

Credins Bank sh.a

*Independent Auditors' Report and
Financial Statements
for the period from April 1, 2003(date of inception)
to December 31,2003 prepared in accordance
with the Bank of Albania requirements*

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INDEPENDENT AUDITORS' REPORT

To the management of Credins Bank sh.a

We have audited the accompanying balance sheet of Credins Bank Sh.a. (the "Bank") as at December 31, 2003 and the related statements of operations, changes in shareholders' equity and cash flows for the period from April 1, 2003 (date of inception) to December 31, 2003. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2003, and the results of its operations, changes in shareholders' equity and cash flows for the period from April 1, 2003 (date of inception) to December 31, 2003 in accordance with Article 38 of the Banking Law of the Republic of Albania.

Without qualifying our opinion, we draw attention to Note 12.1 to the financial statements. The Bank is not in compliance with the regulation "For granting of a license to conduct banking activity in the Republic of Albania" approved upon decision no. 173, dated December 1998 of the Supervisory Council of the Bank of Albania. According to this regulation the minimum amount of initial capital required, paid in cash, in respect of a bank, shall be no less than LEK 700,000 thousand. The Bank's paid-in capital converted into LEK at the closing exchange rate on December 31, 2003 amounts to LEK 692,078 thousand, which is LEK 7,922 thousand less than the minimum initial capital required.

Tirana, Albania
March 15, 2004

CREDINS BANK sh.a.
BALANCE SHEET
As of December 31, 2003

| | Notes | December 31, 2003 (in LEK '000) |
|---|-------|------------------------------------|
| ASSETS | | |
| Cash and balances with the Central Bank | 3 | 776,374 |
| Loans and advances to credit institutions | 4 | 1,396,554 |
| Loans and advances to customers | 5 | 1,127,497 |
| Property and equipment, net | 6 | 37,826 |
| Intangible assets, net | 7 | 24,186 |
| Other assets | 8 | 228,896 |
| Total Assets | | 3,591,333 |
| LIABILITIES | | |
| Due to banks and financial institutions | 9 | 86,960 |
| Due to customers | 10 | 2,788,997 |
| Other liabilities | 11 | 50,575 |
| Total Liabilities | | 2,926,532 |
| SHAREHOLDERS' EQUITY | | |
| Paid-in capital | 12.1 | 834,042 |
| Translation reserve | 12.2 | (141,964) |
| Accumulated deficit | | (27,277) |
| Total Shareholders' Equity | | 664,801 |
| Total Liabilities and Shareholders' Equity | | 3,591,333 |

The accompanying notes on pages 8 to 26 are an integral part of these financial statements.

CREDINS BANK sh.a.
STATEMENT OF OPERATIONS
For the 9 months period ended December 31, 2003

| | Notes | 9 months period ended December 31, 2003 (in LEK '000) |
|--|-------|--|
| Interest income | 13 | 40,913 |
| Interest expense | 14 | (24,069) |
| Net interest income | | <u>16,844</u> |
| | | |
| Fees and commissions income | 15 | 29,364 |
| Fees and commissions expense | 15 | (114) |
| Net fee and commission income | | <u>29,250</u> |
| | | |
| Other operating income, net | | 46 |
| Foreign exchange gain (loss), net | | (2,440) |
| Administrative expenses | 16 | (30,498) |
| Depreciation of property and equipment | 6 | (3,686) |
| Amortization of intangible assets | 7 | (962) |
| Personnel expenses | 17 | (22,788) |
| Operating expenses | | <u>(60,328)</u> |
| | | |
| Loss before provisions for loan losses and income taxes | | (14,234) |
| | | |
| Provision for loan losses | 11 | (13,043) |
| Net loss before taxes | | (27,277) |
| | | |
| Income tax expense | 18 | - |
| Net loss for the period | | <u>(27,277)</u> |

The accompanying notes on pages 8 to 26 are an integral part of these financial statements.

