Banka Kombetare Tregtare sh.a.

Independent Auditors' Review Report
and
Interim Financial Statements as of
30 June 2006

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Contents

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INDEPENDENT AUDITORS' REVIEW REPORT

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

We have reviewed the accompanying interim balance sheet of Banka Kombetare Tregtare sh.a. (the "Bank") as of June 30, 2006, and the related interim statements of operations, changes in equity and cash flows for the six-month period then ended. These interim financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these interim financial statements based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of bank personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

As explained in Note 3.2, the Bank has treated its share capital issued in United States Dollars as a monetary item in the financial statements and recognised the revaluation difference during the six-month period ended June 30, 2006 in the profit and loss account and translated retained earnings and reserves using the balance sheet rate which is not in accordance with International Accounting Standard 21, "The Effects of Changes in Foreign Exchange Rates". Share capital should be treated as a non-monetary item and carried at the exchange rate at the date of transaction and retained earnings and reserves should be translated using the historical rate. Accordingly, although this has no effect on total shareholders' equity, if share capital had been treated as a non-monetary item, and retained earnings and reserves had been translated using the historical rate, the reported net profit for the six-month period ended June 30, 2006 would be lower by USD 1,615,827, the retained earnings and reserves would be lower by 6,586,204 and the balance of translation reserve would be higher by USD 8,156,961.

Based on our review, except for the effect on the interim financial statements of the matter referred to in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

DELOITTE & TOUCHE D.O.O.

Ljubljana,

July 21, 2006

Interim Balance sheets as of 30 June 2006 and 31 December 2005

(amounts in USD, unless otherwise stated)

	Notes	30 June 2006	31 December 2005
Assets			
Cash and balances with Central Bank	4	114,120,397	69,911,636
Placement and balances with banks	5	89,064,694	72,737,414
Treasury bills held-to-maturity	6	212,767,914	234,781,917
Investment securities available-for-sale	7	5,519,700	8,112,500
Investment securities held-to-maturity	8	91,589,140	65,732,227
Loans and advances to customers	9	168,532,894	125,542,176
Property and equipment	10	10,237,164	8,836,714
Intangible assets	11	732,890	639,776
Deferred tax assets	12	217,069	108,631
Other assets	13	4,718,000	3,814,004
Total assets		**697,499,862**	**590,216,995**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	14	637,353,009	551,131,662
Due to banks	15	13,465,454	968,364
Due to third parties	16	1,454,048	-
Accruals and other liabilities	17	6,633,492	5,483,915
Total liabilities		**658,906,003**	**557,583,941**
Shareholders' equity			
Share capital		33,000,000	24,644,250
Translation difference		140,071	(277,955)
Reserves		222,916	208,927
Retained earnings	18	(60,134)	(337,717)
Net profit for the period		5,291,006	8,395,549
Total shareholders' equity		**38,593,859**	**32,633,054**
Total liabilities and shareholders' equity		**697,499,862**	**590,216,995**

The financial statements were authorized for release by the Board of Directors on 31 July 2006.

The accompanying notes 1 to 33 are an integral part of these interim financial statements

Interim Statements of operations for the six-month and three-month periods ended 30 June 2006 and 2005

(amounts in USD, unless otherwise stated)

	Notes	Six-month period ended 30 June 2006	Three-month period ended 30 June 2006	Six-month period ended 30 June 2005	Three-month period ended 30 June 2005
Interest					
Interest income	19	21,567,151	11,211,041	17,150,920	8,806,984
Interest expense	20	(9,321,998)	(4,867,942)	(8,077,083)	(3,963,873)
Net interest margin		**12,245,153**	**6,343,099**	**9,073,837**	**4,843,111**
Non-interest income, net					
Fees and commissions, net	21	1,245,723	647,408	1,023,676	551,054
Foreign exchange revaluation gain (loss), net	22	(178,756)	(145,399)	303,870	219,538
Profit from FX trading activities, net		611,371	325,472	538,761	280,157
Other income, net	23	33,520	16,186	42,471	29,059
Total non-interest income, net		**1,711,858**	**843,667**	**1,908,778**	**1,079,808**
Operating expenses					
Personnel	24	(3,479,851)	(1,558,645)	(2,653,592)	(1,214,282)
Administrative	25	(2,671,338)	(1,583,649)	(2,043,210)	(1,100,948)
Depreciation and amortization	10, 11	(841,292)	(428,799)	(889,872)	(449,923)
Total operating expenses		**(6,992,481)**	**(3,571,093)**	**(5,586,674)**	**(2,765,153)**
Impairment of loans	9	(506,779)	(436,129)	(143,544)	(98,932)
Profit before taxes		**6,457,751**	**3,179,544**	**5,252,397**	**3,058,834**
Income tax expense	26	(1,166,745)	(631,189)	(1,106,254)	(640,029)
Net profit for the period		**5,291,006**	**2,548,355**	**4,146,143**	**2,418,805**

The accompanying notes 1 to 33 are an integral part of these interim financial statements

Interim Statements of changes in equity for the six-month periods ended 30 June 2006 and 2005 and year ended 31 December 2005

(amounts in USD, unless otherwise stated)

	Share capital	Translation difference	Reserves	Retained earnings	Net profit for the period	Total
Balance as of 1 January 2005	**14,644,250**	**535,713**	**1,032,741**	**3,964,427**	**5,102,481**	**25,279,612**
Appropriation of prior year net profit	-	-	-	5,102,481	(5,102,481)	**-**
Adjustment of retained earnings with June 2005 end exchange rate	-	-	-	(945,685)	-	**(945,685)**
Adjustment of reserves with June 2005 end exchange rate	-	-	(101,706)	-	-	**(101,706)**
Appropriation of retained earnings into reserves	-	-	632,940	(632,940)	-	**-**
Net profit for the period	-	-	-	-	4,146,143	**4,146,143**
Appropriation of 2004 year translation difference	-	(535,713)	-	535,713	-	**-**
Translation difference for the period	-	(185,101)	-	-	-	**(185,101)**
Balance as of 30 June 2005	**14,644,250**	**(185,101)**	**1,563,975**	**8,023,996**	**4,146,143**	**28,193,263**
Increase in share capital	10,000,000	-	(1,392,684)	(8,607,316)	-	**-**
Adjustment of RE with 2005 December end exchange .rate	-	-	-	245,603	-	**245,603**
Adjustment of reserves with 2005 December end exchange rate	-	-	37,636	-	-	**37,636**
Net profit for the period	-	-	-	-	4,249,406	**4,249,406**
Translation difference for the period	-	(92,854)	-	-	-	**(92,854)**
Balance as of 31 December 2005	**24,644,250**	**(277,955)**	**208,927**	**(337,717)**	**8,395,549**	**32,633,054**
Appropriation of prior year net profit	-	-	-	8,395,549	(8,395,549)	**-**
Adjustment of retained earnings with June 2006 end exchange rate	-	-	-	515,739	-	**515,739**
Capitalization of retained earnings into share capital	8,355,750	-	-	(8,355,750)	-	**-**
Adjustment of reserves with June 2006 end exchange rate	-	-	13,989	-	-	**13,989**
Net profit for the period	-	-	-	-	5,291,006	**5,291,006**
Appropriation of 2005 year translation difference	-	277,955	-	(277,955)	-	**-**
Translation difference for the period	-	140,071	-	-	-	**140,071**
Balance as of 30 June 2006	**33,000,000**	**140,071**	**222,916**	**(60,134)**	**5,291,006**	**38,593,859**

