

**Banca Italo-Albanese Sh.a.**

**Financial Statements**

**for the year ended 31 December 2006**

**(with independent auditor's report thereon)**



# Banca Italo-Albanese Sh.a.

## Income statement for the year ended 31 December 2006

*(Amounts in Albanian Lek, unless otherwise stated)*

	Notes	2006	2005
Interest			
Interest income	3	1,102,364,912	985,274,511
Interest expense	4	(462,580,414)	(352,522,757)
Net interest income		639,784,498	632,751,754
Profit from foreign exchange		58,066,567	29,340,931
Other operating income		4,996,381	286,119
Fee and commission income, net	5	101,992,014	112,215,608
		165,054,963	141,842,658
Operating expenses			
Provision for loans losses	11	(650,383,607)	229,675,766
Statistical provision	11	(23,739,004)	9,235,962
Impairment of assets acquired through legal process		(39,517,996)	
Provision for risk		(12,422,592)	
Personnel expenses	6	(182,614,497)	(176,271,345)
Depreciation of property and equipment	14	(39,975,013)	(39,895,768)
Depreciation of leasehold improvements		(23,501,558)	(21,466,244)
Amortization	13	(5,789,025)	(5,257,023)
Other operating expenses	7	(249,988,582)	(207,992,024)
Total expenses		(1,227,931,875)	(211,970,676)
Gain on sale of the investment property	20	-	65,064,784
Loss (Profit) before taxes		(423,092,415)	627,688,520
Income tax expense	21	-	(147,621,343)
Net profit/(loss) for the year		(423,092,415)	480,067,177

*The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 28.*

# Banca Italo-Albanese Sh.a.

## Balance sheet as at 31 December 2006

(Amounts in Albanian Lek, unless otherwise stated)

	Notes	31 December 2006	31 December 2005
<b>Assets</b>			
Cash and balances with Central Bank	9	2,400,111,152	2,082,832,210
Loans and advances to financial institutions	10	7,072,095,026	6,180,625,530
Loans and advances to customers	11	5,677,423,143	4,725,673,777
Investment securities	12	6,488,673,369	5,846,890,264
Intangible assets	13	6,156,339	11,812,508
Property and equipment	14	427,604,505	257,858,112
Other assets	15	286,778,532	226,771,576
<b>Total assets</b>		<b>22,358,842,067</b>	<b>19,332,463,977</b>
<b>Liabilities</b>			
Due to banks	16	457,347,840	494,300,199
Due to customers	17	19,741,251,042	16,211,420,703
Other borrowings from financial institutions	18	144,326,738	219,738,610
Other liabilities	19	365,699,078	187,374,627
<b>Total liabilities</b>		<b>20,708,624,698</b>	<b>17,112,834,139</b>
<b>Shareholders' equity</b>			
Paid-up capital	20	1,721,550,480	1,721,550,480
Translation reserve		(262,380,480)	(116,060,480)
Legal reserve		51,256,989	27,336,188
Statutory reserve		5,539,817	5,539,817
General reserve		557,342,978	102,847,814
Accumulated losses		(423,092,415)	478,416,019
<b>Total shareholders' equity</b>		<b>1,650,217,368</b>	<b>2,219,629,838</b>
<b>Total liabilities and shareholders' equity</b>		<b>22,358,842,067</b>	<b>19,332,463,977</b>

*The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 28.*

## Banca Italo-Albanese sh.a.

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

(amounts in Albanian Lek, unless otherwise stated)

	Paid-up Capital	Translation exposure	Legal Reserve	Statutory Reserve	General Reserve	Retained Earnings / (Accumulated losses)	Total
Balance at 31 December 2003	1,721,550,480	(69,560,480)	27,336,188	5,539,817	102,847,814	(234,967,592)	1,552,746,227
Changes in translation exposure	-	(216,070,062)	-	-	-	-	(216,070,062)
Current year loss	-	-	-	-	-	233,316,434	233,316,434
Balance at 31 December 2004	1,721,550,480	(285,630,542)	27,336,188	5,539,817	102,847,814	(1,651,158)	1,569,992,599
Changes in translation exposure	-	169,570,062	-	-	-	-	169,570,062
Current year profit	-	-	-	-	-	480,067,177	480,067,177
Balance at 31 December 2005	1,721,550,480	(116,060,480)	27,336,188	5,539,817	102,847,814	478,416,019	2,219,629,838
Changes in translation exposure	-	(146,320,000)	-	-	-	-	(146,320,000)
Allocation of profit	-	-	23,920,801	-	454,495,218	(478,416,019)	-
Current year loss	-	-	-	-	-	(423,092,415)	(423,092,415)
Balance at 31 December 2006	1,721,550,480	(262,380,480)	51,256,989	5,539,817	557,343,032	-423,092,415	1,650,217,423

*The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 28.*

# Banca Italo-Albanese sh.a.

## Statement of cash flows for the year ended 31 December 2006

(amounts in Albanian Lek, unless otherwise stated)

	Notes	31 December 2006	31 December 2005
Net (loss) profit for the year		(423,092,415)	480,067,177
Adjustments to reconcile net profit (loss) to net cash provided by operating activities			
Translation exposure		146,320,000	184,641,818
Depreciation of property and equipment	14	41,685,771	39,895,768
Depreciation of leasehold improvements		23,501,558	21,466,244
Amortisation	13	5,789,055	5,257,023
Provision for loan losses and statistical provision	11	674,122,611	(238,911,728)
Loss on sale of investment property and other assets		51,940,588	(65,064,784)
Loss on write off of other assets		5,288,958	
Changes in operating assets and liabilities:			
Increase of loans and advances to financial institutions	10	(269,943,139)	(155,550,626)
Increase/Decrease in loans and advances to customers	11	(1,608,259,415)	558,072,593
Increase/decrease in other assets		(125,216,496)	112,212,406
Decrease/Increase in due to banks	16	(36,952,359)	310,359,672
Increase in due to customers	17	3,529,830,339	1,570,612,011
Decrease in other borrowings from financial institutions	18	(75,411,872)	(76,696,524)
Decrease in other liabilities		(143,871,527)	17,300,023
Net cash provided by operating activities		1,795,731,657	2,763,661,073
<b>Cash flows from investing activities</b>			
Purchases of investment securities	12	(641,783,105)	(1,293,288,984)
Purchases of intangible assets	13	(132,820)	(3,420,123)
Purchases of property and equipment	14	(215,010,432)	(17,084,623)
Proceeds from the sale of investment property and other assets		-	200,487,205
Net cash used in investing activities		(856,926,358)	(1,113,306,525)
Increase (decrease) in cash and cash equivalents		938,805,300	1,650,354,548
Cash and cash equivalents, beginning of the year		6,694,366,470	5,044,011,922
Cash and cash equivalents, end of the year	22	7,633,171,770	6,694,366,470