CREDINS BANK sh.a.
STATEMENT OF CHANGES IN EQUITY
For the 9 months period ended December 31, 2003

| (in LEK '000) | Notes | Paid-in capital | Translation exposure | Accumulated deficit | Total |
|--|-------|--------------------|-------------------------|------------------------|----------------|
| Balance at April 1, 2003 (inception date) | | 700,000 | - | - | 700,000 |
| Increase in paid-in capital | 12.1 | 134,042 | - | - | 134,042 |
| Changes in translation exposure | 12.2 | - | (141,964) | - | (141,964) |
| Net loss for the period | | - | - | (27,277) | (27,277) |
| Balance at December 31, 2003 | | 834,042 | (141,964) | (27,277) | 664,801 |

The accompanying notes on pages 8 to 26 are an integral part of these financial statements.

CREDINS BANK sh.a.
STATEMENT OF CASH FLOWS
For the 9 months period ended December 31, 2003

| | Notes | Period ended December 31, 2003 (in LEK '000) |
|---|-------|---|
| Cash flows from operating activities | | |
| Net loss for the period | | (27,277) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | | 4,648 |
| Provisions for loan losses, net | | 11,274 |
| Interest income | | (40,913) |
| Interest expense | | 24,069 |
| Translation of shareholders' capital | | (141,964) |
| Operating loss before changes in operating assets/liabilities | | <u>(170,163)</u> |
| Increase/decrease in operating assets | | |
| Increase in loans and advances to customers, net | | (1,123,709) |
| Increase in other assets | | (228,896) |
| | | <u>(1,352,605)</u> |
| Increase/decrease in operating liabilities | | |
| Increase in due to banks and financial institutions | | 86,960 |
| Increase in due to customers | | 2,775,032 |
| Increase in other liabilities | | 39,301 |
| | | <u>2,901,293</u> |
| <i>Cash generated from operations</i> | | |
| Interest paid | | (10,104) |
| Interest received | | 37,125 |
| Net cash (used in)/provided by operating activities | | <u>1,405,546</u> |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment | | (41,512) |
| Purchases of intangible assets | | (25,148) |
| Net cash used in investing activities | | <u>(66,660)</u> |
| Cash flows from financing activities | | |
| Increase in paid-in capital | | 834,042 |
| Net cash used in financing activities | | <u>834,042</u> |
| Net increase in cash and cash equivalents | | 2,172,928 |
| Cash and cash equivalents at the beginning of the period | | |
| Cash and balances with the Central bank | 3 | <u>776,374</u> |
| Loans and advances to credit institutions | 4 | <u>1,396,554</u> |
| Cash and cash equivalents at the end of period | | <u>2,172,928</u> |

The accompanying notes on pages 8 to 26 are an integral part of these financial statements.

CREDINS BANK sh.a.

Notes to the financial statements for the 9 months period ended December 31, 2003

1 GENERAL

CREDINS BANK sh.a. (the "Bank") is an Albanian financial institution which was incorporated on April 1, 2003 under the Albanian Commercial Law and was licensed by the Bank of Albania in the Republic of Albania in March 31, 2003 to operate as a bank in all fields of banking activity in Albania in accordance with law No. 8365, "On Banks in the Republic of Albania", dated July 1998. The Bank is also subject to law No. 8269, dated December 1997, "On the Bank of Albania".

As at December 31, 2003 the Bank was operating through a head office located in Tirana and two agencies in Tirana and Durres Port.

As at December 31, 2003, the Bank the employed 25 staff.

Directors and Management:

Supervisory Board

| | |
|-----------------|----------|
| Maltin Korkuti | Chairman |
| Monika Milo | Member |
| Artan Santo | Member |
| Iirjan Bushati | Member |
| Maxim Haxhia | Member |
| Artan Hajdari | Member |
| Skender Dishani | Member |

Management Board

| | |
|----------------|---------------------------|
| Artan Santo | Executive Director |
| Monika Milo | Deputy Executive Director |
| Maltin Korkuti | Deputy Executive Director |

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These financial statements have been prepared for a general purpose to provide information about the financial position, performance and cash flows of the Bank for the nine-month period ended December 31, 2003.

The financial statements have been prepared in accordance with the Bank of Albania Regulations. The financial statements have been prepared in Albanian Leke ("LEK"), into which all transactions effected by the Bank in its operations are converted.