The accompanying notes 1 to 33 are an integral part of these interim financial statements

Interim Statements of cash flows for the six-month periods ended 30 June 2006 and 2005

(amounts in USD, unless otherwise stated)

	Six-month period ended 30 June 2006	Six-month period ended 30 June 2005
Cash flows from operating activities:		
Net profit after tax	5,291,006	4,146,143
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	841,292	889,872
Gain on sale of property and equipment	(3,385)	(35,926)
Deferred tax asset/liabilities	(98,142)	(35,607)
Gain on sale of treasury bills available-for-sale	(13,963)	(5,487)
Write-off of property and equipment	2,375	19,314
Impairment of loans	506,779	143,544
Cash flows from operating profits before changes in operating assets and liabilities	6,525,962	5,121,853
(Increase)/decrease in operating assets:		
Placements and balances with banks	(11,114,812)	1,260,483
Loans and advances to customers	(34,058,440)	(30,959,869)
Other assets	(629,249)	(2,122,739)
	(45,802,501)	(31,822,125)
Increase/(decrease) in operating liabilities:		
Due to customers	47,846,633	68,125,408
Due to third parties	1,410,602	1,068,184
Accruals and other liabilities	759,024	1,016,594
	50,016,259	70,210,186
Net cash flows from operating activities	10,739,720	43,509,914
Cash flows from investing activities		
Purchases of investment securities	(17,772,452)	(22,654,275)
Purchases of treasury bills	32,143,152	(24,481,235)
Purchases of property and equipment	(1,676,989)	(1,018,771)
Proceeds from sale of property and equipment	3,312	36,933
Proceeds from sale of treasury bills available-for-sale	4,477,204	432,793
Net cash used in investing activities	17,174,227	(47,684,555)
Cash flows from financing activities		
Proceeds from due to banks	12,060,789	4,220,994
Net cash from financing activities	12,060,789	4,220,994
Net increase in cash and cash equivalents	**39,974,736**	**46,353**
Translation difference	4,234,025	(4,982,909)
Cash and cash equivalents at the beginning of the year	**69,911,636**	**65,338,886**
Cash and cash equivalents at the end of the period	**114,120,397**	**60,402,330**

The accompanying notes 1 to 33 are an integral part of these interim financial statements

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006
(amounts in USD, unless otherwise stated)

1. General

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

BKT was registered on 11 December 1998 with the Bank of Albania (BoA) to operate as a bank in the Republic of Albania and is subject to Law no. 8269 "On the Bank of Albania" dated December 1997 and Law no. 8565 "On the Banking System in Albania", dated July 1998.

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

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

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

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

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

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006

(amounts in USD, unless otherwise stated)

1. General (continued)

The headquarters of BKT is located in Tirana. Currently the Bank has a network of 20 branches, six of them in Tirana, and the others located in Durres, Elbasan, Korca, Gjirokaster, Vlora, Lushnje, Shkodra, Fier, Berat, Pogradec, Saranda, Lezha, Kukes and Peshkopi. Five of these branches were opened during 2003 (Lapraka in Tirana, Fier, Berat, Pogradec and Saranda), while other five new branches Kombinat and Medrese (in Tirana), Lezha, Peshkopi and Kukes started their activity within July of 2005 year. Additionally five agencies, one in Tirana (M.Shyri), Bilisht, Kamza and two custom agencies in Kakavija and Kapshtica were opened in 2005. Even in 2006 year, the Bank has decided to expand further its network by another ten new branches and agencies, which opening is planned in the second half of the year. The Bank had 410 employees as of 30 June 2006.

2. Statement of compliance

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

3. Summary of accounting principles

3.1 Basis of preparation

The financial statements are presented in US Dollars. The functional currency used in preparing the financial statements is Albanian Lek (ALL). They are prepared on the historical cost basis.
The accounting policies applied by the Bank, are consistent with those used in the annual financial statements for the year ended 31 December 2005.

3.2 Foreign currency

Presentation currency

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

a) Foreign currency transaction

Transactions in foreign currencies are translated into the measurement currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are booked at historical cost on the transaction date, are translated at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement in “Foreign exchange revaluation gain (loss), net”. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction, with the exception of the share capital, which is issued and maintained in USD as per the legislation in Albania as well as per special law no. 8634 between the Bank’s shareholders and the Republic of Albania on the Bank’s privatisation. Furthermore, the Operating Policy Guidelines of the Bank require that the share capital be hedged by USD assets, and it is therefore treated as a monetary item, with the revaluation difference being taken to the profit and loss account together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

3.2 Foreign currency (continued)

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

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

- assets and liabilities for each balance sheet presented (including comparatives) are translated at the closing rate at the date of that balance sheet.
- income and expenses for each income statement (including comparatives) are translated at exchange rates at the dates of the transactions;
- equity items other than the net profit for the period and share capital are translated at the closing rate existing at the date of balance.
- share capital has been translated as described in paragraph 3.2 a) above; and
- all resulting exchange differences are recognised as a separate component of equity in the "Translation difference" account

3.3 Financial instruments

(i) Classification

Loans and receivables are created by the Bank providing money to a debtor. Originated loans and receivables comprise loans and advances to customers and credit institutions.

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

(ii) Recognition

Held-to-maturity assets and originated loans and receivables are recognised on the day they are transferred to the Bank.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs. Subsequent to initial recognition all non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised to income through interest income in the income statement based on the effective interest rate of the instrument, when applicable

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Notes to the Interim Financial Statements for the six-month period ended 30 June 2006

(amounts in USD, unless otherwise stated)

3.3 Financial instruments (continued)

(iv) Specific instruments

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

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

Treasury bills Available-for-sale
Treasury bills available-for-sale after initial recognition are re-measured at fair value. Gains and losses arising from change in the fair value of such available-for-sale investments are recognised directly in equity. The total amount of the available-for-sale portfolio is not exceeding 1% of the total held-to-maturity portfolio of Treasury Bills.

3.3 Financial instruments (continued)

Treasury bills Held-to-maturity
Treasury Bills are considered to be investments held-to-maturity as the Bank has the intent and ability to do so.

