Banka Kombetare Tregtare sh.a.

Independent Auditor’s Report and Financial Statements as of and for the year ended December 31, 2007

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Banka Kombetare Tregtare sh.a. (the "Bank"), which comprise the balance sheet as at December 31, 2007, the income statement, statement of changes in equity, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for a qualified opinion

As explained in Note 3.4, 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 year ended December 31, 2007 in the profit and loss account 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 profit for the year ended December 31, 2007 would be lower by USD 5,406,967 the retained earnings and reserves would be lower by USD 10,228,711 the balance of translation reserve would be higher by USD 15,635,677.

Opinion

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche revizija d.o.o

Ljubljana, Slovenia

February 14, 2008

Consolidated balance sheet as of 31 December 2007

(amounts in USD, unless otherwise stated)

	Notes	31 December 2007	31 December 2006
Assets			
Cash and balances with Central Bank	5	156,677,902	105,268,862
Placement and balances with banks	6	218,311,284	140,613,900
Treasury bills held-to-maturity	7	251,938,823	241,343,691
Investment securities available-for-sale	8	12,215,324	7,444,820
Investment securities held-to-maturity	9	193,725,179	119,890,480
Loans and advances to customers	10	337,642,482	229,168,373
Property and equipment	11	14,109,572	11,442,960
Intangible assets	12	755,009	631,180
Non - current assets held for sale	13	487,377	57,412
Due from third parties	14	10,483,713	1,318,899
Deferred tax assets	15	-	75,246
Other assets	16	3,330,019	512,831
Total assets		**1,199,676,684**	**857,768,654**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	17	1,126,547,952	798,499,340
Due to banks	18	2,214,031	8,565,519
Deferred tax liabilities	15	78,463	-
Accruals and other liabilities	19	6,269,306	5,176,567
Total liabilities		**1,135,109,752**	**812,241,426**
Shareholders' equity			
Share capital		44,700,000	33,000,000
Translation difference		1,503,706	450,372
Reserves		-	229,877
Retained earnings	20	1,107,471	(62,012)
Net profit for the year		17,255,755	11,908,991
Total shareholders' equity		**64,566,932**	**45,527,228**
Total liabilities and shareholders' equity		**1,199,676,684**	**857,768,654**

The financial statements were authorized for release by the Board of Directors on 08 February 2008.

The accompanying notes 1 to 36 are an integral part of these financial statements

Consolidated income statement for the year ended 31 December 2007

(amounts in USD, unless otherwise stated)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest			
Interest income	21	72,182,463	47,741,886
Interest expense	22	(33,160,431)	(20,630,520)
Net interest margin		**39,022,032**	**27,111,366**
Non-interest income, net			
Fees and commissions, net	23	3,285,568	2,220,678
Foreign exchange revaluation gain (loss), net	24	(1,280,953)	(305,913)
Profit from FX trading activities, net		1,806,241	1,349,241
Other income, net	25	73,790	53,719
Total non-interest income, net		**3,884,646**	**3,317,725**
Operating expenses			
Personnel	26	(7,976,479)	(6,663,253)
Administrative	27	(8,499,452)	(6,514,325)
Depreciation and amortization	11, 12	(2,456,995)	(1,840,529)
Total operating expenses		**(18,932,926)**	**(15,018,107)**
Impairment of loans	10	(2,348,702)	(595,468)
Profit before taxes		**21,625,050**	**14,815,516**
Income tax	28	(4,369,295)	(2,906,525)
Net profit for the year		**17,255,755**	**11,908,991**

The accompanying notes 1 to 36 are an integral part of these financial statements

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

(amounts in USD, unless otherwise stated)

