

American Bank of Albania Sh.a.

Consolidated Financial Statements as of 31

December 2007

(with independent auditor's report thereon)

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AMERICAN BANK OF ALBANIA SH.A

We have audited the accompanying financial statements of the American Bank of Albania Sh.a. ("the Bank"), which comprise the balance sheet as at 31 December 2007 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. The financial statements of the Bank as of 31 December 2006 and for the year then ended had been audited by other auditors whose report dated 13 March 2007 expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Article 38 of the Banking Law of the Republic of Albania (Law No.8365, dated 2 July 1998). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or errors; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable to 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 of material misstatement.

An audit involves performing procedures to obtaining 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 risk of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for 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 of the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the 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 of our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2007, and of the results of its operations and its cash flows for the year then ended in accordance with the Banking Law of the Republic of Albania.

Ernst & Young Albania Sh.A.



29 April 2008
Tirana, Albania

American Bank of Albania Sh.a.

Consolidated balance sheet for the period ended 31 December 2007

(amounts in '000 Lek)

	Notes	31 December 2007	31 December 2006
ASSETS			
Cash and cash equivalents	3	10,665,623	19,597,442
Securities available-for-sale	4	2,578,691	2,393,561
Investments held-to-maturity	5	32,424,437	31,610,905
Loan and advances to customers	6	30,728,846	25,199,127
Property and equipment	7	1,078,932	778,601
Intangible assets	8	276,138	315,388
Other assets	9	616,440	395,614
Total assets		78,369,107	80,290,638
LIABILITIES AND SHAREHOLDER'S EQUITY			
LIABILITIES			
Due to banks	10	2,570,934	15,458,345
Due to customers	11	68,815,983	55,442,100
Repurchase Agreement	12	1,509,062	4,381,099
Subordinated debt	13	428,791	487,105
Other liabilities	14	570,345	460,150
Total Liabilities		73,895,115	76,228,799
SHAREHOLDER'S EQUITY			
Share capital	15	3,001,851	3,775,320
Translation reserve		6,236	(634,312)
Reserves	17	625,687	388,933
Retained earnings		840,218	531,898
Total Shareholder's Equity		4,473,992	4,061,839
Total Liabilities and Shareholder's Equity		78,369,107	80,290,638

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 39.

American Bank of Albania Sh.a.

Consolidated income statement for the period ended 31 December 2007

(amounts in '000 Lek)

	Notes	31 December 2007	31 December 2006
Interest income			
Loans and advances to customers		2,522,001	1,939,449
Albanian and foreign bonds		1,912,599	1,429,505
Placements with banks		775,118	277,101
Albanian Treasury bills		184,547	372,143
Repurchase agreements		1,318	3,423
Total interest income		5,395,583	4,021,621
Interest expenses			
Due to customers		(2,095,131)	(1,433,784)
Due to banks		(518,229)	(101,068)
Subordinated debt		(53,424)	(57,444)
Repurchase agreements		(61,548)	(36,980)
Albanian Government		(1)	(32,979)
Total interest expenses		(2,728,333)	(1,662,255)
Net Interest Income		2,667,250	2,359,366
Other revenue			
Fee and commission income		542,227	505,139
Fee and commission expense		(114,802)	(95,857)
Fee and commission income, net		427,425	409,282
Other (expense) / income, net	16	(480,044)	4,309
Profit from foreign exchange transactions		175,928	167,597
Other banking income		(304,116)	171,906
Total Revenue		2,790,559	2,940,554
Total expenses			
Personnel costs	18	(696,602)	(726,675)
Rental expense	19	(239,450)	(207,264)
External services	20	(257,098)	(199,053)
Depreciation of property and equipment	7	(125,366)	(116,334)
Amortization of intangible assets	8	(88,338)	(86,766)
Provision for loan losses	21	(178,024)	(64,464)
Depreciation of leasehold improvement	9	(44,655)	(39,032)
Sundry expenses	22	(345,715)	(307,597)
Total expenses		(1,975,248)	(1,747,185)
Net income before taxes		815,311	1,193,369
Income tax paid	23	(248,000)	(246,355)
Tax credit/provision		(22,237)	-
		(270,237)	(246,355)
Net income		545,074	947,014

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Consolidated income statement for the period ended 31 December 2007

(amounts in '000 Lek)

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 39.

American Bank of Albania Sh.a.

Consolidated statement of changes in equity for the period ended 31 December 2007

(amounts in '000 Lek)

Notes	Share capital	Translation reserve	Legal reserve	General reserves	Retained earnings	Total
Balance as at 31 December 2005	3,153,240	(311,349)	13,494	268,802	322,007	3,446,194
Impact of change in functional currency	-	-	(3,259)	(5,147)	-	(8,406)
Appropriation of the retained earnings in general reserve	-	-	-	115,043	(115,043)	-
Net income for the year	-	-	-	-	947,014	947,014
Increase in share capital	622,080	-	-	-	(622,080)	-
Translation reserve	-	(322,963)	-	-	-	(322,963)
Balance as at 31 December 2006	3,775,320	(634,312)	10,235	378,698	531,898	4,061,839
Appropriation of the retained earnings in general and legal reserve	-	-	47,351	189,403	(236,754)	-
Net income for the year	-	-	-	-	545,074	545,074
Translation reserve	(773,469)	640,548	-	-	-	(132,921)
Balance as at 31 December 2007	3,001,851	6,236	57,586	568,101	840,218	4,473,992

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 6 to 39.

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Consolidated statement of cash flow for the period ended 31 December 2007

(amounts in '000 Lek)

	Notes	31 December 2007	31 December 2006
Net income for the period before taxation		815,311	1,193,369
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of property and equipment	7	125,366	116,334
Amortization of intangible assets	8	88,338	86,766
Depreciation of leasehold improvements	9	44,655	39,032
Amortization of treasury bills		(170,573)	(371,955)
Amortization of investments held to maturity		(15,586)	(15,796)
Amortization of securities available for sale		3,357	778
Provisions for loan losses	21	178,024	64,464
Loss on disposals of Property and Equipment	7	5,155	85,759
Loss on disposals of Intangible assets	8	349	5,321
Loss on disposals of Treasury Bills		2,427	(2,052)
Loss on disposals of securities AFS		1,919	-
Loss on disposals of investments held to maturity		970	-
Fair value loss on AFS		490,502	-
Change in interest income		148,810	(181,376)
Change in interest expense		323,342	237,080
Changes in translation reserve and foreign currency differences		(141,196)	(337,944)
Operating loss before changes in working capital:			
Decrease / (Increase) in due from banks		11,248,269	(12,801,730)
(Increase) in loans to customers		(5,573,320)	(4,163,576)
(Increase) in other assets		(267,425)	(73,823)
(Decrease) / Increase in repurchase agreement		(2,842,229)	4,350,000
(Decrease) / Increase in amounts due to banks		(12,917,670)	11,074,902
Increase in customers deposits		13,050,530	8,194,265
Increase in other liabilities		23,238	70,492
(Decrease) in subordinated borrowings		(58,314)	(46,480)
Income taxes paid		(251,955)	(212,400)
Net cash generated from operating activities		4,312,294	7,311,430
Cash flows from investing activities			
Purchase of intangibles, net of disposals	8	(52,270)	(72,571)
Purchase of fixed assets, net of disposals	7	(432,234)	(202,809)
Purchase / (Disposal) of investments available for sale (net)		2,189,229	(310,664)
(Disposal) of investments held to maturity (net)		(3,700,569)	(7,032,393)
Net cash (used in) investing activities		(1,995,844)	(7,618,437)

(the table continues in the next page)

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Consolidated statement of cash flow for the period ended 31 December 2007

(amounts in '000 Lek)

Net Decrease/(Increase) in cash during the period		2,316,450	(307,007)
Cash and cash equivalents at the beginning of the period	24	2,530,984	2,837,991
Cash and cash equivalents at the end of the period	24	4,847,434	2,530,984

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 6 to 39.

These financial statements have been approved by the Directors of the Bank on 29 April 2008 and signed on its behalf by:

Lorenzo Roncari
President and Chief Executive Officer

Adela Xhemali
Vice President,
Financial Control & Planning
Department

American Bank of Albania Sh.a.

Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

1. Reporting Entity

The American Bank of Albania, (the “Bank”), was incorporated on May 1998 with its principal location in Tirana. The bank was authorized to undertake banking activity in Albania according to the law no, 8365, “For the Banking system in Albania” dated July 2, 1998 and substituted by the law no 9662 “On the Banks in Albania” enforced on June 2007. The Bank started operations on September 24, 1998. By the end of 2006 the Bank had opened branches in Durrës, Vlora, Elbasan, Fier, Gjirokastra, Korca, Lushnja and several agencies in Tirana and Durrës. It was also presented abroad, with two branches opened in Greece, in Athens and Thessalonica. And expanding the network, during 2007, the bank opened two other branches in Greece, Peristeri and Piraeus, as well as, four new agencies in Tirana achieving therefore a number of 15 agencies. With the first installations of ATMs and POSs during 2004, as of 31 December 2007 the Bank achieved to offer cash facilities through 55 ATMs and 656 Point-of-sales (POS-es). The Consolidated financial statements of the Bank as of 31 December 2007 and for period then ended comprise the Bank and its subsidiaries in Greece (i.e. the Greek branches), which operates as separate legal entity.

The Bank had 400 employees as of 31 December 2007 (2006: 367), including 5 expatriate senior managers in Albania and 29 employees in Greece.

On 20-21 December 2006, the Albanian-American Enterprise Fund (hereinafter the “AAEF”) in its capacity of sole Bank shareholder signed a Share Purchase Agreement (hereinafter the “Purchase Agreement”) with Sanpaolo Imi S.p.a. (the “Purchaser”), an entity incorporated under the laws of Republic of Italy intending to sell 12,000,000 shares of the Bank with a nominal value of Usd 2,2266 equal to an equity portion of 80% of the Bank entire issued capital, for a price of Usd 125,520 thousand (the “Purchase Price”). As of 1st of January 2007 SANPAOLO IMI S.p.a. and Banca Intesa S.p.a. created Intesa Sanpaolo S.p.a through the merger of these two banks. On 29 June 2007, the Closing Date as defined in the Purchase Agreement, after the fulfillment of all conditions, the representatives of AAEF and Intesa Sanpaolo S.p.a signed the transfer of shares.

2. Significant Accounting Policies

A summary of the most significant accounting policies adopted in the preparation of these financial statements is presented below:

(a) Basis of Preparation

The consolidated financial statements have been prepared in accordance with the Banking Law of the Republic of Albania Law 9662 “For the Banks in the Republic of Albania” (entered into force on 1 June 2007)

The consolidated financial statements have been prepared on a historical cost basis except for available-for-sale financial assets that are measured at lower of cost or their fair value and its accounting policies applied are the same as those applied from Bank as for the year ended 31 December 2006.

(b) Functional and presentation currency

These consolidated financial statements are presented in Lek, which is the Bank’s functional currency. Except as indicated, financial information presented in Lek has been rounded to the nearest thousand.

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

2. Significant Accounting Policies (continued)

- (c) As allowed by local legislation, until August 2007, when the share capital of the bank was converted into Albanian Lek, at an equivalent of Lek 3,001,851 thousand, capital was recorded in US Dollars according to the historical exchange rates at the respective transaction dates, and was presented for statutory purposes in the Lek equivalent of the original US Dollar balances. In accordance with local regulations, the difference between the Lek value of capital at the historic rate of exchange and the rate of exchange of the balance sheet date was recorded as a translation reserve in equity.

Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities (branches) controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency

(i) Foreign currency translations

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 statement of income and expenditures in "Profit from foreign exchange transactions". 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. Furthermore allowance for loan losses for loans and provision for guarantees to customers all denominated in foreign currency are translated at the foreign exchange rate ruling at the reporting date.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to functional currency (i.e. Eur) of the foreign operator at exchange rates quoted in that jurisdiction (i.e. Greece) at the reporting date. The income and expenses of foreign operations are translated to Eur at exchange rates quoted in that jurisdiction (i.e. Greece) at the dates of the transactions.

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

2. Significant Accounting Policies (continued)

(d) Foreign currency (continued)

The foreign operations are translated into the group presentation currency as follows:

- assets and liabilities are translated at the Bank's exchange rate at the balances sheet date;
- items of revenue and expenses are translated at the Bank's exchange rate at the balances sheet date;
- any gains or losses resulting from the intra-group balances elimination are recognized in the balance sheet items, other than equity

APPLICABLE RATE OF EXCHANGES

The applicable exchange rates for the main foreign currencies as at 31 December 2007 and 31 December 2006 are as follows:

	2007	2006
USD	82.89	94.14
EUR	121.78	123.85

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, unrestricted cash deposited at the Central Bank and unrestricted placements and balances with banks including inter-bank placements and short-term highly liquid investments with maturities of three months or less when purchased. (refer to note 23)

(f) Investments

All investment securities are initially measured at cost, being the fair value of the consideration given, plus incremental direct transactions costs associated with the investment. Subsequently to its initial recognition any securities held by the Bank are categorized into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's securities investment strategy. These are classified as follows:

- Held-to-maturity; and
- Available-for-sale.

At the end of 2007, the Bank has done an adjustment by transferring its perpetual securities from HTM to AFS portfolio. In line with the correction principle of Bank Accounting Manual, the impact has corrected the profit of financial year 2007 (and not the previous financial years).

(i) Held-to-maturity

Investments held-to-maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity.

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

2. Significant Accounting Policies (continued)

(f) Investments (continued)

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at cost. At subsequent reporting dates they are measured at amortized cost, less any impairment loss recognized to reflect if there is a strong likelihood of the bank not holding these securities until maturity because of new circumstances or if there is a risk of default by the issuer of the securities. The annual amortization of any discount or premium on the acquisition of held-to-maturity securities is aggregated with other investment income receivable over the term of the instrument so that the revenue recognized in each period represents a constant yield on the investment.

(ii) Available-for-sale

After initial recognition, investments, which are classified as “available-for-sale”, are re-measured at fair value if fair value is lower than their cost. On each accounting statement date, provisions are made, by homogeneous group of securities of the same type, against the unrealized capital losses resulting from the difference between the book value, adjusted if necessary for amortization and write-backs of differences and the market price of the securities. The losses arising from changes in the fair value of such available-for-sale investments are included in net profit or loss for the period in which they arise. Unrealized capital gains are not recognized in the accounts.

Estimation of fair values

The fair value of investments traded in organized financial markets, is determined by reference to stock exchange quoted market bid prices on the balance sheet date. Investments, which have no quoted market prices, a reasonable estimation of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows, or the underlying net asset base of the investment (also refer to notes 4 and 5).

(g) Commercial loans

Commercial loans and advances to customers are stated at cost less allowances for potential loan losses. Loans are written-off based on a management decision when the customer has been in serious default and arrears. The loans are recognized upon disbursement and repayments are recognized when the cash is received. Interest is accounted for on an accrual basis.

Allowance for Loan Losses

Provisions are created pursuant to approval No. 52 of the Bank of Albania “On Credit Risk Management” (the “Credit Regulation”) signed by the Supervisory Board on 14 July 2004. The regulation requires the Bank to classify exposures into five risk categories. For each risk category, the following minimum rates of provisions are applied:

<i>Type of loans</i>	<i>Days in arrears</i>	<i>Provision rate</i>
Standard	0-30 days	1%
Special Mention	31-90 days	5%

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

Substandard	91-180 days	20%
Doubtful	181-365 days	50%
Lost	Over 365 days	100%

2. Significant Accounting Policies (continued)

The Management performs the classification based on the analysis in accordance with the priority and complementary characteristics, which are as follows:

- a) financial situation of the borrower;
- b) financial situation of the guarantor;
- c) quality of collateral pledged;
- d) days in arrear;
- e) overdraft movements in the borrower's current account;
- f) rescheduling due to financial situation deterioration.

(h) Repurchase agreements and reverse repurchase agreements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are generally treated as collateralized financing transactions and are carried at the amounts of cash advanced or received, plus accrued interest.

Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized at the balance sheet or derecognized from the balance sheet, unless control of the contractual rights that comprise these securities is relinquished.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense, over the life of each agreement. All the repurchase agreements and reverse agreements have occurred only with the Central Bank of Albania.

(i) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost is directly attributable for bringing the asset into working condition for its intended use. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of the day-to-day servicing property and equipment are recognized in the income statement as incurred.

(iii) Depreciation

Depreciation is recognized, in the income statement on a declining basis over the estimated useful lives of the assets for office equipments, computer and related equipments and on a straight-line basis for building being also in accordance with the useful life estimation in force from fiscal legislation. No depreciation is provided on fine art works.

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

2. Significant Accounting Policies (continued)

The estimated useful lives for the current and comparative periods are as follows:

• Building	20 years
• PC & other Related	4 years
• Furniture & Equipments	5 years
• ATMs	8 years
• POS-es	7 years

(j) Intangible assets

(i) Software

Software acquired by the Group is stated at cost less accumulated amortization and accumulated impairment losses (if any). Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates, otherwise it is expensed as incurred. Amortization is recognized in income statement on a declining basis over an estimated useful life of 4 years (2006: 4 years) from the date it is available for use.

(ii) Start-up

Start-up expenses relate to pre-operating expenses incurred when new branches are opened and are stated at cost less accumulated amortization and accumulated impairment losses (if any). Amortization for the start-up costs and licenses and trademarks, is recognized in income statement on a straight-line basis over an estimated useful life of 7 years (2006: 10 to 7 years), by applying tax driven amortization rates. Management believes that the tax regulations provide a more relevant and clear guidance for the assessment of useful life of assets in the transition period to the adoption of IFRS in Albania.

(k) Deposits and subordinated debts

Deposits and subordinated debts are the Bank's resources of debt funding. Deposits and subordinated liabilities are measured at their amortized cost.

(l) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(m) Interest income and expense

Interest is calculated in conformity with the Albanian legislation or other relevant agreement between the Bank and its borrowers. Interest income and interest expense are accounted for on accrual basis.

(n) Fees and commissions

Commissions on letters of credit, letters of guarantee and money transfer transactions are recognized as income when the corresponding service is provided. Fee and commission expenses are related mainly to transaction and service fees, which are expensed as the services are received.

(o) Lease payments made

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(amounts in '000 Lek, unless otherwise stated)

Payments made under operating leases are recognized in income statement on a straight-line basis over the term of lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

2. Significant Accounting Policies (continued)

(p) Taxation

The Bank determines taxation at the end of the year or at an interim date in accordance with the Albanian tax legislation. Taxable income is calculated by adjusting the statutory profit before taxes for certain income and expenditure items as required under Albanian Law (refer also to note 22). No provision is made for deferred taxes.

(r) Off-balance sheet transactions

Forward foreign exchange contracts are treated as off-balance sheet transactions and do not give rise to an entry in the balance sheet until they are settled by the payment or receipt of the currencies to be exchanged. Forward foreign exchange contract gains and losses are accounted for at the time of settlement.

(s) Comparatives

When considered necessary, comparative figures have been adjusted in order to be in alignment with changes in presentation of the current year. The accrued interests are reclassified into the respective item of the balance sheet.

(t) Use of Estimates

The preparation of financial statements in conformity with Bank of Albania Regulations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

3. Cash from banks and cash equivalents

Cash and bank balances as of 31 December 2007 and 31 December 2006 can be detailed as follows:

	31 December 2007	31 December 2006
Cash on hand	1,153,743	1,276,699
Central Bank		
Current accounts	12,623	130,120
Statutory reserves	5,811,212	4,806,310
	5,823,835	4,936,430
Correspondent Banks		
Current accounts		
Resident	38	4,792
Non-Resident	216,202	726,595
	216,240	731,387
Deposits		
Resident	-	250,778
Non-Resident	3,471,805	12,402,148
	3,471,805	12,652,926
	3,688,045	13,384,313
Total	10,665,623	19,597,442

As of 31 December 2006, the deposits of non-resident banks include an amount of Lek 11,816,453 thousand or Usd 125,520 thousands representing placement of the amount deposited for the purpose of acquisition of the Bank by Intesa Sanpaolo as determined in the Share Purchase Agreement (notes 1 and 10). On June 29, 2007, Usd 114,400 thousand and the related interest were paid to the Albanian-American Enterprise Fund based on the Purchase Agreement.

In accordance with the Bank of Albania's requirement relating to deposit reserve, the Bank should maintain a minimum of 10% of customer deposits with the Central Bank as a statutory reserve. According to the Bank of Albania regulations 80% of this reserve is not available to Bank's daily operations. Interest on statutory reserves in the Central Bank is calculated as follows:

-Lek balances: 70% of the repurchase agreements rate: 4.38% per annum as of 31 December 2007 (31 December 2006: 3.85% per annum);

-Usd balances: 70% of the one-month LIBOR rate: 3.40% per annum as of 31 December 2007 (31 December 2006: 3.75% per annum);

-Eur balances: 70% of the one-month EURIBOR rate: 3.11% per annum as of 31 December 2007 (31 December 2006: 2.57%);

Current accounts with the Bank of Albania bear no interest whereas the annual interest rate as of 31 December 2007 on Term Deposits is for:

-Usd – 4.25% - 5.20% (31 December 2006: 5.125% - 5.26%)

-Lek – nill (31 December 2006: 4.20% - 6.90%)

-Gbp – 5.50% - 6.23% (31 December 2006: 4.83%).

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

4. Securities available for sale

Available-for-sale securities as of 31 December 2007 and 31 December 2006 comprise:

	31 December 2007	31 December 2006
At cost	199,518	2,393,561
At fair value	2,379,173	-
Total	2,578,691	2,393,561

The table below analyses the fair value and cost of the securities available for sale:

	31 December 2007		31 December 2006	
	Fair Value	Cost	Fair Value	Cost
Debt securities:				
Variable yield debt securities:				
Banks and Financial Institutions (Local and Foreign Securities)	2,108,605	2,582,197	1,889,925	1,893,093
Government (Foreign Securities)	270,568	287,478	-	-
Government (Local and Foreign Securities)	196,556	199,518	500,000	500,468
Total	2,575,729	3,069,193	2,389,925	2,393,561

Banks and Financial Institutions represent non-Albanian bonds whereas the Government securities (Local and Foreign Securities) are Albanian. The increase of Government, Banks and Financial Institutions (Foreign Securities) Available for Sale portfolio, as of 31 December 2007, is the result of the adjustment consisting in a different accounting treatment (as AFS securities) for a part of portfolio securities, recognized as perpetual securities. Before this adjustment the Bank has treated these securities as Held-to-Maturity. Albanian Government securities are at floating rate bonds with coupon of 1 Year Treasury Bills plus spread, which decreased from 2.36% in 2006 to 1.59% in 2007 and their fair value is considered to approximate their carrying amount. The non-Albanian bonds' lowest Moody's rating is Aa3, in accordance with the Bank's policy. Their maturities are approximately from 3 years to 7 years.

5. Investments Held-To-Maturity

Investments Held-To-Maturity comprise debt and other fixed income instruments of Government of Albania, Treasury Bills and non-Albanian bonds. The details by issuer are as following:

	31 December 2007		31 December 2006	
	Fair Value	Cost	Fair Value	Cost
Government and other:				
US and EU governments	4,476,736	4,942,349	7,577,704	8,083,422
International institutions	2,009,153	2,339,846	1,355,679	1,655,307
Listed companies:			4,257,676	
Banks	2,090,265	2,440,231		4,693,899
Subtotal – non-Albanian bonds	8,576,154	9,722,426	13,191,059	14,432,628
Denominated in Lek:				
Albanian Government	22,563,005	22,702,011	17,527,858	17,178,277
Subtotal – Albanian bonds	22,563,005	22,702,011	17,527,858	17,178,277
Total	31,139,159	32,424,437	30,718,917	31,610,905

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(amounts in '000 Lek, unless otherwise stated)

5. Investments Held-To-Maturity (continued)

As of 31 December 2007, the non-Albanian bonds' lowest Moody's rating was Baa1++, in accordance with the Bank's internal policy. Their maturities are from 1 month to 26 years.