Investment securities Available-for-sale
Investment securities available-for-sale after initial recognition are re-measured at fair value. Gains and losses arising from change in the fair value of such available-for-sale investments are recognised directly in equity.

Investment securities Held-to-maturity
Investment securities held-to-maturity, are debt investments that the Bank has the intent and ability to hold to maturity. As a result they are classified as held-to-maturity assets.

Loans and advances to customers
Loans and advances originated by the Bank are classified as loans and receivables. Loans and advances are reported net of provisions for loan losses to reflect the estimated recoverable amounts (refer to accounting policy 3.4).

(v) Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

3.4 Loans and advances to customers

Loans and advances to customers are reported at amortized cost net of allowances to reflect the estimated recoverable amounts.

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

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down of the allowance is reversed through the income statement.

3.5 Interest income and expense

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

3.6 Fees and commissions income

Fees and commissions income arises on financial services provided by the Bank such as funds transfers, account maintenance fees, lending and trade finance activities.

Fees and commissions income are generally recognized on an accrual basis when the service has been provided. Loan origination fees, which are drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield on the loan.

3.7 Spot foreign exchange transactions

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

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

3.8 Repurchase agreements

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

3.9 Taxation

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

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

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

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

3.10 Pension plan

The Bank has created a fully employer sponsored pension plan fund (refer to note 17 “Reserve fund for retiring employees”) during 2002. The amount to be charged to this fund is decided upon at the beginning of the year as 5% of budgeted personnel expenses. During the year, the amount accrued is charged to the income statement and to the fund on a monthly basis.

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

3.10 Pension plan (continued)

The amount due to employees based on the above plan will be grossed up by the interest that will accrue from the date the employees leave the Bank until their retirement. It will be paid to employees only when they reach the Albanian statutory retirement age, in monthly instalments equal to 75% or maximum 100% of their state monthly pension.

3.11 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of items of property and equipment. Depreciation is calculated in accordance with the following rates:

Buildings	5%
Motor vehicles	20%
Office equipment	20%
Computers and electronic equipment	25%

3.12 Intangible assets

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

3.13 Leases

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

3.15 Impairment

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether any indication of impairment exists. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

4. Cash and balances with the Central Bank

Cash and balances with the Central Bank as of 30 June 2006 and 31 December 2005, are detailed as follows:

	30 June 2006	***31 December 2005***
Cash in hand	13,158,126	13,058,514
Bank of Albania		
Current account	57,984	4,921,292
Statutory reserve	61,437,939	51,931,830
Repurchase agreement	39,466,348	-
	100,962,271	**56,853,122**
	114,120,397	**69,911,636**

4. Cash and balances with the Central Bank (continued)

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

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

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006
(amounts in USD, unless otherwise stated)

5. Placements and balances with banks

Placements and balances with banks as of 30 June 2006 and 31 December 2005 consisted as follows:

	30 June 2006	*31 December 2005*
Placements	88,210,408	71,598,579
Cash collateral held by correspondent banks	290,458	367,382
Current accounts	563,828	771,453
	89,064,694	**72,737,414**

Placements are held with non-resident banks from OECD countries and have contractual maturities from 7 days to 3, 6 and 12 months. Current accounts represent balances with correspondent banks in the OECD countries.

Cash collateral represents collateral held by correspondent banks against letters of credit issued to the Bank's clients by the correspondent banks and as a cash deposit for the security of risks, which might raise from the credit card project of the Bank.

6. Treasury bills held-to-maturity

Treasury bills bear interest at market rates ranging from 5.42% p.a. to 11.11% p.a. on a compound basis and are all denominated in Lek. Treasury bills by original maturity are presented as follows:

	30 June 2006			*31 December 2005*		
	Purchase Value	Amortized discount	Amortized cost	Purchase Value	Amortized discount	Amortized cost
3 months	1,749,865	11,532	1,761,397	10,307,395	61,804	10,369,199
6 months	73,962,845	1,182,636	75,145,481	55,641,796	874,622	56,516,418
12 months	130,199,647	5,661,389	135,861,036	162,398,154	5,498,146	167,896,300
	205,912,356	**6,855,558**	**212,767,914**	**228,347,345**	**6,434,572**	**234,781,917**

As of 30 June 2006, the fair value of the Treasury bills portfolio was USD 213,566,275, which exceeds the carrying value by USD 798,361, while as of 31 December 2005 the fair value of the Treasury bills portfolio was USD 235,435,746, which exceeded the carrying value by USD 653,829.

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006

(amounts in USD, unless otherwise stated)

7. Investment securities available-for-sale

Investment securities available-for-sale comprise only USD denominated bonds as of 30 June 2006 as follows:

Issuer	Nominal Value	Premium/ (Discount)	Market to Market Gain/Loss	Fair Value	Maturity Date	S & P* Bond Ratings
			30 June 2006			
USD Denominated Bonds						
Republic of Egypt	2,500,000	859	(1,859)	2,499,000	11 July 2006	BB+
Republic of South Africa	3,000,000	31,358	(10,658)	3,020,700	17 October 2006	BBB+
	5,500,000	**32,217**	**(12,517)**	**5,519,700**		

The two of the USD bonds have been purchased in February 2005, totalling to a face value of USD 5.5 million. All of the bonds are re-measured at fair value as of 30 June 2006.

8. Investment securities held-to-maturity

Investment securities held-to-maturity comprise only USD and Lek denominated bonds as of 30 June 2006 as follows:

Issuer	Nominal Value	Premium/ (Discount)	Net Value	Maturity Date	S & P* Bond Ratings
			30 June 2006		
USD Denominated Bonds					
Republic of Turkey	5,000,000	(81,322)	4,918,678	15 June 2010	BB-
	5,000,000	**(81,322)**	**4,918,678**		
Lek Denominated Bonds					
Government of Albania	5,150,392	6,153	5,156,545	17 September 2006	
Government of Albania	5,459,415	6,797	5,466,212	17 December 2006	
Government of Albania	1,030,078	1,275	1,031,353	17 January 2007	
Government of Albania	1,030,078	3,286	1,033,364	18 February 2007	
Government of Albania	9,270,705	-	9,270,705	18 March 2007	
Government of Albania	2,369,180	-	2,369,180	18 April 2007	
Government of Albania	2,060,157	844	2,061,001	18 May 2007	
Government of Albania	2,341,087	(4,562)	2,336,525	18 July 2007	
Government of Albania	618,047	(1,084)	616,963	18 July 2007	
Government of Albania	1,030,078	(6,470)	1,023,608	18 August 2007	
Government of Albania	1,343,580	(24,585)	1,318,995	19 September 2007	
Government of Albania	206,015	(3,702)	202,313	19 September 2007	
Government of Albania	5,150,392	-	5,150,392	19 December 2007	
Government of Albania	1,030,078	(2,930)	1,027,148	18 January 2008	
Government of Albania	15,451,174	168,713	15,619,887	20 February 2008	
Government of Albania	4,635,352	(14,743)	4,620,609	20 March 2008	
Government of Albania	515,039	819	515,858	05 April 2008	
Government of Albania	1,545,118	2,968	1,548,086	18 May 2008	
Government of Albania	4,120,313	(13,503)	4,106,810	19 June 2008	
Government of Albania	20,601,566	65,316	20,666,882	05 October 2008	
Government of Albania	1,545,118	(17,092)	1,528,026	05 January 2009	
	86,502,962	**167,500**	**86,670,462**		
	91,502,962	**86,178**	**91,589,140**		