	Share Capital	Translation Difference	Reserves	Retained Earnings	Net profit for the year	Total
Balance at 1 January 2006	**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 2006 year end exchange rate	-	-	-	513,861	-	**513,861**
Increase in share capital	8,355,750	-	-	(8,355,750)	-	-
Adjustment of reserves with 2006 year end exchange rate	-	-	20,950	-	-	**20,950**
Net profit for the year	-	-	-	-	11,908,991	**11,908,991**
Appropriation of 2005 year translation difference	-	277,955	-	(277,955)	-	-
Translation difference for the year	-	450,372	-	-	-	**450,372**
Balance at 31 December 2006	**33,000,000**	**450,372**	**229,877**	**(62,012)**	**11,908,991**	**45,527,228**
Appropriation of prior year net profit	-	-	-	11,908,991	(11,908,991)	-
Adjustment of retained earnings with 2007 year end exchange rate	-	-	-	277,300	-	**277,300**
Increase in share capital	11,700,000	-	(232,820)	(11,467,180)	-	-
Adjustment of reserves with 2007 year end exchange rate	-	-	2,943	-	-	**2,943**
Net profit for the year	-	-	-	-	17,255,755	**17,255,755**
Appropriation of 2006 year translation difference	-	(450,372)	-	450,372	-	-
Translation difference for the year	-	1,503,706	-	-	-	**1,503,706**
Balance at 31 December 2007	**44,700,000**	**1,503,706**	**-**	**1,107,471**	**17,255,755**	**64,566,932**

The accompanying notes 1 to 36 are an integral part of these financial statements

Consolidated cash flow statement for the year ended 31 December 2007

(amounts in USD, unless otherwise stated)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Cash flows from operating activities:			
Profit before taxes		21,625,050	14,815,516
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	22	33,160,431	20,630,520
Interest income	21	(72,182,463)	(47,741,886)
Depreciation and amortization	11, 12	2,456,995	1,840,529
Gain on sale of property and equipment		(5,928)	(4,141)
Deferred tax asset/liabilities		150,254	42,491
Gain on sale of treasury bills available-for-sale		(28,550)	(17,345)
Write-off of property and equipment		2,872	7,408
Impairment of loans	10	2,348,702	595,468
Cash flows from operating profits before changes in operating assets and liabilities		(12,472,637)	(9,831,440)
(Increase)/decrease in operating assets:			
Placements and balances with banks		(53,027,979)	(57,812,087)
Loans and advances to customers		(72,460,653)	(87,997,342)
Other assets		(11,142,044)	(558,230)
		(136,630,676)	(146,367,659)
Increase/(decrease) in operating liabilities:			
Due to customers		195,761,299	181,642,583
Accruals and other liabilities		57,784	353,535
		195,819,083	181,996,118
Interest paid		(27,566,606)	(17,922,457)
Interest received		67,882,468	48,593,129
Income taxes paid		(4,069,446)	(2,654,434)
Net cash flows from operating activities		82,962,186	53,813,257
Cash flows from investing activities			
Purchases of investment securities		(54,715,700)	(41,970,023)
Purchases/(decrease) of treasury bills		9,155,042	4,936,454
Purchases of property and equipment		(3,518,459)	(3,428,792)
Proceeds from sale of property and equipment		8,836	4,112
Proceeds from sale of treasury bills available-for-sale		12,486,374	9,305,335
Net cash used in investing activities		(36,583,907)	(31,152,914)
Cash flows from financing activities			
Proceeds from due to banks		(6,884,319)	7,194,361
Net cash from financing activities		(6,884,319)	7,194,361
Net increase in cash and cash equivalents		**39,493,960**	**29,854,704**
Translation difference		11,915,080	5,480,438
Cash and cash equivalents at the beginning of the year	5	**105,268,862**	**69,933,720**
Cash and cash equivalents at the end of the year	5	**156,677,902**	**105,268,862**

The accompanying notes 1 to 36 are an integral part of these financial statements

Notes to the Financial Statements as of and for the year ended 31 December 2007
(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 various 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.

