



Albanian Deposit Insurance Agency

2005

Honorable Ladies and Gentlemen,

I have the honor to submit the annual report of the Deposits Insurance Agency for year 2005.

This year was the third full year of the activity of the Agency from its very start on 18.10.2002.

During 2005, the activity of the Agency was marked through its quantitative and qualitative developments. The financial resources of the Agency have marked considerable increase, making it a sustainable institution to the effect of insuring the deposits.

The establishment of DIA is one of the measures taken by the Assembly of Albania for the further development, strengthening and stabilization of the financial system in Albania, based on the western experience and that this three years the Agency has had an effect on strengthening the trust of public in the financial system as a whole and through the financial and banking intermediates specifically.

During 2005, we have ensured the cooperation and understanding of the banks and branches of foreign insured banks and we believe that during the upcoming period, the cooperation shall be broader, in the spirit of law, reciprocal understanding and correct reciprocal relations.

In the framework of the recommendations of the mission FSAP (Financial Sector Assessment Program) there started during 2005 the surveys for some developments and improvements in legal and bylaw acts which regulate the activity of DIA, which aim at approximating our institution to the standards of European Union.

We appreciate the cooperation and assistance offered to the Agency by the Supervisory Authority (Bank of Albania) and Ministry of Finances and we avail ourselves of this opportunity to thank them.

It is in my honor and in the honor of the Steering Council to thank the personnel of the agency, for their performance during this year.

Insurance of deposits, as a relatively new experience in Albania, requires from DIA and the insured banks to develop the strategy for transparency and open communication in relations with the depositors, broad public and media.

Dashmir Halilaj
Chairman of Steering Council



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ACRONYMS

IADI	International Association of Deposit Insurers
EFDI	European Forum of Deposit Insurers
FDIC	Federal Deposit Insurance Corporation
SHKK	Credit Savings Companies
FSVC	Financial Service Volunteer Corpus
FSAP	Financial Sector Assessment Program
RB	Raiffeisen Bank
AB	Alpha Bank
ABA	American Bank of Albania
NBG	National Bank of Greece
UBA	United Bank of Albania
FIB	First Investments Bank
IAB	Italian Albanian Bank
NCB	National Commercial Bank
ICB	International Commercial Bank
EB	Emporiki Bank
PCB	ProCredit Bank
BIS	Italian Bank for Development
BC	Banka Credins
TB	Tirana Bank
CBA	Credit Bank of Albania
PB	Popular Bank

CHAPTER 1

THE ACTIVITY OF THE AGENCY



Albanian Deposit Insurance Agency

1.1 The banking system and the scheme of deposit insurance

1.1.1 A brief presentation of the Deposit Insurance Agency

Name of the institution:	Deposit Insurance Agency
Acronym:	DIA
Address:	Elbasani Street, No. 317, Near American Embassy
Legal basis:	No. 8873, dated 29.03.2002, “On deposit insurance”
Establishment date:	18.10.2002
Members of the Board of Directors:	From the Bank of Albania: Dashmir HALILAJ Head of Board of Directors; From the Bank of Albania: Silvana Sejko member, From the Ministry of Finances: Ornela KËMBORA, member, From the Ministry of Finances: Edlira LUÇI member, From the Professional Union of Chartered Accountants: Teit GJINI member.
Silvana Sejko, General Director:	Tel.:+355 4 378 237

1.1.2 On the situation of the banking system¹

During 2005, the banking system marked positive developments. Its financial state is positively rated, with a quite positive progress of the indicators of the profitability; adequacy of capital above the minimum level determined by the Bank of Albania and a tendency to decline; further extension of the banking intermediation as an expression of the increase of rate of the loan portfolio against the total of assets and the increase of the total of assets as a whole; ongoing expansion of the banking network, introduction of new banks in the market and the change of their ownership; increase of new banking products and the enhancement of their use as an expression of the increase of the volume of the banking activity as a whole and a satisfactory liquidity situation.

During 2005, a bank was added to the banking system, the Union Bank. The number of banks increased from 16 to 17, where as the former bank Dardania was purchased by Italian investors. In this way, the number of private banks under Albanian ownership was increased to three.

The assets of the banking system marked an increase to 70.1 billion lek (or 16.4 per cent), around 17.3 billion lek higher than the increase of assets, highlighted in 2004.

The year 2005 marked a more diversified distribution of the portfolio of the banking system. The system was further oriented towards the crediting activity. The latter one represented 26 per cent of the portfolio compared to 16 per cent in the same period of the previous year. During 2005, the surplus of the credit of the banking system marked an increase to 57.6 billion lek or 82 per cent, compared to 19.3 billion lek or 38 per cent for the previous year.

The banking system displayed a very good performance even for the last trimester of the year 2005. The net outcome is calculated to approximately 569 million lek less than the previous trimester, which initially demonstrates a decrease of the banks' effectiveness. However, the net outcome prior to taxation is almost equal to that of the third trimester and higher

than the annual average.

The year 2005 marked the amount of 33 billion lek of the shareholding capital of the system or about 7 billion lek higher compared to the year 2004 and the level of 19 per cent of the indicator of the capital's adequacy or about 3 points of percentage lower compared to the same period of the previous year.

The year 2005 marked the level of 80 per cent of the ratio of the short- term assets against the long- term liabilities or about 17 points of percentage lower compared to the end of the year 2004. However, the key indicators of the liquidity system present levels which have not affected the situation of the liquidity, whereas the monetary policy of the Bank of Albania to maintain real rates of interest in lek and an inflation rate under control, as well as the increase of interest rates for the main foreign currencies, particularly USD, have contributed not only to the stability of the deposits, but also to their increase within the system.

1.1.3 The objective of the Deposit Insurance Agency

The insurance and compensation of the deposits established in the banks operating in the Republic of Albania is the objective of the creation of the Deposit Insurance Agency, founded in conformity with the Law No 8873, dated 29.03.2002 "On Deposit Insurance". The insurance and compensation of the deposits of the clients are carried out according to the rates specified in the law.

The Deposit Insurance Agency, in the course of performing its legal obligations, assists in the creation of public confidence in the stability of the banking system and minimizes the risk to customers of losing their savings as a result of bankruptcy of any bank. As a result, the Deposit Insurance Agency is one of the institutions that establish the financial safety of the system along with the Supervisory Authority (the Central Bank) and the Ministry of Finance, as the lender of last resort.

Pursuant to the Law No.8873, dated 29.03.2002

¹ Obtained from the evaluation of the financial situation of the Albanian banking system for the fourth trimester of the year 2005, analysed by the Supervising Authority

“On deposit insurance”, article 3, item1, “... no bank accepts and collects deposits, when not insured by the Agency...”. In this context, all banks operating in the Republic of Albania are members of the scheme of the deposit insurance. The number of banks insured by the Deposit Insurance Agency by the end of the year 2005 is 16, which are Albanian or foreign private banks.