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

8. Investment securities held-to-maturity (continued)

As of 30 June 2006, the fair value of the bond portfolio was USD 92,207,962, which exceeds the carrying value by USD 618,822, while as of 31 December 2005 the fair value of the bond portfolio was USD 66,966,314, which exceeded the carrying value by USD 1,234,087. Six of the Lek bonds issued by the Government of Albania have been purchased during 2006, totalling to a face value of USD 28.3 million, while are matured during the year one EUR and two USD denominated bonds totalling to a nominal value of USD 6.4 million.

9. Loans and advances to customers

Loans and advances to customers consisted of the following:

	30 June 2006	*31 December 2005*
Loans and advances to customers, gross	169,824,985	126,263,578
Less allowances for impairment on loans and advances	(1,292,091)	(721,402)
	168,532,894	**125,542,176**

Movements in the allowance for impairment on loans and advances:

	2006	*2005*
At 1 January	721,402	380,994
Impairment charge for the period	506,779	394,829
Reversals during the period	-	-
Translation difference	63,910	(54,421)
At the end of the period	**1,292,091**	**721,402**

As of 30 June 2006, the Bank's loans in arrears for more than 30 days totalled USD 2,824,181 (2005: USD 1,724,969). All loans are secured by mortgages and personal guarantees.

As of 30 June 2006 the breakdown of the loan portfolio is as follows:

Private Enterprises	42%
Individuals	58%

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

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

Loans in USD	3.60% to 15.80%
Loans in Euro	4.00% to 14.00%
Loans in Lek	1.80% to 19.00%

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006

(amounts in USD, unless otherwise stated)

9. Loans and advances to customers (continued)

The classification of loans is as follows:

Corporate loans by industry	***30 June 2006***		***31 December 2005***	
	USD	**%**	**USD**	**%**
Wholesale Trade	23,105,193	19%	17,255,399	18%
Construction	15,987,934	13%	12,958,077	13%
Hotels and Restaurants	14,126,732	11%	10,908,214	11%
Manufacturing of Other Non-metallic Products	10,873,676	9%	7,614,407	8%
Retail Trade	10,197,885	8%	9,965,848	10%
Real Estate, Renting and Business Activity	8,841,566	7%	6,873,428	7%
Other Community, Social and Personal Activities	7,085,244	6%	5,335,470	6%
Personal Needs	6,040,834	5%	5,123,702	5%
Manufacture of Food Products, Beverages	4,439,460	4%	3,366,341	3%
Manufacturing of Basic Metallic	4,396,097	4%	3,179,017	3%
Manufacture of Wood and Wood Products	4,071,153	3%	3,196,422	3%
Financial Intermediation	2,578,828	2%	2,724,391	3%
Manufacture of Rubber and Plastic Products	2,313,835	2%	1,055,860	1%
Transport, Storage and Communication	1,447,703	1%	678,773	1%
Education	1,329,498	1%	1,125,706	1%
Agriculture, Hunting and Forestry	1,312,752	1%	1,172,327	1%
Manufacture of Pulp, Paper & Paper Products	1,201,764	1%	720,724	1%
Other Sectors	4,199,749	3%	3,501,705	4%
	123,549,903	**100%**	**96,755,811**	**100%**

Retail loans by type	***30 June 2006***		***31 December 2005***	
	USD	**%**	**USD**	**%**
Home purchase	24,925,075	54%	15,263,731	52%
Home improvement	4,848,358	10%	3,493,354	12%
Home reconstruction	4,620,070	10%	3,151,980	11%
Home advances	4,559,802	10%	3,722,753	13%
Super loan	2,820,990	6%	-	0%
Shop purchase	2,680,585	6%	2,126,523	7%
Car purchase	1,097,928	2%	1,063,828	3%
Technical equipment	321,501	1%	338,829	1%
Other types	400,773	1%	346,769	1%
	46,275,082	**100%**	**29,507,767**	**100%**

10. Property and equipment

Property and equipment as of 30 June 2006 and 31 December 2005 are composed as follows:

(In USD)	Land and Buildings	Plant and Equipment	IT Equipment	Office Equipment	Total
Gross value					
At 31 December 2005	**10,379,692**	**1,616,464**	**3,851,750**	**474,235**	**16,322,141**
Additions	702,538	203,324	653,347	3,323	**1,562,532**
Disposals / transfers	-	(5,166)	(2,585)	-	**(7,751)**
Translation difference	694,973	108,231	257,893	31,752	**1,092,849**
At 30 June 2006	**11,777,203**	**1,922,853**	**4,760,405**	**509,310**	**18,969,771**
Accumulated depreciation					
At 31 December 2005	**(3,377,382)**	**(954,320)**	**(2,834,111)**	**(319,614)**	**(7,485,427)**
Charge for the period	(234,355)	(122,335)	(325,609)	(46,930)	**(729,229)**
Disposals / write offs	-	2,963	2,401	-	**5,364**
Translation difference	(233,078)	(67,517)	(199,904)	(22,816)	**(523,315)**
At 30 June 2006	**(3,844,815)**	**(1,141,209)**	**(3,357,223)**	**(389,360)**	**(8,732,607)**
Net book value					
At 31 December 2005	**7,002,310**	**662,144**	**1,017,639**	**154,621**	**8,836,714**
At 30 June 2006	**7,932,388**	**781,644**	**1,403,182**	**119,950**	**10,237,164**

11. Intangible assets

Intangible assets as of 30 June 2006 and 31 December 2005 are composed as follows:

(In USD)	Software
Gross value	
At 31 December 2005	**1,652,794**
Additions	165,576
Translation difference	110,664
At 30 June 2006	**1,929,034**
Accumulated depreciation	
At 31 December 2005	**(1,013,018)**
Charge for the period	(112,063)
Translation difference	(71,063)
At 30 June 2006	**(1,196,144)**
Net book value	
At 31 December 2005	**639,776**
At 30 June 2006	**732,890**