The Bank, upon the Shareholders Decision taken on 27 April 2007, increased its paid-up capital by USD 11,700,000 by allocation of the balance of retained earnings of Lek 1,065,874,370 and of the remained balance of reserves of Lek 21,640,630 as at 31 March 2007 translated into USD using the exchange rate announced by Bank of Albania as of 27 April 2007 (1USD=92.95 Lek). As a result 1,170,000 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 4,470,000, and the composition is as follows:

	No. of shares	*%*	*Total USD*
Calik/Seker Consortium	2,682,002	60	26,820,020
EBRD	893,999	20	8,939,990
IFC	893,999	20	8,939,990
	4,470,000	**100**	**44,700,000**

The increase of Paid-up Capital was registered in the National Registration Center of Albania on 10 December 2007.

The headquarters of BKT is located in Tirana. Currently in Albania, the Bank has a network of 21 branches, 12 agencies and 4 custom agencies. Seven of branches are in Tirana, while the others are located in Durres, Elbasan, Korca, Gjirokaster, Vlora, Lushnje, Shkodra, Fier, Berat, Pogradec, Saranda, Lezha, Kukes and Peshkopi. Similarly, most of the agencies are in Tirana (five of them), whereas the others are placed in Kamza, Vore, Bilisht, Delvina, Kavaja, Lac and Rreshen followed by custom agencies in Kakavija, Kapshtica, Durres Seaport and Rinas Airport.

2007 was a unique year for BKT, signing the initial international expansion of its network after receiving the approval of final license from CBAK (Central Banking Authority of Kosova) on August 30th for opening of Prishtina Branch, which started its full activity at the beginning of September. In 2007, the Bank opened four other agencies in Albania. The Bank had 519 employees as of December 31, 2007.

2. Adoption of new and revised Standards

2.1 Standards and Interpretations effective in the current period

In the current year, the Bank has adopted IFRS 7 Financial Instruments: Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Bank's financial instruments and management of capital (see note 29.d). Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Bank's accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following Interpretations were in issue but not yet effective:

• IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);

• IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009);

• IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective 1 March 2007);

• IFRIC 12 Service Concession Arrangements (effective 1 January 2008);

• IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008); and,

• IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008).

The directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

3. Summary of accounting principles

3.1 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.

3.2 Basis of preparation

The financial statements are presented in US Dollars (“USD”). The functional currency used in preparing the financial statements is Albanian Lek (“ALL”). They are prepared on the historical cost basis except for the revaluation of certain financial instruments.

The principal accounting policies are set out below.

3.3 Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities (branches) controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.
On September 3, 2007 BKT opened its first branch outside of the territory of the Republic of Albania. This branch was opened in Prishtina, Kosova.

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

3.4 Foreign currency

a) Presentation currency

The Bank has chosen to present its financial statements in USD, 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.

b) 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”.

3.4 Foreign currency (continued)

b) Foreign currency transaction (continued)

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.

c) 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 3.4 b) above; and
- all resulting exchange differences are recognised as a separate component of equity in the "Translation difference" account.

3.5 Financial assets

(i) Recognition

Held-to-maturity investments, available-for-sale financial assets and originated loans and receivables are recognised on the day they are transferred to the bank and are initially measured at fair value, plus transaction costs.

(ii) Classification

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for held-to-maturity instruments, available-for-sale, and loans and receivables.

3.5 Financial assets (continued)

(ii) Classification (continued)

Held – to- maturity investments

Treasury bills and debt investments with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as *held- to-maturity* investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized to income through interest income in the income statement based on the effective interest rate of the instrument, when applicable.

Available-for-sale financial assets

Certain bills and debentures held by the Bank are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in Note 30. Gains and losses arising form changes in fair value are recognized directly in investment revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit and loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investment revaluation reserve is included in profit or loss for the period.

Loans and receivables

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. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iii) 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 2% of the total held-to-maturity portfolio of Treasury Bills.

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.

3.5 Financial assets (continued)

iii) Specific instruments (continued)

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 3.6).