The Deposit Insurance Agency started its activity on 18 October 2002. On the same date, the Law No 8873 dated 29.03.2002 “On Deposit Insurance” entered into force.

The financial means of the Deposit Insurance Agency are as follows:

- first, the contribution of the state’s budget of 400.000.000 lek;
- secondly, initial contributions of the newly licensed banks;
- third, premiums of the insured banks;
- fourth, gains obtained from their investment.

Additionally, the financial means of the Deposit Insurance Agency include credits, donations or other subsidies, but until 31. 12. 2005, there has not been any.

The Activity of the Deposit Insurance Agency is exempted from direct taxes and duties.

1.1.4 Organization and management

Pursuant to the law No 8873 dated 29. 03. 2002 “On deposit insurance”, the Agency is organized and administered by the Board of Directors and is run by the General Director.

The Board of Directors consists of five members who are appointed from the Bank of Albania, upon proposal as follows:

- Two members from the Bank of Albania,
 - Two members from the Ministry of Finances,
 - A member from the Professional Union of Chartered Accountants.
- The General Director represents the executive authority of the Deposit Insurance Agency.

1.2 Funds and solvency of DIA

The main resources of the Agency are: the initial contribution of newly licensed banks, the premium of the annual insurance of insured banks and the gains from their investments.

1.2.1 Initial contribution

Pursuant to the law No.8873, dated 29.03.2002 “On deposit insurance”, the insurance scheme is mandatory for all institutions exercising banking activity at national level. Pursuant to the article 23 of this law, each insured bank should pay to the Agency an initial contribution equaling to 0.5 % of the signed capital of the bank. During 2005, there were no revenues in the Agency on account of the initial contribution. By the end of the year 2005, a new subject called “Union Bank” obtained the final license to exercise banking activity, being introduced to the insurance scheme within the first days of the year 2006.

1.2.2 Insurance premium

The premium rate of 0.5 % for the year 2005 was applied, which is not based on the risk for each insured bank, but it is equal for all banks. The premium is calculated above the arithmetic mean of the insured deposits, registered by the end of each working day for the three last months of the year (article 24 of the law). The insurance scheme does not include companies, thus constituting a limitation which extends the time limit to reach the target level in conformity with the law, to reduce the premium rate to 0.1 per cent. This level is reached when the financial means of the agency comprise not less than 5 per cent of the average of these deposits (currently, this ratio is 1.6 per cent). The only limitation that may be applied for the premium rate regarding the risk undertaken by the banks is that this rate may be increased to 0.2 per cent, when it is deemed that this risk has been increased.

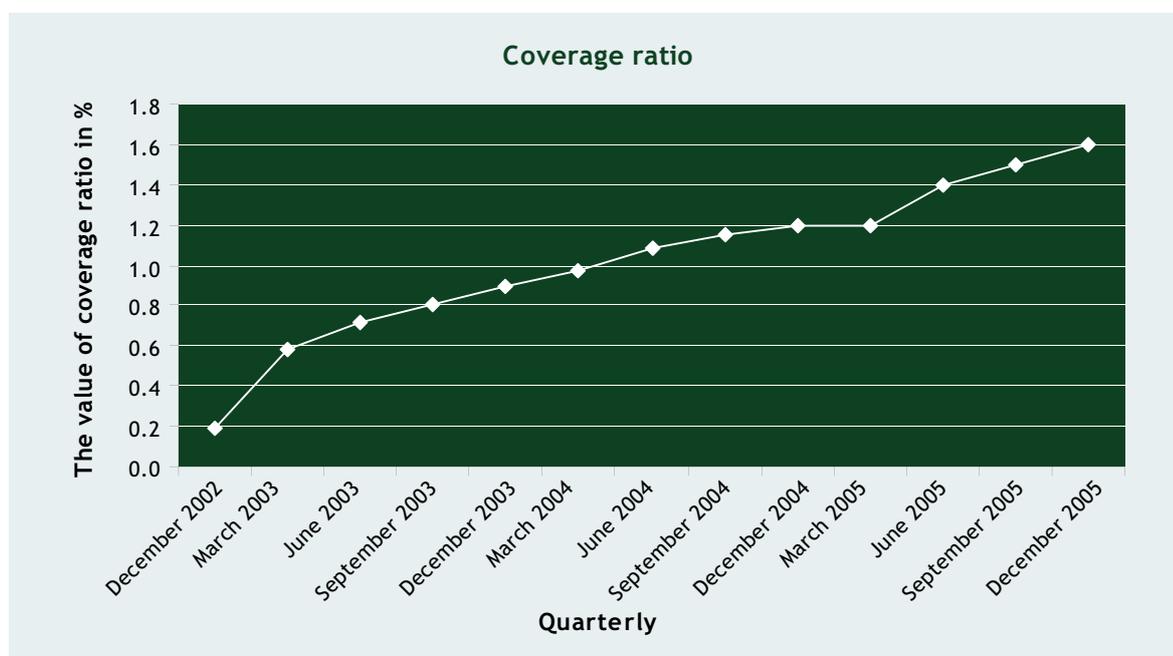
The payment of the premium was effected by four trimester installments and meeting the deadline stipulated in law by all banks.

Simultaneously, with the payment of the first installment, the banks submit to the Agency the premium statement, which confirms the calculation of the premium in accordance with the law requirements. During 2005, the agency conducted verifications in the insured banks to evaluate the way of calculation of the

insurance premium in accordance with the law requirements. The revenues from the insurance premium, which comprise the main source of revenues of the Agency, for the year 2005 reached the sum of 719,126 million lek and compared to a year ago, it reported an increase to 3.3 per cent.

1.2.3 Coverage ratio by the end of 2005, and solvency for specific banks

The Agency, with its investment policies in accordance with the provisions of the Law No 8873, dated 29.03.2002 “On deposit insurance”, has increased its fund, consequently increasing the coverage ratio, - that expresses the ratio of the financial means of the Agency with the total of the insured deposits. The financial means of the Agency in December 2005, compared to December 2004, have marked an increase rate to 41 per cent, whereas the coverage ratio in December 2005 is 1.6 per cent compared to 1.2 per cent that was by the end of the year 2004.



1.3 Data on the deposits of the individuals

1.3.1 Insured Deposits

By the end of the year 2005, the total of the deposits of the system is 437 billion lek, marking an increase of 16 per cent compared to the end of the year 2004. The deposits of the individuals, as well as the insured ones, have also marked an increasing trend for the one year period, December 2004- December 2005.

The deposits of the individuals result respectively to the amount of 358 billion lek, reaching 82 per cent against the total of the deposits in the entire banking system, out of which, 182 billion lek are insured, which translated into percentage, represent about 51 per cent of the deposits of the individuals. The majority part of the deposits of the individuals is comprised of deposits in lek and only 32 per cent of them are deposits in foreign currency.