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

12. Deferred tax assets

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

	30 June 2006	*31 December 2005*
Balance at 1 January	108,631	88,497
Income statement benefit/(expense)	98,142	30,579
Exchange differences	10,296	(10,445)
Balance at the end of the period	217,069	108,631

Deferred income tax assets are attributable to the following items:

	30 June 2006	*31 December 2005*
Deferred income on fees on loans	352,907	311,124
Allowance for loan impairment	(383,429)	(300,440)
Decelerated depreciation	215,441	57,575
Start up costs written off	32,150	40,372
	217,069	108,631

13. Other assets

Other assets**,** net as of 30 June 2006 and 31 December 2005 are as follows:

	30 June 2006	*31 December 2005*
Cheques for collection and payments in transit	128,728	102,267
Inventory	61,875	22,799
Accrued interest on bank placements, bonds, deposits with Central Bank and on loans to customers	3,262,646	2,625,730
Accrued account maintenance commission	167,305	-
Spot transactions revaluation gain	12,028	-
Fiscal administration	-	238,590
Other debtors, net	1,085,418	824,618
	4,718,000	3,814,004

"Cheques for collection and payments in transit" represent customers' cheques and payments drawn on other banks that are in the process of being collected.

"Inventory" represents stationary, supplies and printed-paper waiting to be deployed in use. From March 2006, it was also included the collateral value (USD 45,784) of a lost loan, the ownership of which, it was taken on behalf of the Bank.

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

Other debtors is composed as follows:

	30 June 2006	*31 December 2005*
Other debtors	1,089,102	830,888
Provision	(3,684)	(6,270)
	1,085,418	824,618

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006
(amounts in USD, unless otherwise stated)

13. Other assets (continued)

"Other debtors" are composed of three items. The first item of USD 75,856 (2005: 47,543) is the remaining amount after the write off performed in 2003 of the balances inherited from transactions prior to the Bank's privatisation, which are provisioned for the whole amount, except for the amount of USD 25,567, which is fully cash collateralised and for the amount of USD 39,518 (2005: 13,931), which are continuously recoverable from the credit clients of the bank. The other two items represent advance payments to suppliers (due to opening of new branches) of USD 684,434 (2005: USD 692,410) and prepaid expenses of USD 328,812 (2005: USD 90,935).

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

	2006	*2005*
At 1 January	6,270	10,850
Additions during the period	-	-
Reversals during the period	(2,809)	(3,842)
Translation difference	223	(738)
At the end of the period	**3,684**	**6,270**

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

14. Customer deposits

Customer deposits as of 30 June 2006 and 31 December 2005 are composed as follows:

	30 June 2006	*31 December 2005*
Current accounts:		
Individuals	13,791,637	14,629,757
Private enterprises	47,938,369	46,915,368
State owned entities	37,233,569	37,097,648
	98,963,575	**98,642,773**
Deposits:		
Individuals	486,558,828	406,884,844
Private enterprises	21,566,539	19,320,571
State owned entities	19,835,822	16,848,266
	527,961,189	**443,053,681**
Other customer accounts:		
Individuals	2,707,009	4,054,209
Private enterprises	6,966,957	4,717,930
State owned entities	754,279	663,069
	10,428,245	**9,435,208**
	637,353,009	**551,131,662**

14. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

	30 June 2006			*31 December 2005*		
	Local currency	*Foreign currency*	*Total*	*Local currency*	*Foreign currency*	*Total*
Current accounts	**61,312,023**	**37,651,552**	**98,963,575**	**60,124,068**	**38,518,705**	**98,642,773**
Deposits						
On demand	76,309	146,511	**222,820**	82,483	130,454	**212,937**
One month	17,249,976	43,146,538	**60,396,514**	13,790,766	40,764,471	**54,555,237**
Three months	63,482,967	39,177,997	**102,660,964**	52,605,412	35,536,941	**88,142,353**
Six months	95,729,650	28,974,162	**124,703,812**	84,761,080	25,920,146	**110,681,226**
Twelve months	161,490,742	46,208,124	**207,698,866**	135,625,059	32,499,977	**168,125,036**
Two years and over	21,536,295	3,022,297	**24,558,592**	14,200,477	1,577,279	**15,777,756**
Accrued interest on deposits	6,633,408	1,086,213	**7,719,621**	4,927,051	632,085	**5,559,136**
Total deposits	**366,199,347**	**161,761,842**	**527,961,189**	**305,992,328**	**137,061,353**	**443,053,681**
Other customer accounts	**7,490,173**	**2,938,072**	**10,428,245**	**5,861,590**	**3,573,618**	**9,435,208**
Total customer deposits	**435,001,543**	**202,351,466**	**637,353,009**	**371,977,986**	**179,153,676**	**551,131,662**

Other customer accounts are composed as follows:

	30 June 2006			*31 December 2005*		
	Local currency	*Foreign currency*	*Total*	*Local currency*	*Foreign currency*	*Total*
Deposits from liquidation of Xhaferi Foundation	928,821	22,988	**951,809**	871,108	22,804	**893,912**
Deposit guarantees for letters of credit	-	24,359	**24,359**	-	226,448	**226,448**
Escrow accounts	5,908,177	1,799,656	**7,707,833**	3,051,300	1,740,899	**4,792,199**
Bank drafts	-	6,342	**6,342**	-	6,087	**6,087**
Payment orders to be executed	16,501	253,865	**270,366**	99,790	196,616	**296,406**
Other	636,674	830,862	**1,467,536**	1,839,392	1,380,764	**3,220,156**
	7,490,173	**2,938,072**	**10,428,245**	**5,861,590**	**3,573,618**	**9,435,208**

"Deposits from the liquidation of the Xhaferi Foundation" represent non-interest bearing escrow accounts given by the Government. "Deposit guarantee for letters of credit" represent the cash collateral held by Bank against similar collateral provided by Bank to correspondent banks for letters of credit opened on behalf of its customers.

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

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

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006
(amounts in USD, unless otherwise stated)

15. Due to banks

Due to banks as of 30 June 2006 and 31 December 2005 consisted as follows:

	30 June 2006	*31 December 2005*
Deposits from resident banks	2,420,985	-
T-bills sold under repo agreement with Central Bank	5,167,712	-
Current account of Central Bank	4,308,370	-
Current accounts of non resident banks	1,557,254	956,888
Current accounts of resident banks	11,133	11,476
	13,465,454	**968,364**

The Bank as of 30 June 2006, has borrowed for one day from two resident banks in Lek. The contractual maturities and their balances are detailed as follows:

Bank	Principal	Accrued Interest	Total Deposit	Maturity Date
Banka Popullore	2,060,157	260	2,060,417	03 July 2006
Credins Bank	360,527	41	360,568	03 July 2006
	2,420,684	**301**	**2,420,985**	

The balance of "Current account of Central Bank" refers to a temporary difference between the balance of Lek current account and Lek statutory reserve requirement held together in a single account with Central Bank. Based on Bank of Albania regulation, banks can decrease the statutory reserve balance up to 80% of its level. Due to that reason, since statutory reserve balance of USD 61,437,939 is shown at 100% in Note 4 "Cash and balances with Central Bank", the respective negative difference of USD 4,308,370 raised as of 30 June 2006 is shown as a liability under current account of Central Bank.