Treasury bills as of 31 December 2007 represent zero-coupon treasury bills of the Government of Albania, with maturities ranging from January to December 2008 (2006: January 2007 to December 2007), bearing yields at rates ranging from 5.76% to 9.10% per annum as of 31 December 2007 (2006: 5.38% to 8.50% per annum).

Details of Albanian treasury bills and Government bonds by contractual maturity are presented as follows:

Maturity	31 December 2007			31 December 2006		
	Nominal value	Unamortised premium/(discount)	Book value	Nominal value	Unamortised premium/(discount)	Book value
3 months	3,678	(23)	3,655	11,648	(103)	11,545
6 months	59,009	(1,422)	57,587	27,430	(228)	27,202
12 months	3,256,735	(134,280)	3,122,455	4,925,730	(78,165)	4,847,565
24 months	5,650,000	(5,958)	5,644,042	6,500,000	(8,602)	6,491,398
36 months	1,133,333	(912)	1,132,421	1,133,333	(1,427)	1,131,906
60 months	10,983,000	-	10,983,000	4,500,000	-	4,500,000
84 months	1,446,163	-	1,446,163	-	-	-
Accrued interest	-	-	312,688	-	-	168,661
Total	22,531,918	(142,595)	22,702,011	17,098,141	(88,525)	17,178,277

Albanian Government bonds as of 31 December 2007 relate to two, three, five and seven year bonds bearing coupon at rates 6.20% to 11.00% per annum, while as of 31 December 2006 they relate to two, three and five year bonds bearing coupon at rates 6.2% to 9.7% per annum.

The fair value of the fixed-rate Albanian bonds is determined by using valuation techniques like net present values of the bonds' remaining future cash flows (future coupons plus nominal value). The yield-to-maturity used for the estimation of net present value is calculated using the interpolation method which considers latest market observable rates of Overnight & REPO, Treasury Bills and Bonds.

Albanian Government securities of fair value of Lek 196,556 thousand with contractual maturity of 60 months is assumed to be equal to their book value as these securities are floating rate bonds with coupon of one Year Treasury Bills plus spread, which has decreased from 2.36% in 2006 to 1.59% in the last auction organized on 2007.

As of 31 December 2007 some of non Albanian Investments Held-To-Maturity amounting Lek 4,880,000 thousand have different call options, i.e. the bonds are callable by the issuer at a further specified date 19 January 2008 to 31 December 2019 (2006: 27 January 2007 to 31 December 2019). These bonds have a range of interest rates varying from fixed to variable dependent upon an index.

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(amounts in '000 Lek, unless otherwise stated)

6. Loans and advances to customers

Loans and advances to customers as of 31 December 2007 and 31 December 2006 are extended to private individuals and private entities. They are detailed as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Loans	19,131,109	16,964,950
Overdrafts	11,747,552	8,317,903
Non Performing Loans provision	(149,815)	(83,726)
Total	30,728,846	25,199,127

Loans and overdrafts by maturity category as of 31 December 2007 and 31 December 2006 are as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Short-term portion of:		
Standard loans	11,740,900	8,346,059
Special mention	14,513	11,466
Substandard loans	11,291	75,579
Doubtful loans	4,833	2,401
Lost loans	46,540	1,536
	11,818,077	8,437,041
Medium-term portion of:		
Standard loans	3,273,172	3,467,987
Special mention	220,745	17,493
Substandard loans	66,610	56,293
Doubtful loans	9,469	6,455
Lost loans	9,043	4,062
	3,579,039	3,552,290
Long-term portion of:		
Standard loans	14,914,789	13,008,314
Special mention loans	223,655	51,032
Substandard loans	62,258	39,683
Doubtful loans	103,097	68,062
	15,303,799	13,167,091
Total	30,700,915	25,156,422

Short-term loans mature in twelve months; medium term loans mature in twelve months to five years, and long-term loans in more than five years. As of 31 December 2007 overdrafts and loans bear interest as follows: loans denominated into USD of LIBOR + 2.5% to + 5%, loans denominated into EUR of EURIBOR + 2.5% to + 5% and loans denominated into LEK of the Treasury Bills yield + 2% to +4% (2006: LIBOR + 5.69%, EURIBOR + 3.515% and Treasury Bills yield + 5.376 %). Overdrafts and loans covered with cash collateral have an interest spread from 1.5% to 2% per annum.

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

6. Loans and advances to customers (continued)

Loans and advances to customers classified by remaining maturity as follows:

	31 December 2007	31 December 2006
Short-term portion of		
Short-term loans	11,818,077	8,437,041
Medium term loans	1,080,853	1,753,758
Long term loans	1,566,638	1,187,142
	14,465,568	11,377,941
Medium-term portion of		
Medium term loans	2,498,186	1,798,531
Long term loans	6,809,508	5,733,468
	9,307,694	7,531,999
Long-term portion of		
Long term loans	6,927,653	6,246,482
	6,927,653	6,246,482
Total	30,700,915	25,156,422

Loans and advances to customers as per industry are composed as follows:

	31 December 2007		31 December 2006	
	In Lek	In %	In Lek	In %
Mortgages	8,503,616	28	6,792,234	27
Wholesale	6,972,872	23	5,282,849	21
Manufacturing	6,676,046	22	5,534,429	22
Service	3,405,423	11	2,012,514	8
Construction	2,916,433	9	2,012,514	8
Other	2,226,525	7	3,521,882	14
Total	30,700,915	100	25,156,422	100

Note: The above tables, which show loans and overdrafts, as by remaining maturity and industry respectively, do not include accrued interests.

Loans to customers as of 31 December 2007 are collateralized by securities (also refer to note 25) such as cash, mortgages, etc, amounting to approximately Lek 60,050,233 thousand (2006: Lek 43,000,000 thousand). As of 31 December 2007 the Bank had 17,769 credit lines extended to 8,936 borrowers (2006: 8,338 extended to 6,810 borrowers).

Movements in the provisions for specific losses for the substandard, doubtful and lost loans for the periods ended 31 December 2007 and 31 December 2006 are as follows:

	31 December 2007	31 December 2006
Balance at the beginning of the period	83,726	67,544
Provision for the period, net	94,915	21,939
Loans written-off during the period	(26,310)	(3,813)
Foreign exchange differences	(2,516)	(1,944)
Balance at the end of the period	149,815	83,726

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

6. Loans and advances to customers (continued)

Provisions for loan losses for the substandard, doubtful and lost loans that have been raised against the Bank's loan portfolio as of 31 December 2007 and 31 December 2006 are as follows:

	31 December 2007	31 December 2006
Substandard loans	31,989	37,910
Doubtful loans	61,848	40,039
Lost loans	55,978	5,777
Total	149,815	83,726

As per Bank of Albania regulations, provisions for standard and special mention loans are included in other liabilities (also refer to note 14).

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(amounts in '000 Lek, unless otherwise stated)

7. Property and equipment

Property and equipment as of 31 December 2007 and 31 December 2006 are as follows:

	Fine art works	Buildings	PC's & related equipment	Other equipment, furniture & vehicles	ATM-s	Point of sales	Tangible Fixed assets in progress	Total
Cost								
Balance as of 31 December 2006	5,665	207,935	312,918	533,386	100,192	22,586	36,884	1,219,566
Additions	689	254,407	39,179	63,945	28,656	10,658	34,700	432,234
Disposals	-	-	(15,331)	(2,961)	-	-	-	(18,292)
Foreign exchange differences	(14)	-	(713)	(1,235)	(102)	-	-	(2,064)
Balance as of 31 December 2007	6,340	462,342	336,053	593,135	128,746	33,244	71,584	1,631,444
Accumulated depreciation								
Balance as at 31 December 2006	-	(43,326)	(172,153)	(209,724)	(13,254)	(2,508)	-	(440,965)
Additions	-	(14,525)	(35,487)	(63,749)	(8,063)	(3,542)	-	(125,366)
Disposals	-	-	11,326	1,811	-	-	-	13,137
Foreign exchange differences	-	-	312	351	19	-	-	682
Balance as of 31 December 2007	-	(57,851)	(196,002)	(271,311)	(21,298)	(6,050)	-	(552,512)
Carrying amount								
Balance as of 31 December 2006	5,665	164,609	140,765	323,662	86,938	20,078	36,884	778,601
Balance as of 31 December 2007	6,340	404,491	140,051	321,824	107,448	27,194	71,584	1,078,932

As of 31 December 2007 the Bank had not pledged any of its property and equipment to secure any of its financial liabilities.