For the one year period December 2004 - December 2005, it is noticed an increase of 16 per cent of the deposits in foreign currency and a decline to 6 per cent of the deposits in lek (as a percentage against the total), which might be explained by the oscillations of the interest rates for the deposits in lek and the trend of big banks to increase the interests of the deposits in foreign currency.

The deposits of the individuals, during that one year period, have marked an increase of 16 per cent and the insured ones had an increase of 9.1 per cent. The following table and graph provide information on the progress of the deposits of the system during the period 2003-2005.

mil / lek

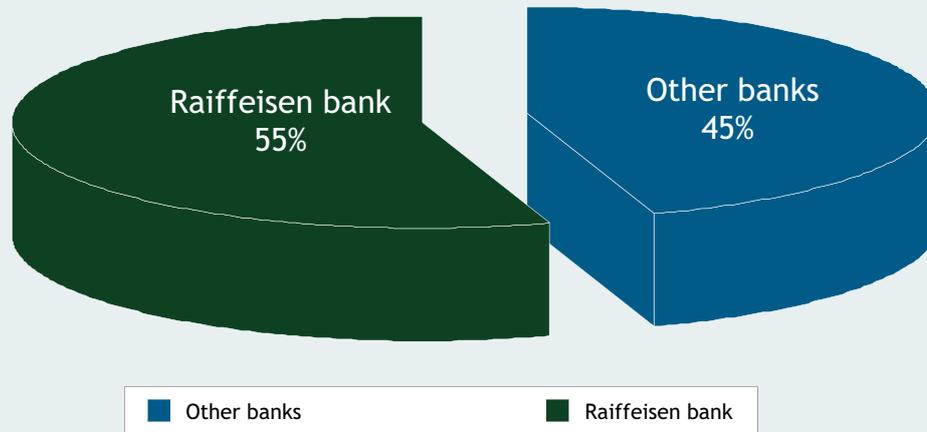
No	Nomination	December	December	Differences	
		2004	2005	3- 2	4/2 (%)
0	1	2	3	4	5
	Total of deposits	375,843	437,547	61,704	16
1.	Deposits of companies	65,971	78,902	12,930	20
	Deposits of individuals (a)	309,872	358,645	48,774	16
	Ratio (a) / tot.dep. in %	82	82	—	—
	Insured deposits (b)	167,251	182,621	15,371	9
2.	Ratio (b) / (a) in %	54	51	—	—
	In lek	129,772	136,035	6,264	5
	In foreign currency	37,479	46,586	9,107	24
	Deposits of non- insured individuals (c)	142,621	176,024	33,403	23
3.	Ratio (c) / (a) in %	46	49	—	—
	In lek	94,112	107,360	13,249	14
	In foreign currency	48,509	68,664	20,154	42



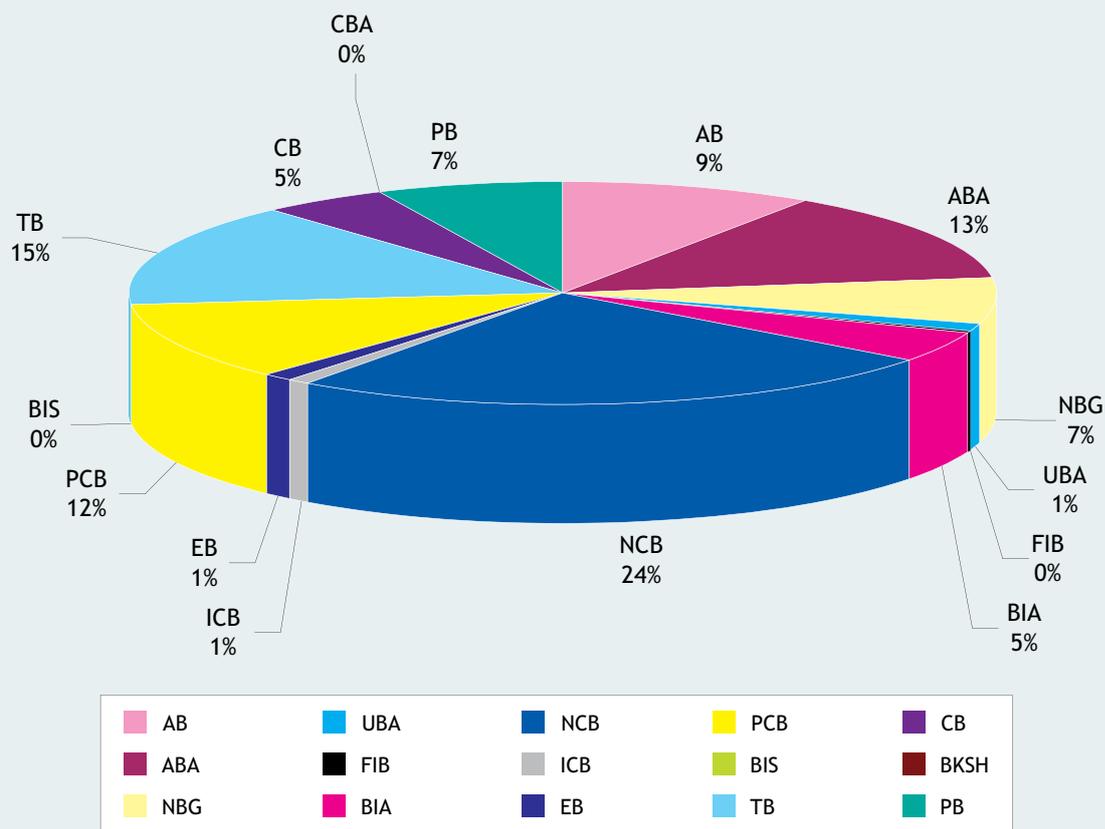
1.3.2 The structure of the insured deposits

Raiffeisen Bank continues to play a dominant role in the banking market, owning 55 per cent of the insured deposits of the system, but this position compared to one year ago, has suffered a decline to 18 per cent. This decline has been a result of the policies pursued by the bank in reducing the deposits in lek.