(iv) 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. Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

(v) Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount and any impairment loss of that asset is determined, based on the net present value of future anticipated cash flows, and is recognized for the difference between the recoverable amount and the carrying amount as follows.

3.6 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.

3.7 Financial liabilities

Due to banks and customer deposit balances are classified as liabilities measured at amortized cost. These financial liabilities are initially measured at fair value, net of transaction costs. Due to banks and customer deposits are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. A financial liability is derecognised when it is extinguished.

3.8 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.

3.9 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.

3.10 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.

3.11 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.

3.12 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.

3.12 Taxation (continued)

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.

3.13 Pension plan

The Bank has created a fully employer sponsored pension plan fund (refer to note 19 “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 yearly budgeted personnel salary 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.

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.

3.14 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%

3.15 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%.

3.16 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.

3.17 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.

3.18 Non- current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.19 Comparatives

Where necessary comparative figures have been adjusted to conform with changes in the presentation in the current year.

- As at December 31, 2007, the total amount of capital equivalency deposit, amounting to USD 7,345,880 (2006: USD 6,577,969) has been reclassified to cash and balances with Central Bank.
- As at December 31, 2007, the total amount of non-current assets held for sale, amounting to USD 487,377 (2006: USD 57,412) has been reclassified from other assets to a separate line.
- As at December 31, 2007, the total amount of due from third parties, amounting to USD 10,483,713 (2006: USD 1,318,899) has been reclassified from other assets to a separate line.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

a) Impairment losses on loans to customers

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Held-to maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortized cost. The estimation of the fair value of treasury bills and investments held to maturity is disclosed in note 30.

5. Cash and balances with the Central Bank

Cash and balances with the Central Bank as of December 31, 2007 and 2006, are detailed as follows:

	31 December 2007	*31 December 2006*
Cash in hand	28,741,465	29,722,867
Capital equivalency deposit	8,600,352	6,577,969
Bank of Albania		
Current account	20,210,548	64,718
Statutory reserve	99,039,955	68,859,908
Accrued interest	85,582	43,400
	119,336,085	68,968,026
	156,677,902	**105,268,862**

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, which during the month can be decreased up to 80% of its level, provided that the monthly average is obtained.

Capital equivalency deposit represents mostly the amount placed with Central Banking Authority of Kosovo, in order to obtain the license for Kosovo Branch, opened in 2007.

Notes to the Financial Statements as of and for the year ended 31 December 2007

(amounts in USD, unless otherwise stated)

6. Placements and balances with banks

Placements and balances with banks as of December 31, 2007 and December 31, 2006 consisted as follows:

	31 December 2007	*31 December 2006*
Placements	213,983,812	133,622,895
Cash collateral held by correspondent banks and financial institutions	1,383,197	769,570
Current accounts	1,856,221	5,901,840
Accrued interest	1,088,054	319,595
	218,311,284	**140,613,900**

Placements are held with non-resident banks from OECD countries and have contractual maturities up to 8 months. Current accounts represent balances with correspondent banks in the OECD countries.

Cash collateral represents mostly collateral held by correspondent banks and financial institutions against letters of credit issued to the Bank's clients by the correspondent banks and some cash deposit for the security of risks, which might rise from the credit cards activity of the Bank.

7. Treasury bills held-to-maturity

Treasury bills bear interest at market rates ranging from 6.46% p.a. to 8.76% p.a. on a compound basis and are all denominated in Lek. Treasury bills by original maturity are presented as follows:

	31 December 2007			*31 December 2006*		
	Purchase Value	Amortized discount	Amortized cost	Purchase value	Amortized discount	Amortized cost
3 months	5,437,510	12,005	5,449,515	9,554,877	84,409	9,639,286
6 months	26,007,482	594,012	26,601,494	78,540,303	1,354,935	79,895,238
12 months	213,486,226	6,401,588	219,887,814	148,327,170	3,481,997	151,809,167
	244,931,218	**7,007,605**	**251,938,823**	**236,422,350**	**4,921,341**	**241,343,691**

As of December 31, 2007, the fair value of the Treasury bills portfolio was USD 251,604,543, which is lower than carrying value by USD 334,280, while as of December 31, 2006, the fair value of the Treasury bills portfolio was USD 240,616,431, which was lower than carrying value by USD 727,260.