*The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 28.*

## 1. Introduction

Banca Italo-Shqiptare sh.a.(the Bank or "BIA") is an Albanian Joint stock company based in Tirana, which operates in banking activities market, providing a large range of products in services, specially trade products through the support and the sustain of a large network of international correspondents.

As at 31 December 2006 the Bank was operating from a head office in Tirana with 5 branches, of which two are in Tirana, and the remaining in Durrës, Vlorë and Shkoder. As at 31 December 2006, the Bank employs 88 staff (2005: 77 staff), including 5 expatriate managers and operates mainly in the geographical region of Albania.

The Bank, which is registered at the commercial register at the Court of Tirana's District no 4669 dated 28 May 1993 with a special Law no 7649 dated 16.12.1992 on "Creation of Banka Italo-Shqiptare", is subject to the Law no 8269 on "The Bank of Albania" dated December 1997 and the Law no 8365 "On the Banking system in the Republic of Albania" dated 2 July 1998.

As of December 31<sup>st</sup> 2005 the number of shares held by the Shareholders were:

➤ Capitalia S.p.A	40%
➤ Ministry of Finance, Republic of Albania	40%
➤ European Bank for Reconstruction and Development	20%

In May 10, 2006 Capitalia S.p.A., the Albanian Government and Sanpaolo Imi S.p.A concluded the transaction related to the transfer of shares based on the sales contract dated December 7<sup>th</sup>, 2005 of the shares held, while the registration of the transfer of the shares at the commercial register at the Court of Tirana's District is deposited with the decision no 4669/14 dated 12 June 2006.

As of 12 June 2006 the number of shares held by the Shareholders were:

➤ Sanpaolo Imi S.p.A	80%
➤ European Bank for Reconstruction and Development	20%

In July 5<sup>th</sup>, 2006 at the Extraordinary Shareholders' meeting was approved the transfer of 3,871% of the shares held by Sanpaolo Imi S.p.A to the Societa' Italiana per le Imprese all'Estero -SIMEST S.p.A with head office in Via Corso Vittorio Emanuele II, no 323, Roma, Italy, changes registered at the Commercial register at the Court of Tirana's District no 4669/17 changing the shareholding structure as follows:

➤ Sanpaolo Imi S.p.A	76,129%
➤ European Bank for Reconstruction and Development	20,000%
➤ Societa' Italiana per le Imprese all'Estero -SIMEST S.p.A	3,871%

These financial statements have been approved by the Board of Directors of the Bank on 27 March 2007.

## 2. Summary of accounting policies

### (a) Basis of presentation

The accompanying financial statements have been prepared in accordance with Article 38 of the Banking Law of the Republic of Albania Law, No. 8365, dated 2 July 1998.

The financial statements are presented in Albanian Lek and are prepared on the historic cost basis.

### (b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with the Central Bank (except for the statutory reserve) and short-term highly liquid investments with maturities of three months or less when purchased.

### (c) Investment securities

Investment securities include treasury bills held to maturity. Treasury bills are recorded at nominal value less accrued discount. When a treasury bill earns implicit interest, the effective interest rate is calculated and accrued.

### (d) Loans and advances to customers

Loans and advances to customers are reported net of a provision for specific loan losses.

Specific provisions are created pursuant to regulation No. 52 of the Bank of Albania "On Credit Risk Management" (the "Credit Regulation") approved by the Supervisory Board on 14 July 2005. The regulation requires the Bank to classify exposures into five risk categories.

For each risk category, the following minimum rates of specific provisions are applied:

Type of loans	Days in arrears	Loss Provision
Standard	0 days	1%
Special Mention	31-90 days	5%
Substandard	91-180 days	20%
Doubtful	181-365 days	50%
Loss	Over 365 days	100%

Loans and advances to customers are reported net of provisions for specific loan losses on loans classified as substandard, doubtful and loss. Provisions created for possible losses on loans classified as standard and special mention are classified as statistical provisions on the liabilities side of the balance sheet.

### (e) Investment Property

Investment property is represented by in-kind capital contribution and is carried at cost, which is the fair market value on the date when contributed.

Any gains or losses arising from the retirement or sale of investment property are recognised as income or expense in the income statement.



**(f) Property and equipment**

Included in property and equipment is the building in which the Bank's Head Office and Tirana Branch are located. The building is depreciated on a straight-line basis, over its estimated useful life, at the annual rate of 3%.

Furniture and equipment is stated at cost less accumulated depreciation, which is calculated on a straight-line basis over the estimated useful lives of the assets.

The annual depreciation rates are as follows:

• Furniture	10%-25%
• Equipment	10%-25%
• Information and electronic equipment	25%
• Leasehold improvements	10%-20%

**(f) Property and equipment (continued)**

Leasehold improvements relate to expenditures on the new branches in Vlora (opened in December 2002) and Shkodra (opened in October 2004). According to the Bank of Albania accounting manual, leasehold improvements are recorded under other assets.

**(g) Intangible assets**

Intangible assets acquired by the Bank are stated at cost less accumulated amortization.