Separation of the insured deposits (in %)

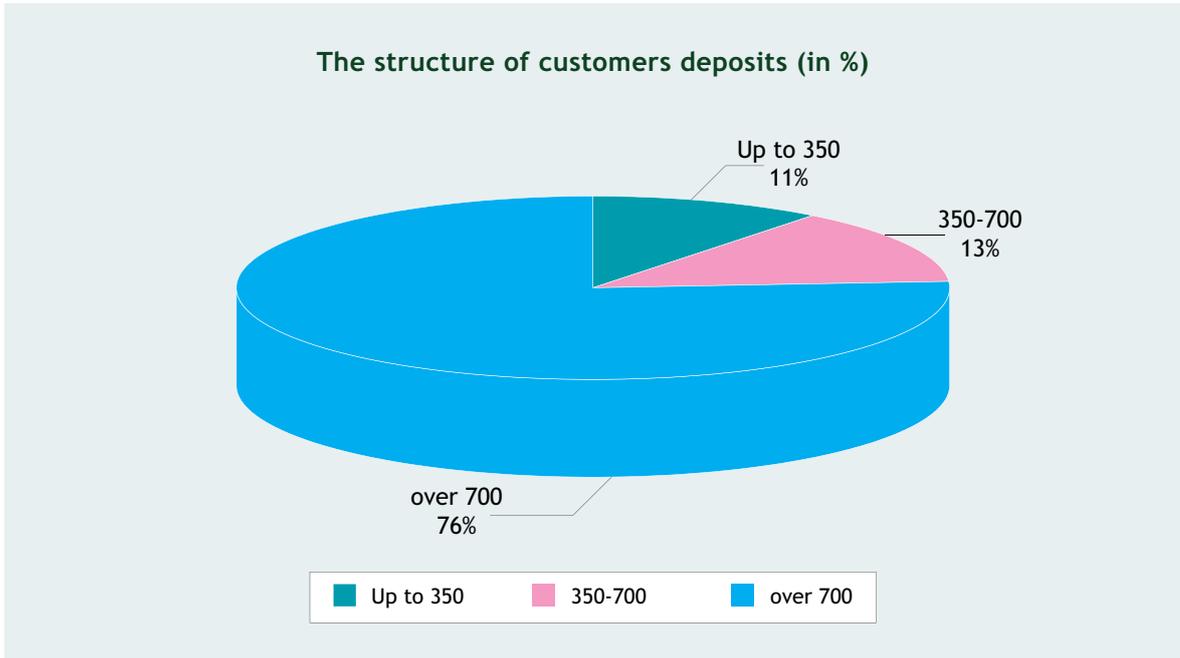


The structure of insured deposits in % (without Raiffeisen Bank)

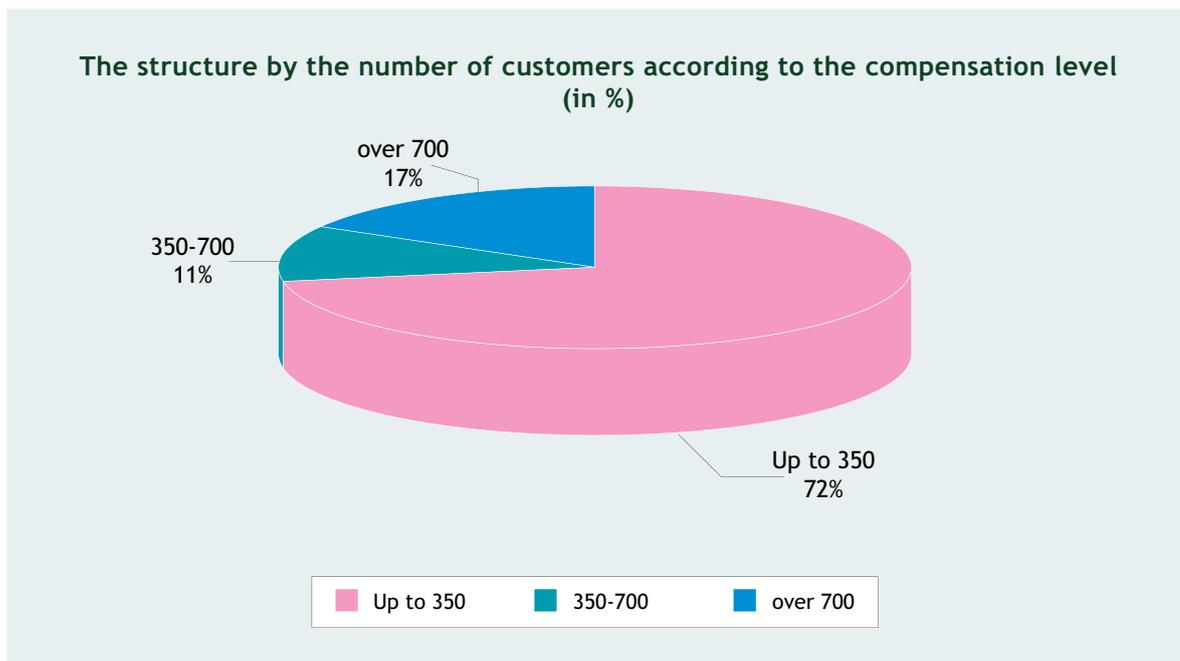


The Law No. 8873, dated 29.03.2002 “On deposit insurance”, has specified the levels for the compensation of the deposits at maximum level of 700 thousand lek, insuring 100 per cent of the deposit until 350,000 lek and 85 per cent of the share over 350,000 lek. Viewing the structure of the deposits according to the compensation levels specified in the law, it is noticed the dominance of deposits over 700 000 (seven hundred thousand) lek, the amount of which is about 76 per cent of the total sum of the deposits of the individuals. Even during the third year of its activity, the

Agency worked on the acquaintance with the insurance scheme by the depositors, aiming at the economic education of the public. The unsatisfactory economic educational level of the depositors is reflected even in the lack of distribution of the portfolio of their deposits. The opposite of this phenomenon is present in countries with a more extensive practice of insurance schemes.



The analysis of the number of the deposits of the individuals, according to the compensation structure, indicates that the highest rate is comprised by the number of small depositors, whose deposits reach up to 700 000 (seven hundred thousand) lek, with 83 per cent of the total number of the depositors. Compared to one year ago, this category of depositors has marked an increase of 8 per cent. This is in the same line with the objective of the law to firstly defend the part of small depositors, who are more exposed to the risk of the lack of economic information.



the above mentioned guidelines, DIA has periodically sent to the Supervising Authority information regarding the due effect of the premium payment by the insured banks.

A closer cooperation with the Bank of Albania is predicted for the year 2006, not only in terms of the participation in common verifications of the insured banks, but also in the framework of the approximation of the Albanian legislation to the legislation of the European Union, particularly for the insurance scheme.

1.5.2 Public relations

The Deposit Insurance Agency, in support of its primary goal, provision and compensation of the clients' deposits, has continuously invested efforts to make the public aware of the deposit insurance scheme and its role in the compensation process in case of bankruptcy of any banks.

DIA has built its Internet website which provides continuous information for the public regarding the deposit insurance scheme of the deposits and the compensation process in case of bankruptcy of any banks, pursuant to the Law No 8873 dated 29.03.2002 "On deposit insurance".

Additionally, the Deposit Insurance Agency continues to inform the depositors via frequent contacts with the banks of second level operating in Albania, through the distribution of various informing materials, such as flyers, leaflets and the mandatory presence of the logo of DIA, which is installed in all banks.