The financial statements are prepared on the historical cost basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currency

Transactions in currencies other than LEK are initially recorded at the rates of exchange ruling on the dates of the transactions, with the exception of paid-in capital. Monetary assets and liabilities denominated in such currencies are retranslated at the exchange rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the statement of operations. The applicable exchange rates (LEK to foreign currency unit) for the principal currencies as at December 31, 2003 were as follows:

| | December 31, 2003 |
|------------------------------------|--------------------------|
| United States dollar (USD) | 106.58 |
| European Union currency unit (EUR) | 134.32 |

The difference between the paid-in capital at historical rates and the period end rates of exchange is reflected as part of shareholders' equity and is included in the 'Translation exposure' reserve.

2.3 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the central bank and current accounts with other banks, (which include placements and guarantees), including the compulsory minimum reserve with the Bank of Albania.

The compulsory minimum reserve with the Bank of Albania is a required reserve to be held by all commercial banks licensed in Albania.

2.4 Estimation of fair value

Because no active market exists for financial instruments originated in Albania, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors.

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. Significant assets and liabilities that are not considered financial instruments include: fixed assets and core deposits.

In general, the Bank's recorded financial instruments have an estimated fair value approximately equal to their book value due to either their short-term nature or underlying interest rates, which approximate market rates. The majority of financial monetary instruments are either at floating rates of interest or are subject to repricing within a year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Repurchase agreements and reverse repurchase agreements

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

Interest earned on repurchase agreements is recognized as interest income over the life of each agreement.

All the repurchase agreements are with the Bank of Albania, which is the Central Bank of Albania.

2.6 Loans and advances to customers

Loans and advances to customers are reported at their net realizable value through the provision of an allowance for possible loan losses.

2.7 Allowances for loan losses

The categorisation of the borrowers and the loans is based on the Bank's past experience with the borrower, ability to repay the loan, estimation of the value of the underlying collateral and current economic condition.

The loan provision policy of the Bank is in accordance with the rules issued by the Bank of Albania.

The Bank classifies its loans in the following categories adopting the following loan loss provision rates:

| <i>Type of loan</i> | <i>Days in arrears</i> | <i>Loss provision</i> |
|---------------------|------------------------|-----------------------|
| Standard | 0-30 days | 1% |
| Special mention | 31-90 days | 5% |
| Substandard | 91-180 days | 20% |
| Doubtful | 181-365 days | 50% |
| Loss | Over 365 days | 100% |

The Bank ceases to accrue interest for a loan for which there has been no payment of interest or repayment of capital for six months, after the due date and collection is considered doubtful is classified as substandard, doubtful or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property and equipment and Intangible assets

Property and equipment is stated at historical acquisition cost less accumulated depreciation. Depreciation is charged so as to write off the cost of property and equipment over their estimated useful lives, using the straight-line method beginning in the month when they are put in use, at the following depreciation rates:

| Category | |
|--------------------------------|-----|
| Office equipment and computers | 25% |
| Furniture | 20% |
| Other equipment | 20% |
| Machinery | 10% |

Intangible assets relate to purchased computer software and start up costs, which are stated at historical cost and amortized over their estimated useful lives, using straight line method at a rate of 10% per annum.

Gains and losses on disposal of property and equipment are recognized in the statement of operations in the period of disposal.

2.9 Due to customers

Amounts due to customers are stated at the amount of principal outstanding. Interest is accounted for on an accrual basis and interest outstanding is presented together with the originating accounts.

2.10 Due to financial institutions

Amounts due to financial institutions are stated at the amount of principal outstanding. Interest is accounted for on an accrual basis and is presented together with the originating accounts.

2.11 Interest income and expense

Calculation of interest is based on the contractual terms of the loan regarding start and end date of the calculation of interest, interest rate and nominal amount to consider. Based on this calculation, interest is accounted for on a pro-rata basis based on the flow of time. Interest income and interest expense are accounted for on an accrual basis.

Accrued interest not yet due is recognized to the income statement and as an asset in the related "accrued interest" account.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Fee and commission income and expense

Fee and commission income and expense arise on financial services including cash management services.