8. Investment securities available-for-sale

Investment securities available-for-sale comprise two Lek denominated bonds as of December 31, 2007 as follows:

	31 December 2007				
Issuer	**Nominal value**	**Unamortized discount**	**Accrued interest**	**Net value**	**Maturity date**
Lek Denominated Bond					
Government of Albania	8,444,927	(7,524)	25,311	8,462,714	18 December 2008
Government of Albania	3,619,255	(3,493)	136,848	3,752,610	17 January 2009
	12,064,182	**(11,017)**	**162,159**	**12,215,324**	

Notes to the Financial Statements as of and for the year ended 31 December 2007
(amounts in USD, unless otherwise stated)

9. Investment securities held-to-maturity

Investment securities held-to-maturity comprise only one USD and Lek denominated bonds (with two, three, five and seven year original maturity) as of December 31, 2007 as follows:

	31 December 2007					
Issuer	**Nominal Value**	**Unamortized Premium / (Discount)**	**Accrued interest**	**Net Value**	**Maturity Date**	**S & P / Moody's Bond Rating**
USD Denominated Bonds						
Republic of Turkey	5,000,000	(41,339)	26,111	4,984,772	15 June 2010	BB-
	5,000,000	**(41,339)**	**26,111**	**4,984,772**		
Lek Denominated Bonds						
Government of Albania	1,206,418	(35)	42,607	1,248,990	18 January 2008	B1
Government of Albania	18,096,272	13930	507,048	18,617,250	20 February 2008	B1
Government of Albania	5,428,882	(2,053)	103,571	5,530,400	20 March 2008	B1
Government of Albania	1,809,627	696	13,834	1,824,157	18 May 2008	B1
Government of Albania	4,825,673	(3,763)	9,973	4,831,883	19 June 2008	B1
Government of Albania	2,412,836	(12,431)	38,163	2,438,568	18 October 2008	B1
Government of Albania	2,412,836	-	23,083	2,435,919	20 November 2008	B1
Government of Albania	4,825,673	7,595	145,977	4,979,245	19 February 2009	B1
Government of Albania	2,412,836	(9,810)	38,897	2,441,923	18 April 2009	B1
Government of Albania	3,016,046	-	8,931	3,024,977	18 June 2009	B1
Government of Albania	2,412,836	-	71,118	2,483,954	20 August 2009	B1
Government of Albania	1,206,418	(3,778)	27,687	1,230,327	19 September 2009	B1
Government of Albania	603,209	126	12,104	615,439	05 April 2008	B1
Government of Albania	24,128,363	26,181	556,226	24,710,770	05 October 2008	B1
Government of Albania	1,809,627	(8,309)	70,777	1,872,095	05 January 2009	B1
Government of Albania	1,809,627	(2,516)	61,929	1,869,040	05 July 2009	B1
Government of Albania	19,302,690	(182,505)	378,118	19,498,303	05 October 2009	B1
Government of Albania	4,825,673	(17,455)	205,252	5,013,470	05 January 2010	B1
Government of Albania	4,825,673	10,707	198,174	5,034,554	05 July 2010	B1
Government of Albania	8,444,927	(70,814)	173,496	8,547,609	05 October 2010	B1
Government of Albania	13,270,600	-	203,502	13,474,102	08 November 2011	B1
Government of Albania	16,889,854	-	675,704	17,565,558	09 February 2012	B1
Government of Albania	9,651,345	-	139,660	9,791,005	08 May 2012	B1
Government of Albania	25,334,781	-	359,784	25,694,565	08 November 2012	B1
Government of Albania	2,412,836	-	34,386	2,447,222	08 November 2012	B1
Government of Albania	1,508,023	-	11,059	1,519,082	07 December 2014	B1
	184,883,581	**(254,234)**	**4,111,060**	**188,740,407**		
	189,883,581	**(295,573)**	**4,137,171**	**193,725,179**		