DIA has established cooperation with the print and visual media even during 2005. Our institution has continued to broadcast the TV advertising spot during 2005, aiming at the transmission of the message of DIA's mission. Also, informing articles have been published in the print media regarding the function of DIA, activity and their various issues related to the deposit insurance.

1.5.3 International cooperation and activities of the Deposit Insurance Agency

During 2005, the relations with international institutions included meetings with IMF and the World Bank and their representative missions, as well as the provision of information regarding the activity of the Agency and their future objectives.

Presently, the Deposit Insurance Agency continues to participate with full rights as a Member of the International Association of Deposit Insurance. Additionally, the Deposit Insurance Agency is a member of the European Forum of Deposit Insurance.

The objective of the creation of IADI and EFDI is to contribute to the world financial stability as a whole and the European one in particular, via a closer cooperation with all financial International Institutions, contribute to the consolidation and increase of effectiveness of the insurance schemes in member countries, facilitate the exchange of experience and information through the organization of various seminars or programs, conduct studies on certain issues related to the area of deposit insurance, formulate unique policies for the implementation of the objectives of the Deposit Insurance Agency, mainly of the countries in transition, by coordinating with the financial development plans run by the International Monetary Fund and the World Bank (FSAC program), formulate cooperation policies among the key stakeholders influencing the stability of the banking system, the Central Bank, the Deposit Insurance Agencies, the Ministry of Finances etc.

During 2005, the Agency continued to offer contribution to meet objectives such as contribution to the stability of the financial system as a whole and of the banking system in particular, drafting guidelines for the deposit insurance, exchange of international experience

etc.

The representative of DIA is a member of the Committee of Planning and Finances and the Committee of Conferences and Specializations in the organization of IADI.

The Agency continues the bilateral cooperation and exchange experience with the experienced institutions in the area of deposit insurance, such as FDIC, Hungarian Fund, Slovakian Fund etc.

The knowledge gained from the cooperation

with international institutions such as IADI and EFDI and the exchange of experience with its member countries represent the source and materialization of the preparations of bylaws sent to the Bank of Albania. Other elements include the Compensation Regulation, the individualization of a computer program capable to contribute to the procedure of insurance-compensation, the promotional bulletin to the public, the education of the public and other necessary acts for the fulfillment of legal obligations.

CHAPTER 2

FINANCIAL SITUATION OF THE DEPOSIT INSURANCE AGENCY



Albanian Deposit Insurance Agency

2.1 Legal basis and regulatory framework on accounting maintenance

The main objective of the Deposit Insurance Agency is the insurance and compensation of the deposits of the clients, in accordance with the provisions of the law “On deposit insurance”. Simultaneously, the Agency should administer its funds effectively, in accordance with the accepted standards of risk management.

Pursuant to the article 28 of the law “On deposits”, bearing No. 8873, dated 29.03.2002, the Agency has taken accounts and registers,

in order to accurately provide at any time its financial situation in accordance with the law “On accounting system”.

Given the specific nature of the activity of the Deposit Insurance Agency and pursuant to the law “On accounting system”, an accounting manual has been drafted, which is being applied for the report of the Financial Table of the year 2006. This manual shall accurately express the financial situation of the Agency, unifying the evaluation and performance criteria with those of the counterpart institutions of other countries and by respecting the requirements of the concerned national and international institutions.

2.2 Balance structure and its progress

The dynamics of assets and liabilities of the Agency for the year 2005 are summed up in the following table.

Main balance indicators

Description (in thousand leks)	31.12.2005	31.12.2004	Difference
Sustainable assets	78.613	83.736	-5.123
Current assets	2.885.452	2.066.543	818.909
TOTAL OF ASSETS	2.964.065	2.150.279	813.786
The Capital of the Agency	2.961.990	2.147.246	814.744
Other Liabilities	2.075	3.033	-958
TOTAL OF CAPITAL & ASSETS	2.964.065	2.150.279	813.786

2.2.1. Assets

The assets of the Agency for the year 2005 have been increased to 37, 8 per cent, compared to the year 2004.

2.2.1.1 Cashdesk and Central Bank

This item represents the situation of the current account of the Deposit Insurance Agency in lek, at the Bank of Albania. This account serves for the deposit of contributions and annual premiums of insurance from the insured banks. On 31 December 2005, the account included 6,617,841.91 lek.

2.2.1.2 Current accounts at banks of second level

This item represents the situation of the current accounts of the Deposit Insurance Agency on 31.12.2005, at the resident and non- resident banks in lek and in foreign currency. The situation of the current accounts at the banks represents the funds respectively for the administrative expenses of the Agency and to be invested in securities, in accordance with the article 21 of the Law No. 8873 dated 29.03.2002, "On deposit insurance" and the "Administration policies of the financial means of DIA".

2.2.1.3 T-bills of the Albanian government

Pursuant to the article 21 of the Law No. 8873, dated 29.03.2002, "On deposit insurance", the financial means of DIA are invested in "securities of liabilities in lek issued by the Government of the Republic of Albania".

The situation of investments in T-bills until 31.12.2005, is 2.197.830.000 lek, which comprises about 74 per cent of the total of assets.

2.2.1.4 Securities

Pursuant to the article 21 of the law No. 8873, dated 29.03.2002, "On deposit insurance", a part of the financial means of DIA are invested in "securities of liabilities in foreign currency issued by governments, central banks or international financial institutions".

The amount of the securities in foreign currency until 31.12.2005, was 549.913.816,81 lek, a sum which comprises 18.5% of the total of assets, and evaluated in lek with the exchange rate of the Supervising Authority dated 31.12.2005 (EUR/ Lek 122.58 and USD/Lek 103.58).

2.2.1.5 Sustainable means

The sustainable means include the value of the building, equipment and other office supplies and transport means. As regards these means, the physical inventory has been performed

for the date 31.12.2005. The amortization standards used are the ones approved by the Board of Directors of the Agency.

The net amount of the sustainable means on 31.12.2005 is 78,058,963.50 lek.

2.2.1.6 Other means

Other means include the value of stationeries and other ones, still not used. The amount of this item on 31.12.2005 is 553,711.30 lek.

2.2.1.7 Calculated liabilities of the banks (Cashed premiums, fourth installment of the year 2005)

This item includes still not cashed sums of the premium's fourth installment of the year 2005 for the insured banks to the amount of 179,256,597 lek, an amount which should be transferred to the account of the Agency from the insured banks until 15.01.2006.

2.2.2 Liabilities

2.2.2.1 The means maintained on behalf of third parties and other liabilities

This item represents the sum of 2,074,814.26 lek of the liabilities calculated to the third parties by the end of the exercise activity and dealing with the current activity of the Agency, not affecting the payments towards the insured clients.