The annual amortization rates are as follows:

• Software	25%
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**(h) Revenue recognition**

Interest income and expense is recognised on an accrual basis, other than interest on substandard, doubtful and loss loans, which is recognised on a cash basis.

Fee and commission income arises on financial services provided by the Bank including cash management services, brokerage services and investment advice. Fee and commission income is recognised when the related service is performed.

**(i) Taxation**

The Bank determines taxation at the end of the year in accordance with the Albanian tax legislation. In 2005 tax on profit is calculated as 23% of taxable income. Taxable income is calculated by adjusting the statutory profit before taxes for certain income and expenditure items as required under Albanian law. Refer to note 21.

**(j) Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at year-end. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies,

**Banca Italo-Albanese sh.a.**

**Notes to the financial statements for the year ended 31 December 2006**

*(amounts in Lek, unless otherwise stated)*

which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction, except for property and equipment that are translated at the year-end rate.

The applicable rates of exchange (Lek to foreign currency unit) for the principal currencies as at 31 December 2006 and 2005 were as follows:

	2006	2005
USD	94.14	103.58
EUR	123.85	122.58
GBP	184.65	178.65

**3. Interest income**

Interest income was earned on the following assets:

	Years ended 31 December	
	2006	2005
Loans and advances to customers	401,827,753	407,601,016
Loans and advances to financial institutions	296,650,571	182,939,802
Investment securities	403,886,588	394,733,693
<b>Total</b>	<b>1,102,364,912</b>	<b>985,274,511</b>

**4. Interest expense**

Interest expense was incurred on the following liabilities:

	Years ended 31 December	
	2006	2005
Due to customers	448,573,877	334,802,950
Due to banks and other borrowings	14,006,537	17,719,807
<b>Total</b>	<b>462,580,414</b>	<b>352,522,757</b>

**5. Fee and commission income, net**

Fees and commissions, net were comprised as follows:

	Years ended 31 December	
	2006	2005
Payment orders, net	62,213,387	70,774,692
Forex commissions	9,722,908	11,158,657
Account maintenance	14,293,213	17,559,297
Letter of Credit/Letter of Guarantee activity	9,065,802	5,190,643
Other	6,696,703	7,532,319
<b>Total</b>	<b>101,992,014</b>	<b>112,215,608</b>

Fees and commissions paid refer mainly to banking services provided by correspondent banks.

**6. Personnel expenses**

Personnel expenses are composed as follows:

	Years ended 31 December	
	2006	2005
Net salaries	127,789,783	104,105,823
Social insurance	16,682,765	20,178,499
Personal income tax	14,797,341	32,655,623
Other	23,344,609	19,331,400
<b>Total</b>	<b>182,614,497</b>	<b>176,271,345</b>

**7. Other operating expenses**

Other operating expenses consisted of the following:

	Year ended 31 December 2006	Year ended 31 December 2005
Communication and IT	49,004,392	49,151,808
Logistic	54,695,558	56,025,065
General expenses	28,028,396	40,071,147
Insurance and professional expenses	60,692,815	32,946,124
Advertising	31,426,439	17,320,480
Other personnel expenses	19,427,025	6,350,090
Other tax paid	1,425,000	6,127,309
Loss on sale of fixed assets	5,288,958	-
<b>Total</b>	<b>249,988,582</b>	<b>207,992,024</b>

**8. Gain on sale of the investment property and other assets**

Gain on sale of other assets in 2005 relates to the sale of properties. The properties (land, buildings, and equipments) were obtained as collateral for the loans granted by the Bank, which were impaired in previous financial years. These collaterals which were executed through legal processes were acquired by the Bank. The management of the Bank sold the assets for an amount of Lek 200,469,386 recording gain on sales of Lek 65,064,784.

**9. Cash and balances with Central Bank**

Cash and balances with the Central Bank consisted of the following:

	31 December	
	2006	2005
Cash on hand	559,311,051	391,826,220
Central Bank		
Current account	1,765,693	121,914,720
Statutory reserve	1,839,034,409	1,569,091,270
<b>Total</b>	<b>2,400,111,152</b>	<b>2,082,832,210</b>

In accordance with the Bank of Albania's requirement relating to the statutory reserve, the Bank should maintain a minimum of 10% of customer deposits and certificate of deposits with the Central Bank as a reserve account. The statutory reserve with the Central Bank is not available for the Bank's day-to-day operations.

**10. Loans and advances to financial institutions**

Loans and advances to financial institutions are detailed as follows:

	31 December	
	2006	2005
Current accounts		
Resident	222,239	72,500
Non-resident	531,730,934	268,439,950
Deposit accounts		
Non-resident	6,538,137,875	5,816,962,960
Loans		
Resident	-	-
Other	2,003,977	95,150,120
<b>Total</b>	<b>7,072,095,026</b>	<b>6,180,625,530</b>

At year-end the non-resident balances bear interest rate ranging from 3.54% to 5.16% (2005: 2.25% to 4.35%).

Other accounts include letters of credit and guarantees.

Correspondent banks as of 31 December 2006 include, among others, the following intercompany balances with Sanpaolo IMI:

	31 December	
	2006	2005
Sanpaolo IMI - Torino	1,939,534,873	-
Sanpaolo IMI - London	41,174,363	-
<b>Total</b>	<b>1,980,709,236</b>	<b>-</b>

Banca Italo-Albanese sh.a.