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(amounts in '000 Lek, unless otherwise stated)

8. Intangible Assets

Intangible assets as of 31 December 2007 and 31 December 2006 are as follows:

	Software	Start-up costs	Intangible FA in Progress	Total
Cost				
Balance as of 31 December 2006	262,781	350,897	2,213	615,891
Additions	49,765	4,505	-	54,270
Disposals	(191)	(31,186)	(2,213)	(33,590)
Foreign exchange differences	(1,124)	(2,708)	-	(3,832)
Balance as of 31 December 2007	311,231	321,508	-	632,739
Accumulated amortisation				
Balance as at 31 December 2006	(108,234)	(192,269)	-	(300,503)
Charge for the period	(38,792)	(49,546)	-	(88,338)
Disposals	55	31,186	-	31,241
Foreign exchange differences	236	763	-	999
Balance as of 31 December 2007	(146,735)	(209,866)	-	(356,601)
Carrying amount				
Balance as of 31 December 2006	154,547	158,628	2,213	315,388
Balance as of 31 December 2007	164,496	111,642	-	276,138

Disposal of Lek 31,186 thousand relates to the Bank pre-operating costs incurred in 1998, which have been fully amortized by end of June 2007 and subsequently written off.

9. Other Assets

Other assets as of 31 December 2007 and 31 December 2006 are as follows:

	31 December 2007	31 December 2006
Leasehold improvements	225,556	215,552
Prepayments	57,636	46,366
Sundry debtors	20,539	2,751
Inventory	28,534	15,134
Expenses to be amortized over several years	10,804	18,300
Cheques for collection	221,487	76,660
Tax receivables	-	1,944
Other	51,884	18,907
Total	616,440	395,614

The amount of Lek 225,556 thousand (2006: 215,552 thousand) relates to improvements of new branches and agencies leased by the Bank. According to the Bank of Albania regulation the leasehold improvements are classified as other assets and the related depreciation is included in the leasehold improvements expense charge for the reporting period and is composed as follows:

	31 December 2007	31 December 2006
Balance at the beginning of the period	215,552	199,670
Addition for the period	62,663	53,698
Charge for the period	(44,655)	(39,032)
Foreign exchange differences	(8,004)	1,216
Total	225,556	215,552

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(amounts in '000 Lek, unless otherwise stated)

10. Due to banks

Due to banks as of 31 December 2007 and 31 December 2006 are as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Central Bank	66,358	19,983
Correspondent banks		
Current account		
Resident	195,647	18,692
Non-resident	423,985	12,394,688
	<u>619,632</u>	<u>12,413,380</u>
Deposits		
Resident	380,244	1,035,518
Non-resident	1,510,284	1,994,643
Foreign exchange differences	(5,584)	(5,179)
	<u>1,884,944</u>	<u>3,024,982</u>
Total	<u>2,570,934</u>	<u>15,458,345</u>

At 31 December 2006 the non-residents banks accounts include Lek 11,816,453 thousand or Usd 125,520 thousand representing the amount deposited for the purpose of acquisition of the Bank by Intesa Sanpaolo as determined in the Share Purchase Agreement (note 1 and 3). On June 29 2007 an amount of Usd 114,400 thousand and related interest were paid to the Albanian-American Enterprise Fund as the seller under the Share Purchase Agreement (also refer to note 1 and 3). The translation difference results from the intra-group balances elimination.

11. Due to customers

Due to customers as of 31 December 2007 and 31 December 2006 are composed as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Current accounts		
Foreign currency	9,358,902	10,340,705
Local currency	4,572,470	3,838,527
	<u>13,931,372</u>	<u>14,179,232</u>
Time deposits		
Foreign currency	36,916,559	27,085,110
Local currency	17,968,052	14,177,758
	<u>54,884,611</u>	<u>41,262,868</u>
Total	<u>68,815,983</u>	<u>55,442,100</u>

The Bank operated a Stock Option Employee Plan with effective date of application from 1 October 2004. On 20-21 December 2006, the Bank concluded the Share Purchase Agreement with Intesa Sanpaolo and the amount of USD 14,743,800 (Lek 1,222,114 thousand) has materialized as a dedicated deposit amount which will be held until the vesting date (which is determined to be 5 years, i.e. after 1 December 2009) according to the Staff Deposit Pool Plan. Upon the expiration of the vesting date the amount will be paid out to the entitled employees. In case an employee withdraws or is terminated, then the remaining amount from the dedicated amount of deposit will be paid back to the AAEF. Consequently, this deposit is restricted this then.

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11. Due to customers (continued)

For current accounts and time deposits the annual interest rates applicable for the various fixed terms during the period 1 January 2007 – 31 December 2007 were:

	Lek (%)	Usd (%)	Eur (%)
Current accounts and demand deposits	0.25 – 4.25	0.55 – 5.30	0.90 – 4.85
Time deposits – 1 month	3.00 – 3.50	2.55 – 3.50	2.20 – 3.50
Time deposits – 3 months	3.50 – 4.50	3.05 – 4.00	2.80 – 4.15
Time deposits – 6 months	4.60 – 5.40	3.30 – 4.50	3.10 – 4.35
Time deposits – 12 months	5.60 – 6.50	3.85 – 4.80	3.50 – 4.65
Time deposits – 24 months	6.20 – 7.20	3.90 – 5.00	3.90 – 4.70

Balances due to customers by remaining maturity and currency type are as follows:

	31 December 2007			31 December 2006		
	Lek	Foreign currency	Total	Lek	Foreign currency	Total
Current						
Accounts	4,572,470	9,358,902	13,931,372	3,838,527	10,340,705	14,179,232
Deposits						
On demand	1,181,133	5,413,950	6,595,083	1,215,517	4,599,334	5,814,851
One month	3,284,029	8,317,387	11,601,416	2,416,196	5,001,999	7,418,195
Three months	3,169,238	8,582,780	11,752,018	3,809,753	8,784,257	12,594,010
Six months	3,178,528	4,860,978	8,039,506	2,624,791	3,870,911	6,495,702
Nine months	3,190,752	4,854,873	8,045,625	1,531,029	2,044,058	3,575,087
Twelve months	2,523,700	3,944,895	6,468,595	1,726,599	1,860,551	3,587,150
24 months	1,304,058	740,228	2,044,286	753,591	767,879	1,521,470
Other	136,614	201,468	338,082	100,282	156,121	256,403
	17,968,052	36,916,559	54,884,611	14,177,758	27,085,110	41,262,868
Total	22,540,522	46,275,461	68,815,983	18,016,285	37,425,815	55,442,100

12. Repurchase agreement

Repurchase agreements as of 31 December 2007 and 31 December 2006 are comprised as follows:

		31 December 2007		
		Nominal value	Accrued interest	Book value
Maturity	Interest Rate			
03 Jan 2008	6.25	1,507,771	1,291	1,509,062
Total		1,507,771	1,291	1,509,062
31 December 2006				
		Nominal value	Accrued interest	Book value
4 January 2007	5.6	600,000	368	600,368
4 January 2007	5.7	750,000	468	750,468
1 February 2007	6.26	2,000,000	20,581	2,020,581
5 February 2007	6.31	1,000,000	9,682	1,009,682
Total		4,350,000	31,099	4,381,099

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12. Repurchase agreement (continued)

The Bank has placed collaterals of two Albanian Government Treasury Bills in an amount of Lek 1,800,000 thousand (2006: Lek 3,000,000 thousand).