2.2.2.2 The capital of the agency

The capital of the Agency consists of the basic fund of 400.000.000, the undistributed profit of past years of 1,747,246,270.97 lek, and the profit of the exercise year of 814,743,623.60 lek. The amount of this item in total on 31.12.2005 is 2,961,989,894.57 lek.

2.3 Capital and its progress

The capital of the Agency consists of the following elements:

The table of the circulation of the capital of dia

THE CAPITAL OF AGENCY	31.12.2005	31.12.2004
• Capital (Basic Fund)	400.000.000,00	400.000.000,00
• Reserves		
• Capital (Paid Basic Fund)		
• Re-evaluation reserves		
• Re-evaluation differences		
• Undistributed profit/losses	1.747.246.270,97	937.162.611,00
• Profit/losses of the exercise year	814.743.623,60	810.083.659,97
TOTAL CAPITAL OF THE AGENCY	2.961.989.894,57	2.147.246.270,97

Basic Fund

Pursuant to the article 19 of the Law No. 8873, dated 29.03.2002, “On deposit insurance”, during February 2003, the Ministry of Fiancées has deposited the basic fund of 400.000.000 lek, contribution of the state’s budget.

Revenues accumulated from the profit of recent years

It represents the undistributed profit performed by the activity of the Agency during the year 2002, 2003 and 2004 to the amount of 1,747,246,270.97 lek.

Revenues from the exercise period of the Agency or the profit of the exercise year

It represents the profit obtained during the reporting period to the amount of 814,743,659.60 lek.



2.4 Exercise profit and its progress

2.4.1 Income generation

The revenues of the Agency for the reporting period consist as follows:

Revenues from the initial contribution of the insured banks, which represent the payments of the initial contributions from the insured banks pursuant to the article 23, item 4 of the Law No. 8873, dated 29.03.2002 “On deposit insurance”.

There were no paid contributions for the year 2005.

Revenues from the insurance premium,

which represent the legal obligation of the insured banks of the annual premium of deposit insurance for the year 2005, to the amount of 719,126,106.82 lek and in pursuance of the article 24 of the law No. 8873, dated 29.03.2002 “On deposit insurance”.

Revenues from Monetary Operations, representing the active interests from the investment of financial means of the Agency, to the amount of 154,199,406.92 lek (matured revenues).

Revenues from the foreign currency activity representing the re-evaluation of the foreign currency activity to the amount of 1,690,442.07 lek.

Revenues from other activities, representing the amount of 58.941.62 lek.

2.4.2 Account of Losses/Profits

<i>(000/lek)</i>			
DESCRIPTION	2005	2004	Difference
Revenues from initial contributions of insured banks	---	4,348	-4,348
Revenues from annual premiums	719,126	694,825	+24,301
Revenues from Monetary Operations	154,199	114,876	+39,323
Revenues from the re-evaluation of the monetary activity	1,690	---	+1,690
Revenues from the re-taking of provisions	---	49,299	-49,299
Other revenues	59	181	-122
Total of revenues	875,074	863,529	+11,545
Expenses for the deposit insurance	---	---	---
Financial investment expenses	-13,296	-9,831	+3,465

Losses from the monetary activity	---	-3,103	-3,103
Expenses for reserve funds	---	---	---
Overall activity expenses	-47,035	-40,512	+6,523
Total of expenditure	-60,331	-53,446	+6,885
Annual profit	814,743	810,083	+4,660

2.5 Administration of the financial means of the Deposit Insurance Agency

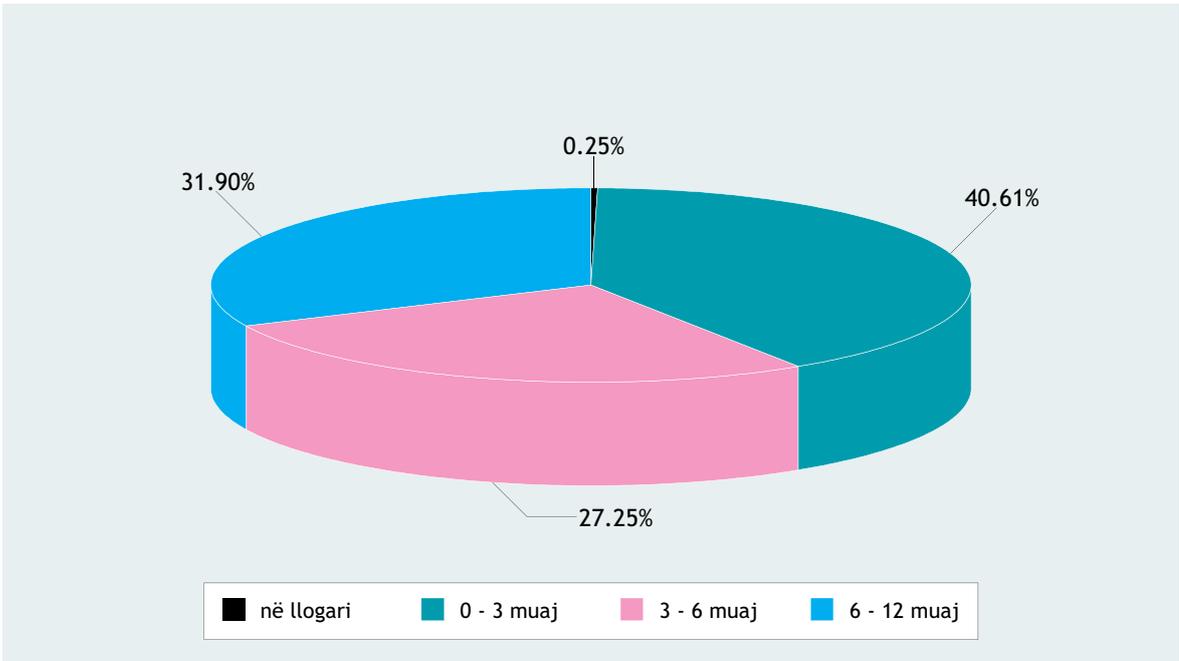
Pursuant to the Law No. 8873 dated 29.03.2002, “On deposit insurance” article 9, item 2; the article 21, and the document of the Policy of the administration of the financial means of the Agency, approved in May 2004, the Deposit Insurance Agency is responsible for the effective fund administration and in accordance with the accepted standards of risk management. The fund administration is effected through the investment of the financial means of the Agency in securities of the Albanian Government and in securities in foreign currency of the central banks and other international financial institutions of other countries, the currency of which is in a deposit account at the insured bank.

In providing a better management of its financial means and to comply with the law requirements, the Agency has drafted regulatory acts and has established the appropriate structures. In this framework, it has been approved ‘The regulation for the sector of Monetary and Financial Operations’, “The Policy of administration of the financial means of DIA”, and the Committee of Investments has been established.