Notes to the financial statements for the year ended 31 December 2006

(amounts in Lek, unless otherwise stated)

10. Loans and advances to financial institutions (continued)

Correspondent banks detailed geographically are as follows:

	31 December	
	2006	2005
Italy	5,635,146,940	2,575,500,460
Austria	1,061,581,494	1,561,234,125
USA	269,656,523	876,066,506
Albania	222,239	72,500
Germany	42,579,392	1,060,698,254
England	41,174,363	70,536,574
Switzerland	6,548,423	16,183,530
Other	15,185,652	20,333,581
<b>Total</b>	<b>7,072,095,026</b>	<b>6,180,625,530</b>

11. Loans and advances to customers

Loans and advances to customers consisted of the following:

	31 December	
	2006	2005
Overdrafts		
<i>individuals</i>	417,305,636	17,895,984
<i>entities</i>	2,252,487,051	2,465,738,741
Loans		
<i>individuals</i>	1,090,494,740	476,271,819
<i>entities</i>	2,725,205,856	2,322,467,386
Provisions for loan losses on substandard, doubtful and loss loans	(808,070,140)	(556,700,153)
<b>Loans and advances, net</b>	<b>5,677,423,143</b>	<b>4,725,673,777</b>

At year-end, 80.60 % of loans are secured by mortgages and the remainder by pledges over machinery, equipment, personal and international bank guarantees (2005: 82 % of loans were secured by mortgages and the remaining by pledges over machinery, equipment and personal and international bank guarantees).

*(amounts in Lek, unless otherwise stated)***11. Loans and advances to customers (continued)**

Movements in the provisions for loan losses on substandard, doubtful and loss loans are as follows:

	2006	2005
At 1 January	556,700,153	1,029,096,393
Provision charge for the year	1,398,150,066	206,349,846
Reversal of provision	(747,766,459)	(436,025,612)
Loans written off	(383,109,730)	(301,029,881)
Translation effect	(15,903,890)	58,309,407
<b>At 31 December</b>	<b>808,070,140</b>	<b>556,700,153</b>

Movements in the statistical provision for standard and special mention loans are as follows:

	2006	2005
At 1 January	64,188,340	71,189,031
Provision charge for the year	71,144,185	38,596,669
Reversal of provision	(47,405,181)	(47,832,631)
Translation effect	(1,708,672)	2,235,271
<b>At 31 December (Refer to note 19)</b>	<b>86,218,672</b>	<b>64,188,340</b>

Commercial loans and overdrafts by category as of 31 December 2006 and 2005 are as follows:

	31 December			
	2006	%	2005	%
Standard	4,663,331,813	71.90	4,217,719,040	79.85
Special mention	519,277,220	8.01	318,594,730	6.03
Substandard	97,238,260	1.50	177,979,950	3.37
Doubtful	847,199,420	13.06	97,653,490	1.85
Loss	358,446,570	5.53	470,426,720	8.90
<b>Commercial loans, gross</b>	<b>6,485,493,283</b>	<b>100</b>	<b>5,282,373,930</b>	<b>100</b>

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

The following table presents the distribution of the Bank's credit exposure by industry sector for loans and advances to customers as at 31 December 2006 and 2005:

	31-Dec			
	2006	%	2005	%
Agriculture	2,499,865	0.0%	107,465,429	2.0%
Fishery	12,441,090	0.2%	470,637	0.0%
Extracting industry	38,530,166	0.6%	48,629,189	0.9%
Processing industry	1,431,521,171	22.1%	1,786,605,500	33.8%
Production, distribution of fuels & electricity	69,756,616	1.1%	94,439,490	1.8%
Constructions	913,421,496	14.1%	1,068,469,480	20.2%
Trade and repair of vehicles and appliances	508,812,071	7.8%	484,641,950	9.2%
Restaurant and hostelry	173,321,111	2.7%	207,370,881	3.9%
Transport and telecommunication	47,969,388	0.7%	80,095,163	1.5%
Financial activities	52,959,045	0.8%	66,641,254	1.3%
Real estate	616,513,523	9.5%	163,900,222	3.1%
Health and social activities	62,427,033	1.0%	15,037,863	0.3%
Social services	145,452,049	2.2%	546,959,504	10.4%
Consumer loans		0.0%	13,473,183	0.3%
Various services	896,734,996	13.8%	265,930,099	5.0%
Individuals	1,513,134,019	23.33%	332,244,039	6.3%
<b>Commercial loans, gross</b>	<b>6,485,493,638</b>	<b>100.0%</b>	<b>5,282,373,883</b>	<b>100.0%</b>

*(amounts in Lek, unless otherwise stated)***12. Investment securities**

Investment securities are treasury bills held-to-maturity and are comprised as follows:

	31-Dec-06			31-Dec-05		
	<i>Nominal value</i>	<i>Accrued discount</i>	<i>Book value</i>	<i>Nominal value</i>	<i>Accrued discount</i>	<i>Book value</i>
3 months	100,000,000	(666,884)	99,333,116			
6 months	-	-	-	-	-	-
12 months	6,581,046,875	(191,706,622)	6,389,340,253	6,030,738,133	(183,847,871)	5,846,890,262
	<b>6,681,046,875</b>	<b>(192,373,506)</b>	<b>6,488,673,369</b>	<b>6,030,738,133</b>	<b>(183,847,871)</b>	<b>5,846,890,262</b>

The effective interest rates on treasury bills during the 2006 fluctuated between 5.73% and 7.74% (2005: 6.58% and 8.18%)

**13. Intangible assets**

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

	<b>Software</b>
<b>Cost</b>	
At 1 January 2006	36,350,158
Additions	132,820
<b>At 31 December 2006</b>	<b>36,482,978</b>
<b>Accumulated amortization</b>	
At 1 January 2006	(24,537,584)
Charge for the year	(5,789,055)
<b>At 31 December 2006</b>	<b>(30,326,640)</b>
<b>Net carrying value</b>	
At 31 December 2005	11,812,508
<b>At 31 December 2006</b>	<b>6,156,339</b>



Banca Italo-Albanese sh.a.  
Notes to the financial statements for the year ended 31 December 2006  
*(amounts in Lek, unless otherwise stated)*

14. Property and equipment

Property and equipment consisted of the following:

	Building	Furniture	Information & Electronic Equipment	Equipment & motor vehicles	Total
At 1 January 2006	233,293,855	84,288,536	77,748,080	87,189,397	482,519,869
Additions	166,140,116	26,474,099	9,465,173	12,931,044	215,010,432
Disposals		(2,549,659)	(17,514,664)	(357,062)	(20,421,385)
At 31 December 2006	399,433,971	108,212,976	69,698,589	99,763,380	677,108,915
<i>Accumulated depreciation</i>					
At 1 January 2006	(63,929,680)	(58,469,667)	(50,283,636)	(51,978,930)	(224,661,913)
Charge for the year	(7,081,143)	(9,910,253)	(12,002,315)	(10,981,224)	(39,974,935)
Disposals		1,929,505	12,845,871	357,062	15,132,438
At 31 December 2006	(71,010,823)	(66,450,415)	(49,440,080)	(62,603,092)	(249,504,410)
<i>Net carrying value</i>					
At 1 January 2006	169,364,176	25,818,869	27,464,444	35,210,467	257,857,956
At 31 December 2006	328,423,149	41,762,560	20,258,508	37,160,288	427,604,505

Banca Italo-Albanese sh.a.

Notes to the financial statements for the year ended 31 December 2006

(amounts in Lek, unless otherwise stated)

15. Other assets

Other assets are comprised of the following:

	31 December 2006	31 December 2005
Prepaid tax on profit	133,500,000	-
Land, buildings and other assets acquired through legal processes	37,674,067	79,382,808
Receivables from shareholders	81,865	11,282,290
Leasehold improvements	111,228,593	132,926,970
Debtors and prepaid expenses	4,294,007	3,179,508
<b>Total</b>	<b>286,778,532</b>	<b>226,771,576</b>

Prepaid tax at 31 December 2006, is composed of Lek 133,500,000 which represents the advanced payment of taxes on income for the year 2006 based on notification of Tax authorities dated January 2006 and April 2006.

Receivables from shareholders represent the amounts paid for legal services during the transfer of their ownership title.

16. Due to banks

Current accounts and deposits at 31 December 2005 and 2004 are composed as follows:

	31 December	
	2006	2005
Current accounts		
Resident	355,261,047	45,043,939
Non-resident	102,086,793	233,979,460
Deposit accounts		
Resident	-	215,276,800
<b>Total</b>	<b>457,347,840</b>	<b>494,300,199</b>

Deposits with resident banks can be detailed as follows:

	31 December 2006			31 December 2005		
	LEK equivalent	Maturity	Rate of interest (p.a.)	LEK equivalent	Maturity	Rate of interest (p.a.)
Banca Italiana di Sviluppo	-	-	-	184,199,434	1 month	2.15%
Banca Italiana di Sviluppo	-	-	-	31,077,366	7 days	3.90%
	-	-	-	<b>215,276,800</b>		

**17. Due to customers**

Customer accounts include enterprises, private entrepreneurs and individuals and consist of current, term deposits, certificates of deposits and other accounts as follows:

	31 December	
	2005	2005
Current accounts:		
Private entrepreneurs and individuals	1,484,572,346	1,343,116,045
Enterprises	2,068,106,425	2,025,205,617
Other	3,599,929,573	3,608,592,060
	<u>7,152,608,344</u>	<u>6,976,913,722</u>
Term deposits:		
Private entrepreneurs and individuals	9,542,962,104	8,031,917,620
Enterprises	1,637,146,110	193,492,176
Other	293,030,072	597,229,824
	<u>11,473,138,286</u>	<u>8,822,639,620</u>
Certificates of deposits:		
Private entrepreneurs and individuals	123,107,207	235,474,970
Other customer accounts:		
Private entrepreneurs and individuals	12,657,008	10,598,270
Enterprises	979,740,197	165,794,121
	<u>992,397,205</u>	<u>176,392,391</u>
<b>Total</b>	<b>19,741,251,042</b>	<b>16,211,420,703</b>

Other customer accounts include mainly guarantee accounts, letter of credit coverage accounts and payments in transit on behalf of non-bank customers. Customers are offered the opportunity to maintain current accounts, deposits and certificates of deposits in multiple currencies.

Current accounts are generally non-interest bearing. In certain cases interest may be applied. For time deposits the annual interest rates applied as at 31 December 2006 are as follows:

	1 month	3 months	6 months	1 year
	%	%	%	%
LEK	3.50	3.80	4.60	5.00
USD	3.20	3.30	3.50	4.00
EUR	2.50	2.70	2.90	3.30

*(amounts in Lek, unless otherwise stated)***17. Due to customers (continued)**

For certificates of deposits the annual interest rates applied at 31 December 2006 are as follows:

	3 months %	6 months %	1 year %
LEK	3.90	4.70	5.10
USD	3.40	3.60	4.10
EUR	2.80	3.00	3.40

**18. Other borrowings from financial institutions**

Other borrowings as of 31 December 2006 and 2005 is composed as follows:

	31 December	
	2006	2005
Due to European Bank of Investment (BEI)	140,611,238	210,019,540
Borrowings	3,715,500	9,719,070
<b>Total</b>	<b>144,326,738</b>	<b>219,738,610</b>

On 16 October 1996, BIA was nominated by the Bank of Albania ("BoA") to administer a loan that the European Bank of Investment ("BEI") had provided to BoA, amounting to EURO 5 million and destined to finance projects implemented by private and/or public entities, exclusively in the industrial sector, agro - processing sector and related services, and tourism.

At year end the outstanding balance is Lek 138,549 (2005: 206,814) thousand equivalent to Euro 1,119 (2005: 1,687) thousand. This amount was disbursed to three Albanian companies. The interest applied during 2006 were on average 6.92%, out of which BIA took 1.75% for its charges and paid the remaining amount to BEI, that approximated 5.17% (2005: 5.29%). .