13. Subordinated debt

The balance of subordinated debt as of 31 December 2007 and 31 December 2006 is as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Subordinated Debt	428,791	487,105
Total	428,791	487,105

On 10 March 2005, the Board of Directors of the Bank approved the issuance of a subordinated debt of Usd 5 million extended to the Bank by the sole shareholder, the Albanian-American Enterprise Fund.

The debt was issued on 16 March 2005 and bears interest of LIBOR + 6.5% with semi-annual installments payable on 16 March and 16 September each year. The principal will be paid at the end of the contract on 18 March 2008.

14. Other liabilities

Other liabilities as of 31 December 2007 and 31 December 2006 are composed as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Statistical provisions	324,775	254,156
Provision for tax on profit	16,338	-
Accrued expenses	29,876	35,662
Bank cheques issued	24,417	31,513
Sundry creditors	60,531	68,765
Other	114,408	70,054
Total	570,345	460,150

Movements in the statistical provisions for standard and special mention loans as of 31 December 2007 and 31 December 2006 are as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Balance at the beginning of the period	254,156	217,311
Provision for the period, net	83,109	42,525
Foreign exchange differences	(12,490)	(5,680)
Balance at the end of the period	324,775	254,156

Provisions for the standard and special mention loans that have been raised against the Bank's loan portfolio as of 31 December 2007 and 31 December 2006 are as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Standard loans	300,802	249,706
Special mention loans	23,973	4,122
Other provisions	-	328
Total	324,775	254,156

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15. Share capital

The Bank initially started its activity with a share capital of Usd 3,000,000, which was fully owned by the Albanian-American Enterprise Fund and, in the subsequent years, continually increased its capital from retained earnings.

At the Extraordinary Meeting of the shareholders dated 18 October 2005, it was resolved to increase the capital of the Bank through capitalization of retained earnings in the amount to Usd 12,000 thousand, which was approved by the Court. The increase in capital was made by increasing the par value of each share from Usd 1.00 to Usd 1.8 aggregating to a total of Usd 27,000 thousand for all the shares.

At the Extraordinary Meeting of the shareholders dated 10 October 2006, it was resolved that the capital of the Bank would be increased through capitalization of retained earnings of Usd 2,300 thousand and current interim profit of Lek 399,053 thousand both amounting Usd 6,400 thousand which was approved by the Court. The increase in capital was made by increasing the par value of each share from Usd 1.8 to Usd 2.2266 aggregating to a total of Usd 33,400 thousand for all the shares as of 31 December 2007. The share capital is registered in Usd as allowed by the Bank of Albania.

On August 2007, the share capital of the bank was converted into Albanian Lek, at an equivalent of Lek 3,001,851 thousand and comprises of 15,000,000 shares at Lek 200,124 each.

At the Extraordinary Meeting of the shareholders dated June 29, 2007, was resolved that 80% of the shares of the Bank are owned by Intesa Sanpaolo S.p.a., and the remaining 20% of the shares from the Albanian-American Enterprise Fund (also refer to note 1).

16. Other (Expense) / income, net

The Other expense for 2007 corresponds mainly to the error adjustment of perpetual securities, consequent to the different accounting treatment (as Available For Sale securities) for a part of the previously deemed Held To Maturity securities portfolio which had no determinable maturity dates, for a total amount of 490 million Lek.

17 Reserves

Reserves as of 31 December 2007 and 31 December 2006 are as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
General reserve	568,101	378,698
Legal reserve	57,586	10,235
Total	<u>625,687</u>	<u>388,933</u>

The general reserve created by the bank represents the risk weighted assets reserve, which is required by the Bank of Albania Regulation, No. 51, date 22.04.1999 "On the amount and fulfillment of minimum initial capital on the allowed activities of banks and branches of foreign banks". It is calculated as 20% of annual profit after tax.

The legal reserve is created based on the requirement of the Law No. 7638, date 19.11.1992 "On Commercial Companies" and it is calculated as 5% of annual profit after tax.

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18 Personnel costs

Personnel costs for the periods ended 31 December 2007 and 31 December 2006 are as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Salaries	544,440	492,258
Management consulting fee	50,093	115,009
Social Insurance	76,918	89,702
Training	19,155	14,319
Other	5,996	15,387
Total	<u>696,602</u>	<u>726,675</u>

Other costs include mainly the Bank's contribution to voluntary saving scheme amounting Lek 2,709 thousand (December 2006: 6,293 thousand).

19 Rental expenses

The Bank has rental agreements for its offices in Albania: Tirana (Head Office and the agencies), Vlora, Gjirokastra, Korca, and Lushnja and in Greece: Athens and Thessalonica.

In 2007 the amount of Lek 239,450 thousand was recognized as an expense in the statement of profit and loss in respect of lease rentals (2006: Lek 207,264 thousand).

20 External services

External services for the periods ended 31 December 2007 and 31 December 2006 are as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Telephone & electricity	89,386	74,845
Travel & business trips	56,899	39,608
Maintenance & repair	42,949	34,048
Consulting & Legal fees	43,098	37,202
Other	24,766	13,350
Total	<u>257,098</u>	<u>199,053</u>

21 Provisions for loan losses

The provision expense for loan losses for the periods ended 31 December 2007 and 31 December 2006 are as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Standard and special mention loans (Note 14)	83,109	42,525
Other loans (Note 6)	94,915	21,939
Total	<u>178,024</u>	<u>64,464</u>

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(amounts in '000 Lek, unless otherwise stated)

22 Sundry expenses

Sundry expenses for the periods ended 31 December 2007 and 31 December 2006 are as follows:

	31 December 2007	31 December 2006
Insurance	102,934	99,288
Software maintenance	93,628	98,223
Advertising & Publication	60,915	22,897
Stationery	14,206	21,260
Security	15,385	11,613
Subscription & Membership	12,183	9,733
Sponsorship	7,724	8,474
Other	38,740	36,109
Total	345,715	307,597

23 Income tax expense

During 2007 the Albanian corporate tax rate was 20% (2006: 20%). The following is a reconciliation of taxable profit and income tax for the year ended as of 31 December 2007 and 31 December 2006:

	31 December 2007	31 December 2006
Profit before taxes	815,311	1,193,369
Non tax deductible expenses:		
Representation expenses	2,598	227
Personnel expenses	9,847	8,492
Office expenses	7,212	6,699
Other	25,715	22,988
Error correction related to securities	490,502	-
Taxable profit	1,351,185	1,231,775
Tax calculated at 20% (2006 @ 20%)	270,237	246,355

Based on Albanian tax regulations, the Bank paid during 2007 a prepaid tax of Lek 248,000 thousand. The income tax charge for the period of Lek 270,237 thousand is offset against the 2007 prepaid tax and the tax credit balance resulting from the prior year of Lek 5,899 thousand and a provision of Lek 16,337 thousand is created to be paid for the period.

The prepaid tax can only be offset against income tax expense, if any, after future Tax Office inspections.

24 Cash and Cash Equivalent

Cash and cash equivalent for the periods ended 31 December 2007 and 2006 are as follows:

	31 December 2007	31 December 2006
Cash on hand	1,153,743	1,276,699
Central Bank	17,250	130,120
Correspondent banks		
Current accounts	204,636	293,850
Deposits	3,471,805	830,315
Total	4,847,434	2,530,984

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

25. Commitments and contingencies

Commitments and contingencies as at 31 December 2007 and 31 December 2006 are as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
<i>Contingent Assets</i>		
Guarantees received from credit customers	60,802,509	49,043,583
Forward foreign exchange contracts	4,205,518	3,526,899
Un-drawn credit facilities	2,280,116	1,702,023
Letters of credit	1,118,571	1,094,142
<i>Contingent Liabilities</i>		
Guarantees in favor of customers	3,823,907	3,818,263
Money market future dated deals	426,259	2,589,767

Guarantees are mainly represented by bid and performance bonds. Guarantees and letters of credit are collateralized by cash and deposits. The Bank issues guarantees to its customers. These instruments bear a credit risk similar to that of approved and disbursed loans (granted). Based on the management's assessment, no material losses had incurred in relation to guarantees outstanding as of 31 December 2007 and 31 December 2006, thus no provision for losses has been accrued in these financial statements.