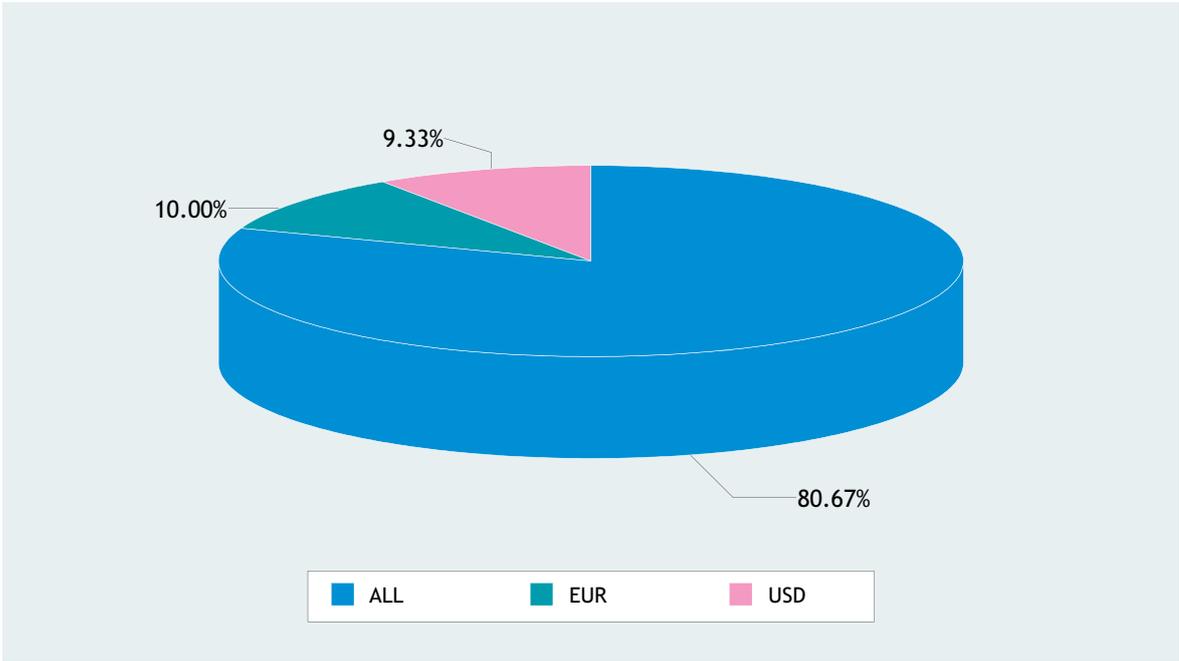
The policy of the administration of financial means determines the allowable investments, the maturity structure, the levels and responsibilities of the Agency structures in the process of the administration of financial means.

The objective of the policy of the administration of financial means of the Agency is to build a portfolio of investments under the following conditions:

1. Accepted level of risk and settlement.
2. Maturity deadline from the moment of purchase, not to exceed 12 months.
3. High liquidity level.



As regards the structure of the portfolio of investments according to the currencies during 2005, the Agency has preserved the benchmark specified in the Policy of the administration of financial means of the Agency to the level of 80% of the portfolio in LEK and 20% of the portfolio in foreign currency.



The revenues from the Portfolio of investments in LEK for the year 2005 are 130,631,787 lek, or 21% higher in comparison to the year 2004.

The revenues from the Portfolio of investments in foreign currency (EUR, USD) for the year 2005 are 23,567,619.92 lek, or 81% higher in comparison to the year 2004.

2.6 The control of books and accounts of the Agency

The activity of the Agency for the year 2005, its accounts and registers have been audited by the internal auditor. According to this auditing operation, those documents accurately reflect the financial indicators of the Agency.

2.7 The report of the Internal Auditor

As regards the auditing of the financial tables of the year 2005, the objective of the internal audit was:

- the evaluation of the reliability for the financial and direction information and,
- the evaluation on the effectiveness of the internal control.

By the end of the auditing process, the state of the Financial Tables is as follows:

The data presented in the book-keeping balance in the table of revenues and in the cash flow table, duly reflect the financial position of DIA in accordance with the International Standards of the Financial Reporting.

Referring to the evaluation of the internal control system, the Board of Directors, the Directorate of the institution has build the infrastructure or the regulatory framework that have influenced a more effective management of all practices constituting the development of DIA activity. During the past year, DIA has insured financial indicators which are quite promising for the future of its mission. The situation is also optimistic in terms of the implementation of performance indicators, which have been progressive and significantly improved.

The internal auditor definitely expresses the opinion that the Financial Statements accurately reflect the financial indicators for the year 2005 by DIA.

BALANCE SHEET OF THE DEPOSIT INSURANCE AGENCY

For the period 31 December 2005

ASSETS (in LEK)	Period			
	31.12.2005	2004	difference+/-	difference %
Cashdesk and Central Bank	6,617,841.91	5,267,129.09	1,350,712.82	126
* of this:			0.00	0
* Cashdesk	0.00	0.00	0.00	0
* Central Bank (in lek)	6,617,841.91	5,267,129.09	1,350,712.82	126
T-BILLS and other bonds,	2,197,830,000.00	1,551,000,000.00	646,830,000.00	142
accepted for re-financing with the			0.00	0
Bank of Albania				
Revenues from interests gained Pre-payment	-51,416,595.00	-48,857,913.00	-2,558,682.00	105
Current accounts in Banks	3,250,373.31	1,480,396.81	1,769,976.50	220
* Current accounts in banks (lek)	2,760,134.41	333,751.11	2,426,383.30	827
* Current accounts in banks (currency)	490,238.90	1,146,645.70	-656,406.80	43
* In Resident Banks	360,273.80	785,457.40	-425,183.60	46
* In Non Resident Banks	129,965.10	361,188.30	-231,223.20	36
Loans and net pre- payments per client	0.00	0.00	0.00	0
(for the employees)	0.00	0.00	0.00	0
Securities	549,913,816.81	386,487,934.13	163,425,882.68	142
* Securities with unchanged revenues	533,209,611.10	368,133,051.10	165,076,560.00	145
* Other				
Interest calculated as income of LVL discount, price and premium of securities	12,411,915.84	13,224,287.54	-812,371.70	94
Securities and T-Bills purchased in accordance with the re-purchase agreement	4,292,289.87	5,130,595.49	-838,305.62	84
Equities and affiliates	0.00	0.00	0.00	0
Assets kept on behalf of the third parties	0.00	0.00	0.00	0
			0.00	0
Fixed assets (net)	78,058,963.50	83,736,211.30	-5,677,247.80	93
* Intangible assets (underway)	0.00	1,000,000.00	-1,000,000.00	0
* Fixed assets in operation	17,726,341.30	16,048,441.30	1,677,900.00	110
* Fixed assets (underway)	0.00	800,000.00	-800,000.00	0
* Building	71,917,696.00	71,917,696.00	0.00	100
* Amortization of fixed assets	-11,585,073.80	-6,029,926.00	-5,555,147.80	192
Other assets (materials)	553,711.30	285,307.70	268,403.60	194
* Materials in the warehouse	553,711.30		553,711.30	0
* Calculated liabilities of the banks for the premiums of the year 2004	0	170,879,954.00	-170,879,954.00	0
* Calculated liabilities of the banks for the premiums of the third trimester of the year 2005	179,256,597.00	0.00	179,256,597.00	0
* Pre-paid expenses	0.00		0.00	0
TOTAL OF ASSETS	2,964,064,708.83	2,150,279,020.03	813,785,688.80	138