Borrowings as of 31 December 2006 and 2005 are composed as follows:

	31 December	
	2006	2005
D.E.G.	3,715,500	3,677,400
EBRD	-	6,041,670
<b>Total</b>	<b>3,715,500</b>	<b>9,719,070</b>

The first borrowing is related to a loan agreement between BIA and DEG (Deutsche Investitions-Und Entwicklungsgesellschaft MBH) established on 28 October 1999, in respect of the implementation of a revolving credit fund and a guarantee fund within the project "Promotion of business start up in Albania - 2000". According to this contract, BIA acted as an executor of the project and during 2000, borrowed DEM 4.4 million (equivalent to USD 2.1 million). During 2001, the management of the Bank withdrew from the contract and consequently the funds borrowed were given back to DEG except for those loans that had already been disbursed to customers of the Bank. On 2 December 2004, a Termination Agreement was signed between BIA and DEG that agreed to compensate BIA for EUR 30,000 (equivalent to Lek 3,715,500) in a one time payment for possible future losses in of the existing portfolio of start up loans.

*(amounts in Lek, unless otherwise stated)***18. Other borrowings from financial institutions (continued)**

The EBRD loan agreement was signed on 22 July 1998, with the main objective to assist in the development of small and medium sized enterprises. BIA, as the financial intermediary, administers this loan that has been disbursed with two tranches of USD 3 million. The amounts borrowed from the EBRD will serve as grants to the customers of the Bank. According to the agreement, the tranches of the loan bear an interest equal to six-month LIBOR plus 2.75%.

Other borrowings from financial institutions as of 31 December 2005 and 2004 is split between current and non-current as follows:

	31 December	
	2006	2005
Current	47,998,959	80,985,161
Non-current	96,327,779	138,753,449
<b>Total</b>	<b>144,326,738</b>	<b>219,738,610</b>

**19. Other liabilities**

Other liabilities are comprised of the following:

	31 December	
	2006	2005
Payment orders to be executed	195,287,193	92,696,089
Payable to tax authorities	-	11,630,415
Accrued expenses	68,207,714	16,892,237
Cheques in circulation	3,185,145	1,605,237
Provision for risks	12,422,592	-
Provision for commitments and contingencies	13,621,289	-
Statistical provision for standard and special mention loans	72,597,383	64,188,340
Other	377,762	362,309
<b>Total</b>	<b>365,699,078</b>	<b>187,374,627</b>

**20. Paid-up capital**

The Bank's paid up capital at 31 December 2006 is Lek 1,721,550,480 (USD 15,500,000).

The table below reconciles the number of shares outstanding at the beginning and end of the year. All shares are fully paid with a par value of USD 100,000.

	31 December	
	2006	2005
Number of authorised and fully paid shares at beginning of the year	155	155
Issued during the year	-	-
<b>Number of authorised and fully paid shares at the end of the year</b>	<b>155</b>	<b>155</b>

**20. Paid-up capital (continued)**

**Legal reserve**

Legal reserve represents the appropriation from earnings of 5% as required by the Law "On commercial Companies". The reserve is calculated on an annual basis as 5% of net profit.

**Statutory reserve**

According to the Shareholders' decision based on the By-Laws of the Bank, the statutory reserve is created using 20% of the profit from 1996 to 1999 for a total of Lek 94,912,398 (USD 640,091). In May 2000, the Bank increased its Paid-up capital using the statutory reserve for the amount of Lek 89,372,581 (USD 599,655). The unused portion of Lek 5,539,817 (USD 40,437) remains and is carried forward in the equity of the Bank.

**General reserve**

The Shareholders authorised the allocation of 2005 carried forward profit, 5% to the legal reserve and 95% (Lek 454,495,218) to the general reserve.

**Translation exposure**

Starting from 31 December 2001 the Bank maintains all reserves in Lek. These items are presented in the financial statements of the Bank at historical cost. The translation effect that derives is recognised in the income statement.

The paid-up capital is in US Dollars. It is converted into Lek at the historical rate ruling at the date the capital increase is effectuated. The difference between the historic rate and year-end rate is included in the translation reserve as part of shareholders' equity.

**21. Taxation**

The reconciliation between the accounting profit with taxable profit for the years ended 31 December 2006 and 2005 is detailed as follows:

	Years ended 31 December	
	2006	2005
Accounting (loss) / profit	(423,092,415)	627,688,520
Non tax deductible expenses	104,216,141	14,143,407
Realization of taxable losses carried forward	-	-
Taxable profit / (loss)	<u>(318,876,274)</u>	<u>641,831,927</u>
Computed tax at 20%(2005: 23%)	-	147,621,343
<b>Income tax expense</b>	<b>-</b>	<b>147,621,343</b>

Banca Italo-Albanese sh.a.

Notes to the financial statements for the year ended 31 December 2006

(amounts in Lek, unless otherwise stated)

22. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	31-Dec-06	31-Dec-05
Cash on hand	559,311,051	391,826,220
Current account with Central Bank	1,765,693	121,914,720
Loans and advances to financial institutions (note 10)	7,072,095,026	6,180,625,530
<b>Total</b>	<b>7,633,171,770</b>	<b>6,694,366,470</b>

23. Commitments and contingencies

Commitments and contingencies include the following:

	31-Dec-06	31-Dec-05
<i>Contingent assets</i>		
Guarantees received	433,417,132	190,794,981
Letters of credits received	18,516,231	
Cheques for collection	11,929,462	2,341,529
	<b>463,862,826</b>	<b>193,136,510</b>
<i>Contingent liabilities</i>		
Letters of guarantee issued	378,246,704	285,703,160
Letters of credits issued	4,712,183	39,463,980
Un-drawn credit commitments	779,170,036	285,411,997
	<b>1,162,128,923</b>	<b>610,579,137</b>

Guarantees received include cash collateral, mortgages, inventory and other assets pledged in favour of the bank from its borrowers.

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted and are fully cash collateralised. Based on management's estimate, the credit risk is minimal.

Legal

In the normal course of business, the Bank is presented with legal claims; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at 31 December 2006.