Fee and commission income and expense are recognized when the corresponding service is provided or received.

2.13 Taxation

The Bank determines taxation at the end of the year in accordance with the Albanian taxation legislation. Corporate income tax is calculated at 25% on taxable income. Under Bank of Albania regulations, there is no requirement to recognise deferred taxes.

2.14 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 reporting date and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

CREDINS BANK sh.a.
Notes to the financial statements for the 9 months period ended December 31, 2003

3 CASH AND BALANCES WITH THE CENTRAL BANK

Cash and amounts held with the Central Bank as at 31 December 2003 are as follows:

| | December 31, 2003 (in LEK '000) |
|--|--|
| Cash on hand | |
| Cash on hand in LEK | 25,452 |
| Cash on hand in foreign currency | 383,656 |
| Total Cash on Hand | 409,108 |
| | |
| Central Bank | |
| Current accounts in LEK | 35,421 |
| Current accounts in foreign currency | 411 |
| Statutory reserves in LEK | 59,369 |
| Statutory reserves in foreign currency | 209,015 |
| Deposit | 63,050 |
| Total Central Bank | 367,266 |
| Total | 776,374 |

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

Interest on compulsory reserves is calculated as follows:

- LEK balances: 70% of the repurchase agreements rate: 4.9% per annum as at December 31, 2003;
- USD balances: 70% of the one-month USD LIBOR rate: 0.8% per annum as at December 31, 2003; and
- EUR balances: 70% of the one-month EUR LIBOR rate: 1.49% per annum as at December 31, 2003.

Current accounts with the Bank of Albania bear no interest.

CREDINS BANK sh.a.

Notes to the financial statements for the 9 months period ended December 31, 2003

4 LOANS AND ADVANCES TO CREDIT INSTITUTIONS

The correspondent banks based on their nature can be detailed as follows:

| | December 31, 2003 (in LEK '000) | | |
|------------------|--|-----------------------------|------------------|
| | Resident banks | Non - resident banks | Total |
| Current accounts | 357,146 | 520,296 | 877,442 |
| Placements | 106,870 | 374,720 | 481,590 |
| Guarantee | - | 37,522 | 37,522 |
| Total | 464,016 | 932,538 | 1,396,554 |

5 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers at December 31, 2003 are as follows:

| | December 31, 2003 (in LEK '000) |
|---------------------------------|--|
| Loans and advances to customers | 1,123,709 |
| Accrued interest | 3,788 |
| Total | 1,127,497 |

All loans as of December 31, 2003 are classified as standard loans.

The breakout of loans by industry is as follows:

| | December 31, 2003 (in LEK '000) | % |
|-----------------------------|--|-------------|
| Vehicles | 564,543 | 50% |
| Processing industry | 300,623 | 27% |
| Construction | 55,680 | 5% |
| Utilities | 49,348 | 4% |
| Agriculture and fishing | 38,237 | 3% |
| Transport and communication | 22,965 | 2% |
| Hotels and restaurants | 4,919 | 1% |
| Other | 87,394 | 8% |
| Total | 1,123,709 | 100% |

CREDINS BANK sh.a.

Notes to the financial statements for the 9 months period ended December 31, 2003

6 PROPERTY AND EQUIPMENT, NET

Property and equipment are comprised as follows:

| | Furniture LEK '000 | Office equipment LEK '000 | Total LEK '000 |
|--|-------------------------------|--|---------------------------|
| Cost | | | |
| As at April 1, 2003 | - | - | - |
| Additions | 6,422 | 35,090 | 41,512 |
| As at December 31, 2003 | 6,422 | 35,090 | 41,512 |
| Accumulated Depreciation | | | |
| As at April 1, 2003 | - | - | - |
| Charge for the period | (440) | (3,246) | (3,686) |
| Balance as at December 31, 2003 | (440) | (3,246) | (3,686) |
| Net Book Value | | | |
| As at April 1, 2003 | - | - | - |
| As at December 31, 2003 | 5,982 | 31,844 | 37,826 |

7 INTANGIBLE ASSETS, NET

Intangible assets comprise software and start up costs incurred during the establishment of Tirana, Durrës and Korça branches.