Lease Commitments

Lease Commitments include rental for the Bank's branches and are detailed as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Less than one year	187,011	182,981
Between one and five years	464,793	423,732
More than five years	112,330	132,679
Total	764,134	739,392

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(amounts in '000 Lek, unless otherwise stated)

26 Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and other decisions. The Bank entered into the following related party transactions with its Shareholder. The Bank also has a related party relationship with its Directors and Executive officers. A summary of related party transactions including Directors and Executive officers remuneration are as follows:

	31 December 2007	31 December 2006
Assets at end of year		
Loans and advances to customers	819,802	878,229
Liabilities at end of year		
Customer deposits	820,869	1,372,427
Off balance sheet		
LC/LG	6,436	122,578
Collaterals	1,097,236	1,081,038
Income for year ending		
Interest income	79,367	70,927
Commission income	4	531
Expenses for the year ending		
Interest expense	63,414	74,273
Remuneration of Key Managers	110,490	132,276

27. Risk management

Interest rate risk

The Asset and Liability Management Committee of the Bank monitor interest rate risk. Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets. The period of time for which the rate of interest is fixed on a financial instrument, therefore indicates to what extent it is exposed to interest rate risk.

The assets and liabilities are re-priced at the discretion of the Bank and carry market interest rates. The Bank maintains a portfolio of interest bearing financial assets and liabilities such that the generated net interest income is significantly in excess of operating requirements, which minimizes the potential adverse effects of interest rate fluctuations. Interest rates applicable to financial assets and liabilities are disclosed in each relevant note to the financial statements.

Credit Risk

In the normal course of its business, the Bank is exposed to credit risk on its loans to customers, on its funds with other financial institutions and due to other off-balance sheet items. The Bank manages its exposure to credit risk on a regular basis by closely monitoring credit limits, its loan portfolio and concentration of exposure.

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

27. Risk management (continued)

Liquidity risk

The Bank monitors its liquidity on a daily basis in order to manage its obligations when they fall due. A maturity analysis of assets and liabilities as of 31 December 2007 is disclosed in note 29. The bank's financial assets and liabilities have variable interest rate or have a repricing date of less than one year except certain non-Albanian bonds, which have coupon rate between 0% to 7% for Usd bonds; 0% to 5.00% for Euro bonds and 5.00% to 5.556% for GBP bonds.

Exchange Rate Risk

The Assets and Liabilities Management Committee monitors the Bank's exposure to exchange rate risk on a continual basis. Financial assets dominated in foreign currencies are disclosed in each relevant note to the financial statements. The net open foreign currency position of the bank as of 31 December 2007 is shown in note 29.

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

28 Segmental reporting

As of 31 December 2007, the Bank's geographical segments are as follows:

	Albania	Greece	Intragroup transactions	Consolidated
ASSETS				
Cash and cash equivalents	14,482,395	1,784,739	(5,601,511)	10,665,623
Securities available-for-sale	2,308,123	270,568	-	2,578,691
Investments held-to-maturity	27,074,030	5,350,407	-	32,424,437
Loans and advances to customers	29,718,315	1,010,531	-	30,728,846
Property and equipment	1,007,320	71,612	-	1,078,932
Intangible assets	158,332	117,806	-	276,138
Other assets	258,140	358,300	-	616,440
Total assets	75,006,655	8,963,963	(5,601,511)	78,369,107
LIABILITIES AND SHAREHOLDER'S EQUITY				
LIABILITIES				
Due to banks	3,886,609	4,285,836	(5,601,511)	2,570,934
Due to customers	65,389,145	3,426,838	-	68,815,983
Repurchase Agreements	1,509,062	-	-	1,509,062
Subordinated debt	428,791	-	-	428,791
Other liabilities	518,753	51,592	-	570,345
Total Liabilities	71,732,360	7,764,266	(5,601,511)	73,895,115
SHAREHOLDER'S EQUITY				
Share capital	-	-	-	3,001,851
Translation reserve	-	-	-	6,236
Reserves	-	-	-	625,687
Retained earnings	-	-	-	840,218
Total Shareholder's Equity	-	-	-	4,473,992
Total Liabilities and Shareholder's Equity	-	-	-	78,369,107

The amount of Lek 5,601,511 thousand represents intragroup placements between Head Office in Albania and the Greek Branch as of 31 December 2007.

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Notes to the consolidated financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

28 Segmental reporting (continued)

As of 31 December 2006, the Bank's geographical segments are as follows:

	Albania	Greece	Intragroup transactions	Consolidated
ASSETS				
Cash and cash equivalents	23,883,011	2,093,144	(6,378,713)	19,597,442
Securities available-for-sale	2,393,561	-	-	2,393,561
Investments held-to-maturity	25,351,325	6,259,580	-	31,610,905
Loans and advances to customers	24,188,262	1,010,865	-	25,199,127
Property and equipment	701,441	77,160	-	778,601
Intangible assets	176,154	139,234	-	315,388
Other assets	208,042	187,572	-	395,614
Total assets	76,901,796	9,767,555	(6,378,713)	80,290,638
LIABILITIES AND SHAREHOLDER'S EQUITY				
LIABILITIES				
Due to banks	15,740,499	6,096,559	(6,378,713)	15,458,345
Due to customers	53,058,108	2,383,992	-	55,442,100
Repurchase Agreements	4,381,099	-	-	4,381,099
Subordinated debt	487,105	-	-	487,105
Other liabilities	425,219	34,931	-	460,150
Total Liabilities	74,092,030	8,515,482	(6,378,713)	76,228,799
SHAREHOLDER'S EQUITY				
Share capital	-	-	-	3,144,276
Reserves	-	-	-	388,933
Retained earnings	-	-	-	528,630
Total Shareholder's Equity				4,061,839
Total Liabilities and Shareholder's Equity	-	-	-	80,290,638

The amount of Lek 6,378,713 thousand represents intragroup placements between Head Office in Albania and the Greek Branch as of 31 December 2006.

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Notes to the financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

28 Segmental reporting (continued)

As of 31 December 2007, the Bank's geographical segments are as follows:

	Albania	Greece	Intragroup transactions	Consolidated
Interest income				
Placements with banks	975,103	123,311	(323,296)	775,118
Loans and advances to customers	2,458,535	63,466	-	2,522,001
Albanian and foreign bonds	1,633,290	279,309	-	1,912,599
Albanian Treasury bills	184,547	-	-	184,547
Repurchase agreements	1,318	-	-	1,318
Total interest income	5,252,793	466,086	(323,296)	5,395,583
Interest expenses				
Due to customers	(1,995,417)	(99,714)	-	(2,095,131)
Subordinated debt	(53,424)	-	-	(53,424)
Albanian Government	(1)	-	-	(1)
Due to banks	(593,543)	(247,982)	323,296	(518,229)
Repurchase Agreements	(61,548)	-	-	(61,548)
Total interest expenses	(2,703,933)	(347,696)	323,296	(2,728,333)
Net Interest Income	2,548,860	118,390	-	2,667,250
Other revenue				
Fee and commission income	530,129	12,098	-	542,227
Fee and commission expense	(109,739)	(4,005)	-	(113,744)
Fee and commission income, net	420,390	8,093	-	428,483
Other income, net	(462,101)	(17,944)	-	(480,044)
Profit from foreign exchange transactions	175,190	738	-	175,928

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Notes to the financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

Total Revenue	2,682,339	109,277	-	2,791,617
Amortization for intangible assets	(64,874)	(23,464)	-	(88,338)
Depreciation of property and equipment	(104,781)	(20,585)	-	(125,366)
Depreciation of leasehold improvement	(31,262)	(13,393)	-	(44,655)
Provision for loan losses	(143,251)	(34,773)	-	(178,024)
Personnel costs	(570,743)	(125,859)	-	(696,602)
Rental expenses	(175,148)	(64,302)	-	(239,450)
External services	(219,844)	(37,254)	-	(257,098)
Sundry expenses	(300,387)	(46,386)	-	(346,773)
Total expenses	(1,610,290)	(366,016)	-	(1,976,306)
Net income before taxes	1,072,049	(256,739)	-	815,311
Income tax	(270,237)	-	-	(270,237)
Net income	801,812	(256,739)	-	545,074

The amount of Lek 323,296 thousand represents intra-group interest income and expenses on the placements between Head Office Albania and Greek Branch for the period ended 31 December 2007.