Lease commitments

The Bank has entered into lease commitments for the branches. Such commitments for the years ended 31 December 2006 and 2005 are composed as follows:

	31 December	
	2006	2005
Not later than 1 year	16,121,512	18,824,629
Later than 1 year and not later than 5 years	51,452,706	57,536,619
Later than 5 years	7,531,200	17,815,760
<b>Total</b>	<b>75,105,418</b>	<b>94,177,008</b>

The Bank may cancel these leases upon giving one to six months notice.

## 24. 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.

### Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank attempts to manage this risk by closing daily, open foreign currency positions and by establishing and monitoring limits on open positions. The Bank's net open foreign exchange position at 31 December 2006 is shown in note 26.

### 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 Bank attempts to mitigate this risk by monitoring the repricing dates of its assets and liabilities.

### Credit risk

Credit risk is the risk that the counter party to a financial instrument will fail to repay the obligation and cause the Bank to incur a loss. The Bank manages credit risk by dealing only with approved counter parties under specific credit limits. The Bank regularly monitors its limits with, and exposures to, individual counter parties and countries. Also refer to notes 10 and 11.

### Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Bank manages this risk by continually monitoring expected cash flows from financial instruments and adjusting inter-bank takings and placings to match the timing of payments and receipts. An analysis of the Bank's expected timing of cash flows is shown in note 27.

## 25. Estimation and disclosure 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.

### *Loans and advances to financial institutions*

Loans and advances to financial institutions include inter-bank placements and items in the course of collection. As loans, advances and overnight deposits are short term and at floating rates their fair value is considered to be equal to their carrying amount.

### *Treasury bills - held to maturity investment securities*

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



**Banca Italo-Albanese sh.a.**

**Notes to the financial statements for the year ended 31 December 2006**

*(amounts in Lek, unless otherwise stated)*

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As at 31 December 2006, the fair value of the treasury bills portfolio was Lek 6,459,693 thousand (2005: 5,851,830 thousand), while its carrying value was Lek 6,389,340 thousand (2005: Lek 5,846,890 thousand).

*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.

*Due to other banks and customers*

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. As at 31 December 2006, the fair value of the time deposits was Lek 11,242,559 thousand (2005: Lek 8,205,550 thousand), while its carrying value was Lek 11,383,778 thousand (2005: Lek 8,759,218 thousand). In addition, the fair value of the certificate of deposits was Lek 120,600 thousand (2005: Lek 205,851 thousand), while its carrying value was Lek 120,849 thousand (2005: Lek 231,442 thousand).

*Other borrowings from financial institutions*

As at 31 December 2006, the estimated fair value of borrowed funds from financial institutions approximates the carrying value due to variable interest rates, which approximate market rates.

**Banca Italo-Albanese sh.a.****Notes to the financial statements for the year ended 31 December 2006***(amounts in Lek, unless otherwise stated)***26. Foreign currency position**

The analysis of monetary assets and liabilities as at 31 December 2006 by the foreign currencies in which they were denominated was as follows:

	31 December 2006				
	ALL	USD	EURO	Other	Total
<b>Assets</b>					
Cash and balances with Central Bank	890,005,336	409,570,992	1,085,189,516	15,345,309	2,400,111,152
Loans and advances to financial institutions	72,520	3,867,741,801	3,093,725,393	110,556,241	7,072,095,955
Loan and advances to customers	403,455,694	648,364,163	4,625,526,240	77,046	5,677,423,143
Investment securities	6,488,673,369	-	-	0	6,488,673,369
Other assets	694,246,928	10,992,164	15,299,355	0	720,538,447
<b>Total</b>	<b>8,476,453,847</b>	<b>4,936,669,120</b>	<b>8,819,740,504</b>	<b>125,978,596</b>	<b>22,358,842,067</b>
<b>Liabilities</b>					
Due to banks and financial institutions	330,830,400	29,728,950	240,990,025	125,204	601,674,578
Due to customers	7,886,122,709	3,416,362,832	8,319,087,972	119,677,529	19,741,251,042
Other liabilities	61,208,695	36,554,273	267,936,110	-	365,699,078
Shareholders Equity	191,047,368	1,459,170,000	-	-	1,650,217,368
<b>Total</b>	<b>8,469,209,171</b>	<b>4,941,816,055</b>	<b>8,828,014,107</b>	<b>119,802,732</b>	<b>22,358,842,067</b>
<b>Net position</b>	<b>7,244,676</b>	<b>(5,146,935)</b>	<b>(8,273,603)</b>	<b>6,175,864</b>	<b>-</b>

**Banca Italo-Albanese sh.a.**  
**Notes to the financial statements for the year ended 31 December 2006**  
*(amounts in Lek, unless otherwise stated)*

**26. Foreign currency position (continued)**

	31 December 2005				
	ALL	USD	EURO	Other	Total
<b>Assets</b>					
Cash and balances with Central Bank	871,031,760	403,982,990	799,433,291	8,384,169	2,082,832,210
Loans and advances to financial institutions	72,500	3,224,711,904	2,865,734,120	90,107,006	6,180,625,530
Loan and advances to customers	138,823,546	1,260,626,042	3,326,154,577	69,612	4,725,673,777
Investment securities	5,846,890,264	-	-	-	5,846,890,264
Other assets	15,024,637	458,006,713	23,410,846	-	496,442,196
<b>Total</b>	<b>6,871,842,707</b>	<b>5,347,327,649</b>	<b>7,014,732,834</b>	<b>98,560,787</b>	<b>19,332,463,977</b>
<b>Liabilities</b>					
Due to banks and financial institutions	4,331,185	107,001,463	602,109,911	596,250	714,038,809
Due to customers	6,317,717,220	3,585,062,180	6,219,047,951	89,593,352	16,211,420,703
Other liabilities	32,197,493	37,088,595	118,088,539	-	187,374,627
Shareholders Equity	614,139,838	1,605,490,000			2,219,629,838
<b>Total</b>	<b>6,968,385,736</b>	<b>5,334,642,238</b>	<b>6,939,246,401</b>	<b>90,189,602</b>	<b>19,332,463,977</b>
<b>Net position</b>	<b>(96,543,029)</b>	<b>12,685,411</b>	<b>75,486,433</b>	<b>8,371,185</b>	<b>-</b>