16. Due to third parties

The Bank acts as an agent for the tax authorities in the collection of taxes. In return, the Bank charges a commission to the taxpayers for the service rendered. The balance as at 30 June 2006 represents the amount collected from the taxpayers, which has not yet been transferred to the tax authorities account.

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006

(amounts in USD, unless otherwise stated)

17. Accruals and other liabilities

A breakdown of accruals and other liabilities as of 30 June 2006 and 31 December 2005 is presented as follows:

	30 June 2006	***31 December 2005***
Creditors	1,840,513	1,837,911
Transit account	338,648	269,089
Due to tax authorities	253,319	374,258
Reserve fund for retiring employees	614,521	506,959
Social insurance	81,497	71,040
Accrued expenses	973,391	462,452
Other	2,531,603	1,962,206
	6,633,492	**5,483,915**

"Creditors" represent balances from old transactions that the Albanian Government is keeping with the Bank, pending the determination of the rightful owner of these amounts. As at the date of the report, a decision is not yet taken.

17. Accruals and other liabilities (continued)

"Transit account" represents the undefined customer accounts that are cleared within a couple of days after the end of the period.

"Reserve fund for retiring employees" represents a specific fund created in 2002 by the Bank, which will be paid to staff on their retirement. Also refer note 3.10.

"Accrued expenses" among other items, also include USD 294,531 (2005: USD 223,624) of deposit insurance premium due for the second quarter of 2006 according to the Law no. 8873 "On the Insurance of Deposits" dated 29 March 2002, that provides insurance coverage to individual depositors against bank failures. Accrued expenses for personnel is another important item amounting at USD 638,298 (2005: nil), which represent mostly the accrued amounts of summer holidays salary and year end planned bonuses given to the bank's staff.

"Other" consists of three items. The first item of USD 1,764,534 (2005: USD 1,352,711), represents deferred income from fee and commissions raised on lending activity; the second of USD 741,019 (2005: USD 600,206) are payments due to construction companies in relation to semi finished home loans and the last item of USD 26,050 (2005: USD 8,857) represents cash guarantees received from the suppliers.

18. Retained earnings

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

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006
(amounts in USD, unless otherwise stated)

19. Interest income

Interest income is composed as follows:

	Six-month period ended 30 June 2006	*Six-month period ended 30 June 2005*
Treasury bills and investment securities	11,430,199	11,268,170
Placements with banks and balances with Central Bank	3,286,959	1,994,760
Loans and advances to customers	6,849,993	3,887,990
	21,567,151	**17,150,920**

20. Interest expense

Interest expense is composed as follows:

	Six-month period ended 30 June 2006	*Six-month period ended 30 June 2005*
Due to banks	121,267	27,143
Customer deposits	9,200,731	8,049,940
	9,321,998	**8,077,083**

21 Fees and commissions, net

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

	Six-month period ended 30 June 2006	*Six-month period ended 30 June 2005*
Fee and commission income		
Lending activity	614,842	443,824
Inter bank transactions	16,642	14,632
Cash transactions with clients	112,284	91,917
Customer accounts' maintenance	168,279	148,965
Payment services to clients	350,661	345,860
Other fees and commissions	19,222	18,203
	1,281,930	*1,063,401*
Fee and commission expense		
Inter bank transactions	1,192	3,243
Customer accounts' maintenance	33,333	35,018
Payment services to clients	1,682	1,464
	36,207	*39,725*
Fees and commissions, net	**1,245,723**	**1,023,676**

22 Foreign exchange revaluation gain/(loss)

Foreign exchange revaluation gain/(loss) represents the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in note 3.2 it also includes the revaluation of the Bank's share capital. The revaluation gain (2005: loss) on this item for the six-month period ended 30 June 2006 is USD 1,605,766 (2005: USD 1,514,097).

23 Other income, net

Other income and expenses are composed as follows:

	Six-month period ended 30 June 2006	***Six-month period ended 30 June 2005***
Other income		
Reversal of other debtors provisions	2,809	2,199
Gain on sale of fixed assets	3,385	35,926
Sundry	29,701	29,395
	35,895	*67,520*
Other expense		
Loss on sale or write off of fixed assets	2,375	19,314
Sundry	-	5,735
	2,375	*25,049*
Other income, net	**33,520**	**42,471**

24 Personnel expenses

Personnel expenses are composed as follows:

	Six-month period ended 30 June 2006	***Six-month period ended 30 June 2005***
Salaries	2,300,922	1,736,217
Performance bonus	570,022	388,850
Social insurance	359,531	302,043
Training	146,619	141,412
Reserve fund for retiring employees	94,495	81,946
Life insurance	2,451	2,122
Other	5,811	1,002
	3,479,851	**2,653,592**

25 Administrative expenses

Administrative expenses are composed as follows:

	Six-month period ended 30 June 2006	*Six-month period ended 30 June 2005*
Deposit insurance expense	571,804	473,461
Telephone, electricity and IT expenses	555,101	510,062
Marketing expenses	421,496	228,529
Security expenses	264,896	260,478
Transportation and business related travel	191,779	152,846
Repairs and maintenance	189,705	89,163
Lease payments	146,184	111,497
Office stationery and supplies	99,676	92,325
Credit/debit cards expenses	88,684	20,821
Other external services (including external audit fees)	47,125	31,948
Representation expenses	46,354	33,472
Taxes other than tax on profits	16,753	12,256
Sundry	31,781	26,352
	2,671,338	**2,043,210**

26 Income tax expense

Income tax expense is comprised of:

	Six-month period ended 30 June 2006	*Six-month period ended 30 June 2005*
Current tax expense	1,264,887	1,141,861
Deferred tax expense / (benefit) (note 12)	(98,142)	(35,607)
	1,166,745	**1,106,254**

26 Income tax expense (continued)

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

	Six-month period ended 30 June 2006	*Six-month period ended 30 June 2005*
Profit (loss) before taxes	**6,457,751**	**5,252,397**
Computed tax using applicable tax rate	1,291,550	1,208,051
Non tax deductible expenses	55,032	71,672
Start up costs amortized for tax purposes	(31,190)	(46,995)
Foreign exchange difference	(148,647)	(126,474)
Tax expense	**1,166,745**	**1,106,254**

27 Financial risk management

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

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

(a) Credit Risk:

Credit risk is the risk of financial loss arising from the failure of a customer to settle financial obligations to the Bank as they fall due. It is the traditional or "natural risk" associated with the banking industry. The Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over USD 1,000,000 are approved only upon decision of the Board of Directors of the Bank. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

(b) Foreign currency risk:

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Bank of Albania guidelines. The Bank has in place procedures for the independent checking of open foreign currency positions. The Bank's net open foreign currency position at 30 June 2006 is shown in note 30.