As of December 31, 2007, the fair value of the entire bond portfolio was USD 195,010,027, which exceeds the carrying value by USD 1,284,848, while as of December 31, 2006 the fair value of the total bond portfolio was USD 120,618,556, which exceeded the carrying value by USD 728,076. Thirteen of the Lek bonds issued by the Government of Albania have been purchased during 2007, totalling to a face value of USD 88 million.

10. Loans and advances to customers

Loans and advances to customers consisted of the following:

	31 December 2007	*31 December 2006*
Loans and advances to customers, gross	341,514,259	231,243,051
Accrued interest	2,524,949	1,447,227
Less allowances for impairment on loans and advances	(4,168,553)	(1,414,258)
Less unamortized deferred fee income	(2,228,173)	(2,107,647)
	337,642,482	**229,168,373**

Movements in the allowance for impairment on loans and advances:

	2007	*2006*
At 1 January	1,414,258	721,402
Impairment charge for the year	2,348,702	595,468
Translation difference	405,593	97,388
At the end of the year	**4,168,553**	**1,414,258**

As of December 31, 2007, the Bank's loans in arrears for more than 30 days totalled USD 7,950,388 (2006: USD 3,804,660). All loans are secured by mortgages and personal guarantees.

As of December 31, 2007 the breakdown of the loan portfolio is as follows:

Individuals	60.0%
Private Enterprises	37.0%
Public Enterprises	2.8%
Structured Finance	0.2%

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

All the loans are in Lek, Euro, USD and CHF and bear interest at the following rates:

Loans in Lek	1.10% to 20.00%
Loans in Euro	2.00% to 15.49%
Loans in USD	5.84% to 16.00%
Loans in CHF	4.99% to 8.49%

Notes to the Financial Statements as of and for the year ended 31 December 2007
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10. Loans and advances to customers (continued)

The classification of loans is as follows:

Corporate loans by industry	31 December 2007		31 December 2006	
	USD	%	USD	%
Wholesale Trade	51,414,658	21%	33,374,376	20%
Construction	45,164,142	19%	21,219,352	13%
Hotels and Restaurants	24,296,651	10%	16,811,915	10%
Retail Trade	19,211,306	8%	11,784,117	7%
Other Community, Social and Personal Activities	17,428,342	7%	7,489,069	5%
Manufacturing of Other Non-metallic Products	14,530,063	6%	11,534,130	7%
Real Estate, Renting and Business Activity	10,917,500	5%	8,055,922	5%
Manufacture of Food Products, Beverages	9,125,845	4%	5,015,964	3%
Personal Needs	9,034,208	4%	16,058,542	10%
Manufacture of Wood and Wood Products	6,929,790	3%	5,198,677	3%
Manufacturing of Basic Metallic	5,521,995	2%	8,242,609	5%
Manufacture of Rubber and Plastic Products	5,033,350	2%	2,277,039	1%
Education	4,362,311	2%	2,435,116	2%
Financial Intermediation	2,520,415	1%	2,826,462	2%
Transport, Storage and Communication	2,186,994	1%	1,908,676	1%
Manufacture of Textile and Textile Products	1,952,878	1%	1,795,761	1%
Manufacture of Pulp, Paper & Paper Products	1,648,357	1%	1,153,618	1%
Other Sectors	7,676,739	3%	5,864,427	4%
	238,955,544	**100%**	**163,045,772**	**100%**