| | Software LEK '000 | Start -up costs LEK '000 | Total LEK '000 |
|--|------------------------------|---|---------------------------|
| Cost | | | |
| As at April 1, 2003 | - | - | - |
| Additions | 21,513 | 3,635 | 25,148 |
| As at December 31, 2003 | 21,513 | 3,635 | 25,148 |
| Accumulated Depreciation | | | |
| As at April 1, 2003 | - | - | - |
| Charge for the period | (659) | (303) | (962) |
| Balance as at December 31, 2003 | (659) | (303) | (962) |
| Net Book Value | | | |
| As at April 1, 2003 | - | - | - |
| As at December 31, 2003 | 20,854 | 3,332 | 24,186 |

CREDINS BANK sh.a.

Notes to the financial statements for the 9 months period ended December 31, 2003

8 OTHER ASSETS

Other assets are as follows:

| | December 31, 2003 (in LEK '000) |
|---------------------|--|
| Payments in transit | 217,770 |
| Prepaid expenses | 7,738 |
| Other debtors | 152 |
| Other | 3,236 |
| | <hr/> |
| Total | 228,896 |

9 DUE TO BANKS AND FINANCIAL INSTITUTIONS

Due to banks and financial institutions are as follows:

| | December 31, 2003 (in LEK '000) |
|----------------------|--|
| Current accounts | |
| Resident banks | 1,534 |
| Non - resident banks | 85,426 |
| | <hr/> |
| Total | 86,960 |

10 DUE TO CUSTOMERS

Due to customers are as follows:

| | December 31, 2003 (in LEK '000) |
|--------------------|--|
| Current accounts | 1,384,004 |
| Deposits | 1,298,350 |
| Guarantee deposits | 106,643 |
| | <hr/> |
| Total | 2,788,997 |

CREDINS BANK sh.a.**Notes to the financial statements for the 9 months period ended December 31, 2003**

10 DUE TO CUSTOMERS (continued)

Due to customers as at 31 December 2003 are as follows:

| | Foreign Currency LEK '000 | Local currency LEK '000 | Total LEK '000 |
|--------------------|--|--|---------------------------|
| Current accounts | 1,277,810 | 106,194 | 1,384,004 |
| Deposits | | | |
| One month | 127,268 | 67,286 | 194,554 |
| Three months | 234,668 | 54,589 | 289,257 |
| Six months | 99,646 | 114,079 | 213,725 |
| Twelve months | 256,251 | 330,598 | 586,849 |
| Interest payable | 10,757 | 3,208 | 13,965 |
| | <u>728,590</u> | <u>569,760</u> | <u>1,298,350</u> |
| Guarantee deposits | <u>100,481</u> | <u>6,162</u> | <u>106,643</u> |
| Total | <u>2,106,881</u> | <u>682,116</u> | <u>2,788,997</u> |

Current accounts in LEK bear interest ranging from 0.5% to 2.1% p.a., while the accounts in USD bear interest from 0.052% to 0.5% p.a. and accounts in EURO bear interest from 0.2% to 0.7% p.a.

For time deposits, the annual interest rates applied during 2003 are as follows:

| | 1 month % | 3 months % | 6 months % | 1 year % | 2 years % |
|------|----------------------|-----------------------|-----------------------|---------------------|----------------------|
| LEK | 5.5-8.0 | 6.0-9.5 | 7.5-9.0 | 8.5-10.5 | 10.0-11.0 |
| USD | 0.5-0.8 | 0.5-0.8 | 1.0-1.7 | 1.7-2.2 | 2.2-2.8 |
| EURO | 2.0-2.3 | 2.2-2.5 | 2.3-2.6 | 2.4-3.0 | 2.5-3.3 |

CREDINS BANK sh.a.