(c) Interest rate risk:

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department of the Bank manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee. Refer to note 31.

27 Financial risk management (continued)

(d) Liquidity risk:

Liquidity risk is the risk that the Bank will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Bank's liquidity position is monitored and managed by the Treasury Department by daily tracking of cash availability at the branches and ensuring, based on expected cash inflows and outflows, adequate liquidity in the branches as well as meeting its other obligations. Also, as part of its operating policy guidelines, the Banks procedure is to maintain total assets maturing within 90 days at least at 70% of total liabilities with a similar maturity. An analysis of the Bank's expected timing of cash flows is shown in note 29.

28 Estimation of fair value

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Placements and balances with Banks

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

Treasury bills

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

As of 30 June 2006, the fair value of the Treasury bills portfolio was USD 213,566,275 (2005: USD 235,435,746), which exceeds the carrying amount by USD 798,361 (2005: USD 653,829).

Investment securities held-to-maturity

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

As of 30 June 2006, the fair value of the entire bond portfolio was USD 92,207,962 (2005: USD 66,966,314), which exceeds the carrying amount by USD 618,822 (2005: USD 1,234,087).

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.

28 Estimation of fair value (continued)

Deposits and borrowings

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

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006

(amounts in USD, unless otherwise stated)

29 Liquidity risk

As of 30 June 2006, the Bank's assets, liabilities and shareholders' equity have remaining contractual maturities as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	**Total**
Assets						
Cash and balances with Central Bank	114,120,397	-	-	-	-	114,120,397
Placement and balances with banks	79,064,694	10,000,000	-	-	-	89,064,694
Treasury bills held-to-maturity	11,335,298	59,359,342	142,073,274	-	-	212,767,914
Investment securities available-for-sale	2,499,000	-	3,020,700	-	-	5,519,700
Investment securities held-to-maturity	-	5,156,545	21,231,815	65,200,780	-	91,589,140
Loans and advances to customers	5,757,290	10,544,821	33,630,790	77,421,182	4,117,8811	168,532,894
Property and equipment	-	-	-	2,304,776	7,932,388	10,237,164
Intangible assets	-	-	-	732,890	-	732,890
Deferred tax asset	-	-	-	217,069	-	217,069
Other assets	1,529,726	344,568	582,065	1,990,590	271,051	4,718,000
Total assets	**214,306,405**	**85,405,276**	**200,538,644**	**147,867,287**	**49,382,250**	**697,499,862**
Liabilities and shareholders' equity						
Customer deposits	230,221,629	167,094,189	214,329,873	25,707,318	-	637,353,009
Due to banks	13,465,454	-	-	-	-	13,465,454
Due to third parties	1,454,048	-	-	-	-	1,454,048
Accruals and other liabilities	4,253,771	114,625	408,840	810,595	1,045,661	6,633,492
Shareholders' equity	-	-	-	-	38,593,859	38,593,859
Total liabilities and shareholders' equity	**249,394,902**	**167,208,814**	**214,738,713**	**26,517,913**	**39,639,520**	**697,499,862**
Net Position	**(35,088,497)**	**(81,803,538)**	**(14,200,069)**	**121,349,374**	**9,742,730**	**-**
Cumulative Net Position	**(35,088,497)**	**(116,892,035)**	**(131,092,104)**	**(9,742,730)**	**-**	**-**

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006

(amounts in USD, unless otherwise stated)

29 Liquidity risk (continued)

As of 31 December 2005, the Bank's assets, liabilities and shareholders' equity have remaining contractual maturities as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	**Total**
Assets						
Cash and balances with Central Bank	69,911,636	-	-	-	-	69,911,636
Placement and balances with banks	61,737,414	8,000,000	3,000,000	-	-	72,737,414
Treasury bills held-to-maturity	17,823,646	60,305,279	156,652,992	-	-	234,781,917
Investment securities available-for-sale	2,503,750	-	5,608,750	-	-	8,112,500
Investment securities held-to-maturity	14,819,320	1,930,875	4,370,763	44,611,269	-	65,732,227
Loans and advances to customers	4,242,889	10,698,861	26,792,117	58,976,609	24,831,700	125,542,176
Property and equipment	-	-	-	1,834,404	7,002,310	8,836,714
Intangible assets	-	-	-	639,776	-	639,776
Deferred tax asset	-	-	-	108,631	-	108,631
Other assets	1,682,708	231,742	413,568	1,324,537	161,449	3,814,004
Total assets	**172,721,363**	**81,166,757**	**196,838,190**	**107,495,226**	**31,995,459**	**590,216,995**
Liabilities and shareholders' equity						
Customer deposits	219,330,744	126,710,117	188,775,846	16,314,955	-	551,131,662
Due to banks	968,364	-	-	-	-	968,364
Due to third parties	-	-	-	-	-	-
Accruals and other liabilities	3,669,969	115,280	288,686	903,021	506,959	5,483,915
Shareholders' equity	-	-	-	-	32,633,054	32,633,054
Total liabilities and shareholders' equity	**223,969,077**	**126,825,397**	**189,064,532**	**17,217,976**	**33,140,013**	**590,216,995**
Net Position	**(51,247,714)**	**(45,658,640)**	**7,773,658**	**90,277,250**	**(1,144,554)**	**-**
Cumulative Net Position	**(51,247,714)**	**(96,906,354)**	**(89,132,696)**	**1,144,554**	**-**	**-**

With the exception of investment securities, the Bank's financial assets and liabilities all face variable interest rates or have a maturity or re-pricing date of less than one year. Refer to note 31.