Retail loans by type	31 December 2007		31 December 2006	
	USD	%	USD	%
Home purchase	58,069,075	57%	38,747,601	57%
Home improvement	11,215,160	11%	6,555,211	10%
Home reconstruction	9,626,683	9%	6,428,360	9%
Super Loan	9,207,249	9%	5,913,638	9%
Home advances	6,385,558	6%	5,117,261	7%
Shop purchase	5,464,569	5%	3,306,501	5%
Overdraft & credit cards	1,022,425	1%	198,934	-
Car purchase	979,408	1%	1,256,156	2%
Other types	588,588	1%	673,617	1%
	102,558,715	**100%**	**68,197,279**	**100%**

Notes to the Financial Statements as of and for the year ended 31 December 2007
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11. Property and equipment

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

	Land and buildings	Plant and equipment	IT Equipment	Office equipment	Total
Gross value					
At 1 January 2006	**10,379,692**	**1,616,464**	**3,851,750**	**474,235**	**16,322,141**
Additions	1,094,921	433,351	1,780,257	89,369	**3,397,898**
Disposals / transfers	-	(45,493)	(31,092)	-	**(76,585)**
Translation difference	1,040,836	162,093	386,238	47,554	**1,636,721**
At 31 December 2006	**12,515,449**	**2,166,415**	**5,987,153**	**611,158**	**21,280,175**
Additions	755,785	885,816	1,664,983	117,011	**3,423,595**
Disposals / transfers	-	(77,742)	(120,852)	(157)	**(198,751)**
Translation difference	1,698,622	294,030	812,588	82,947	**2,888,187**
At 31 December 2007	**14,969,856**	**3,268,519**	**8,343,872**	**810,959**	**27,393,206**
Accumulated depreciation					
At 1 January 2006	**(3,377,382)**	**(954,320)**	**(2,834,111)**	**(319,614)**	**(7,485,427)**
Charge for the year	(486,841)	(270,687)	(748,641)	(97,202)	**(1,603,371)**
Disposals / write offs	-	38,488	31,092	-	**69,580**
Translation difference	(358,389)	(106,613)	(317,005)	(35,990)	**(817,997)**
At 31 December 2006	**(4,222,612)**	**(1,293,132)**	**(3,868,665)**	**(452,806)**	**(9,837,215)**
Charge for the year	(570,659)	(377,025)	(1,105,329)	(71,962)	**(2,124,975)**
Disposals / write offs	-	73,603	120,852	-	**194,455**
Translation difference	(622,809)	(209,039)	(615,313)	(68,738)	**(1,515,899)**
At 31 December 2007	**(5,416,080)**	**(1,805,593)**	**(5,468,455)**	**(593,506)**	**(13,283,634)**
Net book value					
At 31 December 2006	**8,292,837**	**873,283**	**2,118,488**	**158,352**	**11,442,960**
At 31 December 2007	**9,553,776**	**1,462,926**	**2,875,417**	**217,453**	**14,109,572**

Notes to the Financial Statements as of and for the year ended 31 December 2007
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12. Intangible assets

Intangible assets at December 31, 2007 and 2006 are composed as follows:

	Software
Gross value	
At 1 January 2006	**1,652,794**
Additions	170,747
Translation difference	165,736
At 31 December 2006	**1,989,277**
Additions	401,847
Translation difference	269,989
At 31 December 2007	**2,661,113**
Accumulated depreciation	
At 1 January 2006	**(1,013,018)**
Charge for the year	(237,158)
Translation difference	(107,921)
At 31 December 2006	**(1,358,097)**
Charge for the year	(332,020)
Translation difference	(215,987)
At 31 December 2007	**(1,906,104)**
Net book value	
At 31 December 2006	**631,180**
At 31 December 2007	**755,009**

Software represents mostly the Bank's operating and accounting system implemented during 2001, which was upgraded during the first half of 2005, followed by the license purchase for additional number of users during 2007.

13. Non – current assets held for sale

This item includes the collateral values of some unrecoverable loans totalling to USD 487,377 (2006: USD 57,412), the ownership of which, was taken on behalf of the Bank. The values of these assets are reappraised on a regular basis and the Bank has in place an Asset Sale Committee, which deals with the sale process of these kinds of assets.