Notes to the financial statements for the 9 months period ended December 31, 2003

11 OTHER LIABILITIES

Other liabilities are as follows:

| | December 31, 2003 (in LEK '000) |
|-----------------------------------|--|
| Transactions with agents (budget) | 36,780 |
| Provisions for standard loans | 11,274 |
| Other | 2,521 |
| | <hr/> |
| Total | 50,575 |

Movements in loan loss provisions for standard loans are as follows:

| | December 31, 2003 (in LEK '000) |
|-----------------------------|--|
| Balance as at April 1, 2003 | - |
| Charge for the year | 14,435 |
| Reversals during the year | (1,392) |
| Foreign exchange effect | (1,769) |
| | <hr/> |
| Total | 11,274 |

12 SHAREHOLDER'S EQUITY

12.1 Share capital

The initial subscribed capital as of the date of establishment was USD 5,250,000. There are 12 shareholders of the Bank. The total of the subscribed capital is fully paid. Subsequent to the initial subscription, fully paid-in capital was increased as follows:

On December 16, 2003: USD 1,243,508 increase to USD 6,493,508.

CREDINS BANK sh.a.**Notes to the financial statements for the 9 months period ended December 31, 2003**

The list of the shareholders is the following:

| | Total invested by December 31, 2003 In USD | Percentage of ownership |
|-------------------|---|------------------------------------|
| Credins sh.a | 2,683,506 | 41.3% |
| Aleksander Pilo | 1,035,660 | 15.9% |
| Muhamet Malo | 952,500 | 14.7% |
| Renis Tershana | 519,481 | 8.0% |
| Artan Santo | 381,002 | 5.9% |
| Monika Milo | 190,500 | 2.9% |
| Maltin Korkuti | 190,500 | 2.9% |
| Asllan Grezda | 172,777 | 2.7% |
| “Bushati” sh.p.k. | 152,400 | 2.3% |
| Sejdin Zere | 85,312 | 1.3% |
| Elena Daci | 64,935 | 1.0% |
| Leonat Koco | 64,935 | 1.0% |
| | <u>6,493,508</u> | <u>100%</u> |

The Bank is not in compliance with the regulation “For granting of a license to conduct banking activity in the Republic of Albania” approved upon decision no. 173, dated December 1998 of the Supervisory Council of the Bank of Albania. According to this regulation the minimum amount of initial capital required, paid in cash, in respect of a bank, shall be no less than LEK 700,000 thousand. The paid-in capital converted into LEK with the closing exchange rate amounts at LEK 692,078 thousand, which is LEK 7,922 thousand less than the minimum initial capital required. The Bank’s shareholders are planning to increase the share capital in July 2004. The plan has received the approval of the Bank of Albania.

12.2 Translation reserve

As described in the accounting policies, the difference between the paid up capital at the historical rate of exchange and the closing rate of exchange is recorded at December 31, 2003 as a translation loss of LEK 141,964 thousand.

13 INTEREST INCOME

Interest income for the period ended December 31, 2003 is composed as follows:

| | Period ended December 31, 2003 (in LEK ‘000) |
|--------------------------------------|---|
| Loans and advances to customers | 32,607 |
| Repurchase agreements | 5,456 |
| Correspondent banks and Central Bank | <u>2,850</u> |
| Total | <u><u>40,913</u></u> |

CREDINS BANK sh.a.

Notes to the financial statements for the 9 months period ended December 31, 2003

14 INTEREST EXPENSE

Interest expense for the period ended December 31, 2003 is composed as follows:

| | Period ended December 31, 2003 (in LEK '000) |
|------------------|---|
| Due to banks | 1,074 |
| Due to customers | <u>22,995</u> |
| Total | <u><u>24,069</u></u> |

15 FEE AND COMMISSION INCOME

Fee and commission income for the period ended December 31, 2003 is composed as follows:

| | Period ended December 31, 2003 (in LEK '000) |
|-------------------|---|
| Guarantees | 10,288 |
| Transfers | 6,368 |
| Loans | 3,897 |
| Letters of credit | 2,254 |
| Other | <u>6,557</u> |
| Total | <u><u>29,364</u></u> |

Fees paid represent commissions charged on bank transfers.

CREDINS BANK sh.a.