Notes to the Interim Financial Statements for the six-month period ended 30 June 2006

(amounts in USD, unless otherwise stated)

30. Foreign currency risk

The following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency as of 30 June 2006 and 31 December 2005 in accordance with the Bank of Albania foreign currency disclosure requirements:

2006	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets					
Cash and balances with Central Bank	84,911,092	11,223,012	17,300,029	686,264	114,120,397
Placements and balances with banks	-	72,295,198	5,871,156	10,898,340	89,064,694
Treasury bills held-to-maturity	212,767,914	-	-	-	212,767,914
Investment securities available-for-sale	-	5,519,700	-	-	5,519,700
Investment securities held-to-maturity	86,670,462	4,918,678	-	-	91,589,140
Loans and advances to customers	56,112,046	17,480,768	94,940,080	-	168,532,894
Property and equipment	10,237,164	-	-	-	10,237,164
Intangible assets	732,890	-	-	-	732,890
Deferred tax assets	217,069	-	-	-	217,069
Other assets	2,725,411	765,523	1,222,771	4,295	4,718,000
Total assets	**454,374,048**	**112,202,879**	**119,334,036**	**11,588,899**	**697,499,862**
Off balance sheet items	3,855,197	5,107,297	1,446,062	9,006	10,417,562
Liabilities and shareholders' equity					
Customer deposits	435,001,543	78,489,686	112,501,705	11,360,075	637,353,009
Due to banks	11,898,390	661,028	906,036	-	13,465,454
Due to third parties	1,454,048	-	-	-	1,454,048
Accruals and other liabilities	2,057,946	2,766,713	1,666,631	142,202	6,633,492
Shareholders' equity	5,593,859	33,000,000	-	-	38,593,859
Total liabilities and shareholders' equity	**456,005,786**	**114,917,427**	**115,074,372**	**11,502,277**	**697,499,862**
Off balance sheet items	1,391,346	2,201,520	6,775,377	49,319	10,417,562
Net position	**832,113**	**191,229**	**(1,069,651)**	**46,309**	**-**

2005	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets					
Cash and balances with Central Bank	42,521,854	8,210,869	18,664,234	514,679	69,911,636
Placements and balances with banks	-	55,567,147	7,207,363	9,962,904	72,737,414
Treasury bills held-to-maturity	234,781,917	-	-	-	234,781,917
Investment securities available-for-sale	-	8,112,500	-	-	8,112,500
Investment securities held-to-maturity	57,004,379	6,930,263	1,797,585	-	65,732,227
Loans and advances to customers	32,507,478	19,853,813	73,180,885	-	125,542,176
Property and equipment	8,836,714	-	-	-	8,836,714
Intangible assets	639,776	-	-	-	639,776
Deferred tax assets	108,631	-	-	-	108,631
Other assets	1,973,991	690,118	1,145,221	4,674	3,814,004
Total assets	**378,374,740**	**99,364,710**	**101,995,288**	**10,482,257**	**590,216,995**
Off balance sheet items	242,762	2,877,495	177,515	262,973	3,560,745
Liabilities and shareholders' equity					
Customer deposits	371,977,986	72,756,151	95,789,575	10,607,950	551,131,662
Due to banks	6,069	348,283	591,066	22,946	968,364
Due to third parties	-	-	-	-	-
Accruals and other liabilities	1,296,863	2,667,803	1,467,484	51,765	5,483,915
Shareholders' equity	7,988,804	24,644,250	-	-	32,633,054
Total liabilities and shareholders' equity	**381,269,722**	**100,416,487**	**97,848,125**	**10,682,661**	**590,216,995**
Off balance sheet items	-	497,676	3,004,723	58,346	3,560,745
Net position	**(2,652,220)**	**1,328,042**	**1,319,955**	**4,223**	**-**

31. Interest rate risk

The average effective yields of significant categories of financial assets and liabilities of the Bank as of 30 June 2006 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	3.50%	3.74%	2.02%
Placement and balances with banks	5.10%	5.24%	2.85%
Treasury bills held-to-maturity	6.95%	N/A	N/A
Investment securities held-to-maturity	8.17%	8.49%	N/A
Loans and advances to customers	11.82%	10.54%	8.66%
Liabilities			
Customer deposits	3.82%	2.21%	1.67%
Due to banks	1.93%	0.10%	0.10%

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

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

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as of 30 June 2006 were as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Assets						
Cash and balances with Central Bank	114,120,397	-	-	-	-	114,120,397
Placement and balances with banks	79,064,694	10,000,000	-	-	-	89,064,694
Treasury bills held-to-maturity	11,335,298	59,359,342	142,073,274	-	-	212,767,914
Investment securities available-for-sale	2,499,000	-	3,020,700	-	-	5,519,700
Investment securities held-to-maturity	-	5,156,545	21,231,815	65,200,780	-	91,589,140
Loans and advances to customers	43,777,133	7,350,836	112,825,342	3,747,351	832,232	168,532,894
Total	**250,796,522**	**81,866,723**	**279,151,131**	**68,948,131**	**832,232**	**681,594,739**
Liabilities						
Customer deposits	230,221,629	167,094,189	214,329,873	25,707,318	-	637,353,009
Due to banks	13,465,454	-	-	-	-	13,465,454
Total	**243,687,083**	**167,094,189**	**214,329,873**	**25,707,318**	**-**	**650,818,463**

32. Related party transactions

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

Identity of related parties

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

Transactions with shareholders

The Bank did not have any related party transactions during 2006.

Transactions with directors and executive officers

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

	Six-month period ended 30 June 2006	*Year ended 31 December 2005*
Directors	21,168	42,336
Executive officers	398,572	793,030
	419,740	**835,366**

33. Contingencies and commitments including off-balance sheets items

Guarantees

	30 June 2006	*31 December 2005*
Guarantees in favour of customers	8,732,339	6,259,802
Guarantees received from credit institutions	1,678,410	1,585,152
Letters of credit issued to customers	24,452	213,000

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

At present the Bank is operating as an agent for the Government in the administration and implementation of certain loans to state owned entities utilising credit lines received from international donors. These donors have received individual guarantees from the government of Albania to cover the reimbursement of their lines of credit.

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

Other

	30 June 2006	*31 December 2005*
Outstanding cheques of non-resident banks	89,586	48,144
Spot foreign currency contract	10,417,562	3,560,745
Collaterals for loan portfolio	394,428,912	290,089,219

Legal

In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as of 30 June 2006.

Lease commitments

Such commitments for the period ended 30 June 2006 and year ended 31 December 2005 are composed as follows:

	30 June 2006	*31 December 2005*
Not later than 1 year	326,910	227,652
Later than 1 year and not later than 5 years	1,211,589	863,253
Later than 5 years	862,606	513,472
Total	**2,401,105**	**1,604,377**

During 2000 the Bank has entered into lease commitments for the buildings of the branches: Tirana 2, Shkodra and Gjirokastra, while in year 2002, the Bank has entered into a lease commitment for space dedicated to off site disaster recovery.

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

During 2004, the Bank has rented the buildings of four new branches in Kombinat (Tirana), Lezhe, Peshkopi, Kukes and of two agencies in Kakavija and Kapshtica, whereas, within July of 2005, were rented the buildings of Medrese branch and Myslym Shyri agency in Tirana, of Bilisht agency near Korca and of Kamza agency. In addition, in the first half of 2006, were rented the buildings of Train Station branch, Komuna e Parisit agency, Durres Str. agency and Sauk agency in Tirana and of Kavaja and Delvina agencies.

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