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Notes to the financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

28 Segmental reporting (continued)

As of 31 December 2006, the Bank's geographical segments are as follows:

	Albania	Greece	Intragroup transactions	Consolidated
Interest income				
Placements with banks	507,729	57,264	(287,892)	277,101
Loans and advances to customers	1,878,502	60,947		1,939,449
Albanian and foreign bonds	1,066,744	362,761		1,429,505
Albanian Treasury bills	372,143	-		372,143
Repurchase agreements	3,423	-		3,423
Total interest income	3,828,541	480,972	(287,892)	4,021,621
Interest expenses				
Due to customers	(1,385,852)	(47,932)		(1,433,784)
Subordinated debt	(57,444)	-		(57,444)
Albanian Government	(32,979)	-		(32,979)
Due to banks	(112,355)	(276,605)	287,892	(101,068)
Repurchase Agreements	(36,980)	-	-	(36,980)
Total interest expenses	(1,625,610)	(324,537)	287,892	(1,662,255)
Net Interest Income	2,202,931	156,435	-	2,359,366
Other revenue				
Fee and commission income	491,225	13,914	-	505,139
Fee and commission expense	(91,034)	(4,823)	-	(95,857)
Fee and commission income, net	400,191	9,091	-	409,282

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Other income, net	3,092	1,217	-	4,309
Profit from foreign exchange transactions	166,415	1,182	-	167,597
Total Revenue	2,772,629	167,925	-	2,940,554
Total Revenue				
Amortization for intangible assets	(57,238)	(29,528)		(86,766)
Depreciation of property and equipment	(99,401)	(16,933)		(116,334)
Depreciation of leasehold improvement	(26,774)	(12,258)		(39,032)
Provision for loan losses	(42,893)	(21,571)		(64,464)
Personnel costs	(594,736)	(131,939)		(726,675)
Rental expenses	(139,760)	(67,504)		(207,264)
External services	(158,560)	(40,493)		(199,053)
Sundry expenses	(250,806)	(56,791)		(307,597)
Total expenses	(1,370,168)	(377,017)		(1,747,185)
Net income before taxes	1,402,461	(209,092)		1,193,369
Income tax	(246,355)	-		(246,355)
Net income	1,156,106	(209,092)		947,014

The amount of 287,892 thousand Lek represents inter group interest income and expenses on the placements between Head Office Albania and Greek Branch for the period ended 31 December 2006.

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Notes to the financial statements for the period ended 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

29 Liquidity risk

The following table shows the Bank's liquidity based on the contractual maturity as of 31 December 2007 and 31 December 2006:

	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
ASSETS						
Cash and cash equivalent	4,832,316	15,118	11,605	-	5,806,584	10,665,623
Securities available-for-sale	2,578,691	-	-	-	-	2,578,691
Investments held-to-maturity	10,249,975	33,220	6,778,746	13,916,333	1,446,163	32,424,437
Loans and advances to customers	504,345	3,512,971	7,962,772	5,664,153	13,084,605	30,728,846
Property and equipment	59,259	1,667	59,919	348,847	609,240	1,078,932
Intangible assets	97,170	1,477	32,770	141,282	3,439	276,138
Other assets	344,486	-	35,594	236,360	-	616,440
Total assets (1)	18,666,242	3,564,453	14,881,406	20,306,975	20,950,031	78,369,107
LIABILITIES AND SHAREHOLDER'S EQUITY						
Due to banks	1,529,211	1,041,723	-	-	-	2,570,934
Due to customers	16,478,104	17,000,633	33,518,737	1,474,955	343,555	68,815,983
Repurchase Agreements	1,509,062	-	-	-	-	1,509,062
Subordinated debt	-	-	428,791	-	-	428,791
Other liabilities	544,922	205	2,068	11,561	11,588	570,345
Shareholders' equity	-	-	1,472,141	-	3,001,851	4,473,992
Total Liabilities and Shareholder's Equity (2)	20,061,299	18,042,561	35,421,737	1,486,516	3,356,994	78,369,107
Total liquidity risk as of 31 December 2007 (1) – (2)	((1,395,057))	(14,478,108)	(20,540,331)	18,820,459	17,593,037	-
Total assets as of 31 December 2006	20,048,333	2,007,820	25,826,175	15,219,202	17,189,108	80,290,638
Total liabilities as of 31 December 2006	18,228,459	19,988,717	37,020,873	1,665,310	3,387,279	80,290,638

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(amounts in '000 Lek, unless otherwise stated)

Total liquidity risk as of 31 December 2006	1,819,874	(17,980,897)	(11,194,698)	13,553,892	13,801,829	-
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30 Net currency position

The following table summarizes the Bank's foreign currency position at 31 December 2007 and 31 December 2006:

	Lek	Usd	Eur	OTHER	TOTAL
Assets					
Cash and cash equivalents	2,483,968	4,494,418	2,807,833	879,404	10,665,623
Securities available for sale	199,518	2,075,620	-	303,553	2,578,691
Investments held to maturity	22,695,438	6,494,385	2,720,083	514,531	32,424,437
Loans and advances to customers	3,296,058	5,684,130	21,748,236	422	30,728,846
Property and equipment	999,984	358	78,590	-	1,078,932
Intangible assets	158,332	-	117,806	-	276,138
Other assets	132,896	58,340	423,742	1,462	616,440
Total assets (1)	29,966,194	18,807,251	27,896,290	1,699,372	78,369,107
Liabilities and Shareholders' equity					
Due to banks	441,838	61,950	2,065,714	1,432	2,570,934
Due to customers	22,153,275	18,934,646	25,995,173	1,732,889	68,815,983
Repurchase Agreement	1,509,062	-	-	-	1,509,062
Subordinated debt	-	428,791	-	-	428,791
Other liabilities	171,321	80,972	317,243	809	570,345
Shareholders' Equity	5,033,016	-	(559,024)	-	4,473,992
Total liabilities and Shareholders' equity (2)	29,308,512	19,506,359	27,819,106	1,735,130	78,369,107
Net Foreign Currency Position as of 31 December 2007 (1) - (2)	657,682	(699,108)	77,184	(35,758)	-

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Notes to the financial statements for the period ended 31 December 2007

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(the table continues on the next page)

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(amounts in '000 Lek, unless otherwise stated)

30 Net currency position (continued)

(the table continued from previous page)

Off-balance-sheet assets	3,551,683	12,446,548	56,615,583	43,066	72,656,880
Off-balance-sheet liabilities	3,441,913	12,207,592	56,950,367	57,008	72,656,880
Net off-balance-sheet FX position as of 31 December 2007	109,770	238,956	(334,784)	(13,942)	-
Total net foreign currency position as of 31 December 2007	767,452	(460,152)	(257,600)	(49,700)	-
Total assets as of 31 December 2006	24,168,020	34,728,551	20,304,234	1,089,833	80,290,638
Total liabilities and shareholders' equity as of 31 December 2006	24,727,696	34,357,697	19,976,629	1,228,616	80,290,638
Net foreign currency position as of 31 December 2006	(559,676)	370,854	327,605	(138,783)	-
Net off-balance-sheet foreign currency position as of 31 December 2006	888,914	(403,145)	(619,220)	133,451	-
Total net foreign currency position as of 31 December 2006	329,238	(32,291)	(291,615)	(5,332)	-

31 Post balance sheet event

Subsequent to the balance sheet date the Bank merged operations with Banka Italo Albanse with effective date of merger 1 January 2008. At the Extraordinary Shareholder' Assembly dated December 21, 2007, the merger was approved, as an incorporation of "American Bank of Albania" sh.a (the absorber) with "Banka Italo- Albanese" sh.a. (the absorbed). Shareholders', based on the purpose of the merger, described in the Merger report of Directorate and on the written report prepared by KPMG Albania shpk, express their approval on the terms and conditions of the merger, established in the Merger plan (approved in ABA Extraordinary Shareholders' assembly dated 28.09.2007) and in the Merger Agreement.