Notes to the financial statements for the 9 months period ended December 31, 2003

16 ADMINISTRATIVE EXPENSES

Administrative expenses are comprised of the following:

| | Period ended December 31, 2003 (in LEK '000) |
|-----------------------------|---|
| Marketing and subscriptions | 8,254 |
| Rent | 6,189 |
| Third party fees | 3,757 |
| Insurance | 2,807 |
| Utilities | 1,780 |
| Maintenance/electricity | 1,088 |
| Transport and travel | 469 |
| Other | 6,154 |
| | <hr/> |
| Total | 30,498 |

17 PERSONNEL EXPENSES

Personnel expenses are comprised of the following:

| | Period ended December 31, 2003 (in LEK '000) |
|-----------------|---|
| Salaries | 18,094 |
| Social security | 2,436 |
| Other | 2,258 |
| | <hr/> |
| Total | 22,788 |

CREDINS BANK sh.a.**Notes to the financial statements for the 9 months period ended December 31, 2003****18 INCOME TAX**

The Bank determines taxation at the end of the year in accordance with the Albanian taxation legislation. Corporate income tax is calculated at 25% on taxable income.

For the first nine months the Bank's taxable result was negative, therefore, no taxes are payable at December 31, 2003.

| | December 31, 2003 (in LEK'000) |
|-------------------------------------|---|
| Accounting (loss)/profit before tax | (27,277) |
| Add non-deductible expenses: | |
| Provisions for loans | 13,043 |
| Taxable profit, (loss) | (14,234) |
| Income tax expense at 25% | - |

19 COMMITMENT AND CONTINGENCIES

Commitments and contingencies include guarantees given to customers and received from credit institutions. The balance as at December 31, 2003 is comprised of the following:

| | Up to 1 year | 1 to 5 years | Total |
|---|---------------------|---------------------|------------------|
| Contingent Assets: | | | |
| Guarantees received from banks | - | 1,781,940 | 1,781,940 |
| Contingent Liabilities: | | | |
| Guarantees in favor of customers | (515,965) | - | (515,965) |
| Lease commitments | (11,618) | (46,472) | (58,090) |
| Commitments and contingencies, net | (527,583) | 1,735,468 | 1,207,885 |

Legal

In the normal course of business the Bank is presented with legal claims; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at 31 December 2003.

Lease commitments

The Bank has non-cancelable lease commitments for the total amount of LEK 5,809 thousand.

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Notes to the financial statements for the 9 months period ended December 31, 2003

20 CAPITAL ADEQUACY

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover the credit risks and market risks arising from the portfolio of assets of the Bank and the memorandum item exposures of the Bank.

In accordance with the Bank of Albania requirements, the Bank's risk based capital adequacy ratio was 31.3%. The Bank of Albania requires maintaining a capital adequacy ratio of at least 12% of risk-weighted assets.

21 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.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Bank's related parties include key management personnel, that is, those persons having authority and responsibility for planning, identified as "directors" below.

As at December 31, 2003, transactions made with related parties comprised:

| | December 31, 2003 (in LEK'000) |
|---|---|
| Amounts due from banks and customers | |
| Credins Institution | 318,863 |
| Directors | 45,074 |
| Total Assets | <u>363,937</u> |
| Amounts due to banks and customers | |
| Directors | 4,446 |
| Total Liabilities | <u>4,446</u> |
| | December 31, 2003 (in LEK'000) |
| Interest income | |
| Directors | 67 |
| Total Income | <u>67</u> |
| Interest expenses | 187 |
| Wages, salaries and bonuses of directors | 2,174 |
| Total Expenses | <u>2,361</u> |

All of the transactions stated above have been made under arms-length commercial and banking conditions.

22 FINANCIAL RISK MANAGEMENT

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

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

Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. The Bank's net open foreign currency position at 31 December 2003 is shown in note 24.

Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank attempts to mitigate this risk by monitoring the repricing dates of its assets and liabilities.

Credit Risk

Credit Risk is the risk that the counterparty to a financial instrument will fail to repay the obligation and cause the Bank to incur a loss. The Bank manages credit risk by dealing only with approved counter parties under specific credit limits. The Bank regularly monitors its limits with, and exposures to, individual counter parties and countries. Also refer to note 5.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Bank manages this risk by continually monitoring expected cash flows from financial instruments and adjusting interbank takings and placings to match the timing of payments and receipts. An analysis of the Bank's expected timing of cash flows is shown in note 23.