BALANCE SHEET OF THE DEPOSIT INSURANCE AGENCY

For the period 31 December 2005

LIABILITIES AND CAPITAL (in LEK)	Period			
	31.12.2005	2004	difference +/-	difference %
Liabilities to the Central Bank				
* Current accounts				
* Deposits taken				
* Loan-taking				
* Other				
Liabilities to the credit institutions				
Central non-banks				
* Current accounts				
* Deposits taken				
* Loan-taking				
* Other				
Liabilities to the clients				
* Current accounts				
* Deposit accounts				
* Other				
Debt to the Albanian Government and public organizations				
Purchased securities and T-bills				
According to the re-purchase agreement				
Debt represented by bonds				
Public assistance and financing	0.00	0.00	0.00	0
	0.00	0.00	0.00	0
Means maintained on behalf of the third parties	1,437,375.06	2,295,129.06	-857,754.00	63
* Social security	356,841.00	0.00	356,841.00	0
* Assistance (report sec.)	0.00	0.00	0.00	0
* Fiscal administration	414,080.00	0.00	414,080.00	0
* Supplier	566,129.06	1,800,000.00	-1,233,870.94	31
* Other (Payments to be effected)	100,325.00	495,129.06	-394,804.06	20
Reserve funds for risks and expenses in terms of potential losses with regard to commitments undertaken	0.00	0.00	0.00	0
Other calculated liabilities	637,439.20	737,620.00	-100,180.80	86
Total of liabilities	637,439.20	737,620.00	-100,180.80	86
AGENCY'S CAPITAL				
* Capital (basic fund)	400,000,000.00	400,000,000.00	0.00	100
* Reserves			0.00	0
* Re-evaluation reserves			0.00	0
* Re-evaluation differences				
* Undistributed Profits/Losses	1,747,246,270.97	937,162,611.00	810,083,659.97	186
* Profits/Losses of the exercise year	814,743,623.60	810,083,659.97	4,659,963.63	101
TOTAL OF LIABILITIES	2,964,064,708.83	2,150,279,020.03	813,785,688.80	138

TABLE OF REVENUES OF THE DEPOSIT INSURANCE AGENCY

For the period 31 December 2005

TABLE OF REVENUES (in LEK)	Period			
	31.12.2005	2004	difference +/-	difference %
	a	b	c(a-b)	d(a/b)100
Revenues from the deposit insurance activity	719,126,106.82	699,172,811.16	19,953,295.66	103
* Revenues from the initial contribution	0.00	4,347,875.00	-4,347,875.00	0
* Revenues from the premium of the insurance of insured banks	719,126,106.82	694,824,936.16	24,301,170.66	103
Revenues from interests	53,441.62	15,632.27	37,809.35	342
* on treasury and inter-banking operations	53,441.62	15,632.27	37,809.35	342
* on clients' operations	0.00	0.00	0.00	
Expenses for the interests	-11,799,741.16	-8,630,933.50	-3,168,807.66	137
*on treasury and inter-banking operations	-11,799,741.16	-8,630,933.50	-3,168,807.66	137
*interests for securities, according to the re-purchase agreement	0.00	0.00	0.00	
* other			0.00	
Revenues from the investment of financial means.	154,199,406.92	114,876,231.49	39,323,175.43	134
* Revenues from T-bills	130,631,787.00	108,101,418.00	22,530,369.00	121
* Revenues from securities' operations	23,567,619.92	13,012,322.39	10,555,297.53	181
* Other	0.00	-6,237,508.90	6,237,508.90	0
Net profit/loss from the investment of financial means	142,453,107.38	106,260,930.26	36,192,177.12	134
Revenues from the re-taking of provisions Year 2002, 2003	0.00	49,299,451.13	-49,299,451.13	0
Net profit/loss from commissions	-1,496,033.15	-1,200,500.44	-295,532.71	125
* Revenues from commissions for banking services	-136,345.15	-148,678.94	12,333.79	92
* Expenses for commissions for banking services	-1,359,688.00	-1,051,821.50	-307,866.50	129
* Expenses for other banking activities	0.00	0.00	0.00	
Net profit/loss from other operations	5,500.00	165,122.80	-159,622.80	3
* Revenues from other activities	5,500.00	165,122.80	-159,622.80	3
* Expenses for other activities	0.00	0.00	0.00	
Profit/loss from monetary activity	1,690,442.07	-3,102,549.84	4,792,991.91	-54
* Profit from monetary activities	1,690,442.07	0.00	1,690,442.07	
* Loss from monetary activity	0.00	-3,102,549.84	3,102,549.84	0
Profit/loss from monetary operations	142,653,016.30	102,123,002.78	40,530,013.52	140
Overall expenses of the (operative) activity	-47,035,499.52	-40,511,605.60	-6,523,893.92	116
*Personnel cost	-25,489,656.00	-20,844,936.00	-4,644,720.00	122
*Board of Directors's cost	-2,770,915.00	-1,603,080.00	-1,167,835.00	173
*Taxes in addition to income taxes	0.00	0.00	0.00	
*Utility expenses by third parties, such as telephone, internet, DHL, electricity, stationeries, reception, maintenance MjKR, insurance, water- electricity, carb, etc	-4,895,425.32	-4,235,118.82	-660,306.50	116
*Other administrative expenses such as: training sessions, counseling services, public notifications etc.	-7,000,281.40	-7,742,872.78	742,591.38	90
*Amortization expenses	-5,590,798.00	-5,051,598.00	-539,200.00	111
* Payment expenses of annual quota in terms of the participation in IADI	-1,001,000.00	-1,034,000.00	33,000.00	97
*Contingent expenses	-287,423.80	0.00	-287,423.80	
Revenues of activities . Prior expenses of the reserve fund	814,743,623.60	810,083,659.47	4,659,964.13	101
Net loss and expenses for the reserve fund on suspicious accounts,	0.00	0.00	0.00	
Securities and items out of the balance sheet			0.00	
Profit (Loss) of the exercise year	814,743,623.60	810,083,659.47	4,659,964.13	101