951,178
Treasury bills held-to-maturity	234,781,917	-	-	-	234,781,917
Investment securities available-for-sale	-	8,375,170	-	-	8,375,170
Investment securities held-to-maturity	58,184,658	6,982,370	1,871,480	-	67,038,508
Loans and advances to customers	32,353,678	19,851,770	72,804,948	-	125,010,396
Property and equipment	8,836,714	-	-	-	8,836,714
Intangible assets	639,776	-	-	-	639,776
Deferred tax assets	108,631	-	-	-	108,631
Other assets	504,309	29,620	652,935	1,410	1,188,274
<b>Total assets</b>	<b><u>377,948,436</u></b>	<b><u>99,229,295</u></b>	<b><u>101,204,281</u></b>	<b><u>10,482,272</u></b>	<b><u>588,864,284</u></b>
Off balance sheet items	242,762	2,877,495	177,515	262,973	3,560,745
<b>Liabilities and shareholders' equity</b>					
Customer deposits	371,977,986	72,756,151	95,789,575	10,607,950	551,131,662
Due to banks	6,069	348,283	591,066	22,946	968,364
Due to third parties	-	-	-	-	-
Accruals and other liabilities	870,559	2,532,388	676,477	51,780	4,131,204
Shareholders' equity	7,988,804	24,644,250	-	-	32,633,054
<b>Total liabilities and shareholders' equity</b>	<b><u>380,843,418</u></b>	<b><u>100,281,072</u></b>	<b><u>97,057,118</u></b>	<b><u>10,682,676</u></b>	<b><u>588,864,284</u></b>
Off balance sheet items	-	497,676	3,004,723	58,346	3,560,745
<b>Net position</b>	<b><u>(2,652,220)</u></b>	<b><u>1,328,042</u></b>	<b><u>1,319,955</u></b>	<b><u>4,223</u></b>	<b><u>-</u></b>

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

#### **33. Interest rate risk**

The average effective yields of significant categories of financial assets and liabilities of the Bank as of 31 December 2006 were as follows:

	<i>Lek</i>	<i>USD</i>	<i>Euro</i>
<b>Assets</b>			
Cash and balances with Central Bank	3.67%	3.72%	2.43%
Placement and balances with banks	N/A	5.28%	3.61%
Treasury bills held-to-maturity	6.59%	N/A	N/A
Investment securities held-to-maturity	8.31%	5.73%	N/A
Loans and advances to customers	11.25%	6.21%	9.41%
<b>Liabilities</b>			
Customer deposits	3.57%	3.41%	2.35%
Due to banks	0.10%	0.10%	0.10%

The average effective yields of significant categories of financial assets and liabilities of the Bank as of 31 December 2005 were as follows:

	<i>Lek</i>	<i>USD</i>	<i>Euro</i>
<b>Assets</b>			
Cash and balances with Central Bank	3.50%	3.07%	1.70%
Placement and balances with banks	N/A	4.25%	2.40%
Treasury bills held-to-maturity	7.41%	N/A	N/A
Investment securities held-to-maturity	8.91%	5.46%	2.86%
Loans and advances to customers	12.59%	10.40%	8.76%
<b>Liabilities</b>			
Customer deposits	3.66%	1.97%	1.47%
Due to banks	0.10%	0.10%	0.10%

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as of 31 December 2006 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>
<b>Assets</b>						
Cash and balances with Central Bank	98,690,893	-	-	-	-	98,690,893
Placement and balances with banks	122,112,902	13,446,217	5,054,781	-	-	140,613,900
Treasury bills held-to-maturity	30,152,798	47,119,847	164,071,046	-	-	241,343,691
Investment securities available-for-sale	-	-	-	7,444,820	-	7,444,820
Investment securities held-to-maturity	1,106,790	10,872,685	15,808,022	92,102,983	-	119,890,480
Loans and advances to customers	194,684,736	10,399,745	14,073,321	8,721,355	1,289,216	229,168,373
<b>Total</b>	<b>446,748,119</b>	<b>81,838,494</b>	<b>199,007,170</b>	<b>108,269,158</b>	<b>1,289,216</b>	<b>837,152,157</b>
<b>Liabilities</b>						
Customer deposits	307,632,937	172,012,273	277,653,395	41,200,735	-	798,499,340
Due to banks	8,565,519	-	-	-	-	8,565,519
<b>Total</b>	<b>316,198,456</b>	<b>172,012,273</b>	<b>277,653,395</b>	<b>41,200,735</b>	<b>-</b>	<b>807,064,859</b>

## **Banka Kombetare Tregtare Sh.A**

### **Notes to the Financial Statements as of and for the year ended 31 December 2006**

(amounts in USD, unless otherwise stated)

#### **34. 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 2006.

##### **Transactions with directors and executive officers**

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

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
Directors	42,336	42,336
Executive officers	<u>1,254,992</u>	<u>1,093,030</u>
	<b><u>1,297,328</u></b>	<b><u>1,135,366</u></b>

#### **35. Contingencies and commitments including off-balance sheets items**

##### **Guarantees**

	<b>31 December 2006</b>	<b>31 December 2005</b>
Guarantees in favour of customers	26,256,641	6,259,802
Guarantees received from credit institutions	1,204,589	1,585,152
Letters of credit issued to customers	365,650	213,000

Guarantees and letters of credit issued in favour of customers 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 as of and for the year ended 31 December 2006**

*(amounts in USD, unless otherwise stated)*

#### **35. Contingencies and commitments including off-balance sheets items (continued)**

##### **Other**

	<b>31 December 2006</b>	<b>31 December 2005</b>
Undrawn credit commitments (credit cards and overdrafts)	9,161,456	-
Outstanding cheques of non-resident banks	134,226	48,144
Spot foreign currency contract	6,947,605	3,560,745
Collaterals for loan portfolio	500,917,020	290,089,219

##### **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 as of 31 December 2006.

##### **Lease commitments**

Such commitments for the years ended 31 December 2006 and 2005 are composed as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Not later than 1 year	347,820	227,652
Later than 1 year and not later than 5 years	1,281,615	863,253
Later than 5 years	<u>862,930</u>	<u>513,472</u>
<b>Total</b>	<b><u>2,492,365</u></b>	<b><u>1,604,377</u></b>

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2006 with a maximum duration of ten years.

The Bank had 29 rented buildings as of 31 December 2006, in which are included the rented space dedicated to off site disaster recovery and the buildings of two agencies planned to be opened in the beginning of 2007.

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