Banca Italo-Albanese sh.a.  
Notes to the financial statements for the year ended 31 December 2006  
*(amounts in Lek, unless otherwise stated)*

**27. Liquidity risk**

An analysis of monetary assets and liabilities according to their remaining maturity is as follows:

31 December 2006						
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
<b>Assets</b>						
Cash and balances with Central Bank	2,400,111,152	-	-	-	-	2,400,111,152
Loans and advances to financial institutions	7,072,095,026				-	7,072,095,026
Investment securities	99,925,429	2,063,605,888	2,351,349,322	1,973,792,731	-	6,488,673,369
Loan and advances to customers	883,916,974	407,809,809	388,967,334	662,888,304	4,141,910,818	6,485,493,237
Other assets	175,547,820	-	-	-	544,991,556	720,539,376
<b>Total</b>	<b>10,631,596,395</b>	<b>2,471,415,697</b>	<b>2,740,316,656</b>	<b>2,636,681,035</b>	<b>4,686,902,374</b>	<b>23,166,912,155</b>
<b>Liabilities</b>						
Due to banks	457,348,840					457,348,840
Due to customers	13,263,130,000	3,563,740,687	1,455,338,089	1,459,042,266	-	19,741,251,042
Other borrowings	3,715,500	16,761,239	-	-	123,849,999	144,326,738
Other liabilities	267,057,360	-			98,641,718	365,699,078
<b>Total</b>	<b>13,991,250,700</b>	<b>3,580,501,926</b>	<b>1,455,338,089</b>	<b>1,459,042,266</b>	<b>222,491,717</b>	<b>20,708,624,698</b>
<b>Liquidity gap at 31.12.2006</b>	<b>(3,359,654,306)</b>	<b>(1,109,086,229)</b>	<b>1,284,978,567</b>	<b>1,177,638,804</b>	<b>4,464,410,657</b>	<b>2,458,287,458</b>

**Banca Italo-Albanese sh.a.**  
**Notes to the financial statements for the year ended 31 December 2006**  
*(amounts in Lek, unless otherwise stated)*

**27. Liquidity risk (continued)**

31 December 2005						
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
<b>Assets</b>						
Cash and balances with Central Bank	2,082,832,210	-	-	-	-	2,082,832,210
Loans and advances to financial institutions	6,180,625,530	-	-	-	-	6,180,625,530
Investment securities	398,452,550	1,514,415,240	1,952,753,208	1,981,269,266	-	5,846,890,264
Loan and advances to customers	1,413,686,283	511,948,895	286,577,458	547,154,844	2,523,006,450	5,282,373,930
Other assets	93,843,892	-	-	-	402,598,304	496,442,196
<b>Total</b>	<b>10,169,440,465</b>	<b>2,026,364,135</b>	<b>2,239,330,666</b>	<b>2,528,424,110</b>	<b>2,925,604,754</b>	<b>19,889,164,130</b>
<b>Liabilities</b>						
Due to banks	494,300,199	-	-	-	-	494,300,199
Due to customers	11,838,575,370	2,173,517,102	1,082,290,541	1,117,037,690	-	16,211,420,703
Other borrowings	6,760,000	41,473,000	-	29,793,000	141,712,610	219,738,610
Other liabilities	187,374,627	-	-	-	-	187,374,627
<b>Total</b>	<b>12,527,010,196</b>	<b>2,214,990,102</b>	<b>1,082,290,541</b>	<b>1,146,830,690</b>	<b>141,712,610</b>	<b>17,112,834,139</b>
<b>Liquidity gap at 31.12.2005</b>	<b>(2,357,569,731)</b>	<b>(188,625,967)</b>	<b>1,157,040,125</b>	<b>1,381,593,420</b>	<b>2,783,892,144</b>	<b>2,776,329,991</b>

**28. Related party transactions**

Related parties in accordance with the regulation of the Bank of Albania "On Bank Related Persons" approved by the Supervisory Council with decision No. 100, dated 10.12.2003 are defined as follows:

"Related persons", means two or more persons, resident and/or non-resident, individuals and/or physical or juridical persons, when the person:

- has participating interest in the Bank's capital or in another company's capital, which is a shareholder of the Bank,
- controls directly or indirectly the decision making of the Bank,
- possesses directly or indirectly part of the Bank's capital, which gives to him 25 per cent or more of the votes in the highest decision - making body of the Bank or the other legal person,
- has the majority of the votes in the Bank or in another juridical person, according to an agreement among shareholders,
- has de facto, through the voting right that owns, the control of the decision in the highest decision - making body of the Bank or other juridical person, including the appointment of the bank's administrators.

*(amounts in Lek, unless otherwise stated)***28. Related party transactions (continued)**

In accordance with the regulation of the Bank of Albania "On Bank's Administrators", families of administrators, which include: husband and wife, children, mother and father, grandmother and grandfather, sister and brother, son and daughter, uncle and aunt, niece and nephew, sister and brother in-law and their husbands and wives, are also considered to be "administrators".

The Bank entered into the following related party transactions with Sanapolo IMI, with the EBRD and administrators: placements received and made, foreign exchange transactions and money transfers. All of the Bank's transactions of this nature are carried out on an arm's length basis.

A summary of related party transactions are as follows:

	2006
	<i>(Lek)</i>
<i>Assets at end of year</i>	
Istituto Bancario Sanpaolo IMI	1,980,789,185
EBRD	81,316
Administrators	1,926,412
<i>Liabilities at end of year</i>	
EBRD	12,283,136
Administrators	4,150,362
<i>Contingent assets</i>	
Istituto Bancario Sanpaolo IMI	51,946,653
<i>Contingent liabilities</i>	
Istituto Bancario Sanpaolo IMI	334,395,000