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Notes to the financial statements for the 9 months period ended December 31, 2003

23 LIQUIDITY RISK

The following table shows assets and liabilities by maturity at December 31, 2003 (in Lek'000):

| | Up to one month | One to three months | Three to six months | Six to twelve months | One to five years | Over five years | Total |
|---|--------------------------------|------------------------------------|--------------------------------|-------------------------------------|------------------------------|----------------------------|-------------------------|
| Assets | | | | | | | |
| Cash and balances with the central Bank | 776,374 | - | - | - | - | - | 776,374 |
| Loans and advances to credit Institutions | 984,312 | 37,522 | 374,720 | - | - | - | 1,396,554 |
| Loans and advances to customers | - | 12,387 | 47,629 | 688,496 | 370,323 | 8,662 | 1,127,497 |
| Property and equipment, net | - | - | - | - | - | 37,826 | 37,826 |
| Intangible assets, net | - | - | - | - | - | 24,186 | 24,186 |
| Other assets | 221,158 | - | - | 2,769 | 4,969 | - | 228,896 |
| Total Assets | <u>1,981,844</u> | <u>49,909</u> | <u>422,349</u> | <u>691,265</u> | <u>375,292</u> | <u>70,674</u> | <u>3,591,333</u> |
| Liabilities and equity | | | | | | | |
| Due to banks and financial institutions | 86,960 | - | - | - | - | - | 86,960 |
| Due to customers | 1,685,916 | 290,483 | 216,144 | 428,204 | 168,250 | - | 2,788,997 |
| Other liabilities | 50,575 | - | - | - | - | - | 50,575 |
| Shareholders' equity | - | - | - | - | - | 664,801 | 664,801 |
| Total Liabilities | <u>1,823,451</u> | <u>290,483</u> | <u>216,144</u> | <u>428,204</u> | <u>168,250</u> | <u>664,801</u> | <u>3,591,333</u> |
| Liquidity risk at December 31, 2003 | <u>158,393</u> | <u>(240,574)</u> | <u>206,205</u> | <u>263,061</u> | <u>207,042</u> | <u>(594,127)</u> | <u>-</u> |
| Cumulative liquidity risk | <u>158,393</u> | <u>(82,181)</u> | <u>124,024</u> | <u>387,085</u> | <u>594,127</u> | <u>-</u> | <u>-</u> |

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Notes to the financial statements for the 9 months period ended December 31, 2003

24 FOREIGN CURRENCY POSITION

| | LEK | USD | EUR | Other | Total |
|--|-----------------------|-------------------------|-----------------------|-----------------------|-------------------------|
| Assets | | | | | |
| Cash and balances with the central bank | 183,292 | 173,360 | 308,534 | 111,188 | 776,374 |
| Loans and advances to credit institutions | 99,590 | 1,208,815 | 39,172 | 48,977 | 1,396,554 |
| Loans and advances to customers | 208,681 | 723,468 | 195,348 | - | 1,127,497 |
| Property and equipment, net | 37,826 | - | - | - | 37,826 |
| Intangible assets, net | 24,186 | - | - | - | 24,186 |
| Other assets | 10,977 | 179,683 | 38,236 | - | 228,896 |
| Total Assets (1) | <u>564,552</u> | <u>2,285,326</u> | <u>581,290</u> | <u>160,165</u> | <u>3,591,333</u> |
| Liabilities and equity | | | | | |
| Due to banks | - | 1,534 | 85,426 | - | 86,960 |
| Due to customers | 689,666 | 1,506,063 | 577,598 | 15,670 | 2,788,997 |
| Other liabilities | 41,062 | 7,627 | 1,886 | - | 50,575 |
| Shareholders' equity | (27,277) | 692,078 | - | - | 664,801 |
| Total Liabilities (2) | <u>703,451</u> | <u>2,207,302</u> | <u>664,910</u> | <u>15,670</u> | <u>3,591,333</u> |
| Net Foreign Currency Position at 31 December 2003 (1) - (2) | (138,899) | 78,024 | (83,620) | 144,495 | - |