14. Due from third parties

The Bank acts as an agent for the tax authorities either in the collection of taxes or in performing advance payments for the budget. In return, the Bank charges a commission to the taxpayers for the service rendered. The balance as at December 31, 2007 at USD 10,483,713 (2006: USD 1,318,899) 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.

15. Deferred tax assets (liabilities)

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 20% (2006: 20%). The movement on the deferred income tax account is as follows:

	31 December 2007	*31 December 2006*
Balance at 1 January	75,246	108,631
Income statement benefit/(expense)	(150,254)	(42,491)
Exchange differences	(3,455)	9,106
Balance at the end of the year	**(78,463)**	**75,246**

Deferred income tax assets (liabilities) are attributable to the following items:

	31 December 2007	*31 December 2006*
Deferred income on fees on loans	445,635	421,529
Allowance for loan impairment	(862,654)	(609,500)
Decelerated depreciation	320,643	235,856
Start up costs written off	17,913	27,361
	(78,463)	**75,246**

16. Other assets

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

	31 December 2007	*31 December 2006*
Cheques for collection and payments in transit	42,328	4,333
Inventory	5,102	8,290
Spot transactions revaluation gain	245,595	13,585
Other debtors, net	3,036,994	486,623
	3,330,019	**512,831**

"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.

Other debtors is composed as follows:

	31 December 2007	*31 December 2006*
Other debtors	3,039,648	489,277
Provision	(2,654)	(2,654)
	3,036,994	**486,623**

"Other debtors" are composed of three items. The first item of USD 348,953 (2006: USD 113,175) consists mostly of USD 298,204 (2006: USD 69,715), which is continuously recoverable from the credit clients of the bank and of USD 29,943, which is fully cash collateralised. The other two items represent advance payments to suppliers (due to head office reconstruction and opening of new branches) of USD 2,237,768 (2006: USD 302,018) and prepaid expenses of USD 452,927 (2006: USD 74,084).

Notes to the Financial Statements as of and for the year ended 31 December 2007
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16. Other assets (continued)

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

	2007	*2006*
At 1 January	2,654	6,270
Additions during the year	-	-
Reversals during the year	-	(3,883)
Translation difference	-	267
At the end of the year	**2,654**	**2,654**

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

17. Customer deposits

Customer deposits as of December 31, 2007 and 2006 are composed as follows:

	31 December 2007	*31 December 2006*
Current accounts:		
Individuals	39,349,356	24,014,173
Private enterprises	90,321,721	63,404,256
State owned entities	69,097,157	45,726,772
	198,768,234	**133,145,201**
Deposits:		
Individuals	825,377,085	573,609,141
Private enterprises	48,967,285	34,848,599
State owned entities	34,880,962	24,003,773
	909,225,332	**632,461,513**
Other customer accounts:		
Individuals	6,430,380	16,813,958
Private enterprises	11,399,469	15,022,040
State owned entities	724,537	1,056,628
	18,554,386	**32,892,626**
	1,126,547,952	**798,499,340**

Notes to the Financial Statements as of and for the year ended 31 December 2007
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17. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

	31 December 2007			*31 December 2006*		
	Local currency	*Foreign currency*	*Total*	*Local currency*	*Foreign currency*	*Total*
Current accounts	**138,935,168**	**59,833,066**	**198,768,234**	**87,322,020**	**45,823,181**	**133,145,201**
Deposits						
On demand	42,892	124,288	**167,180**	97,223	177,569	**274,792**
One month	30,924,207	53,162,205	**84,086,412**	20,970,168	45,936,186	**66,906,354**
Three months	66,693,976	76,672,907	**143,366,883**	68,000,532	45,737,629	**113,738,161**
Six months	116,027,878	61,730,362	**177,758,240**	100,043,119	36,791,090	**136,834,209**
Twelve months	277,821,333	140,750,746	**418,572,079**	191,115,507	75,183,509	**266,299,016**
Two years and over	51,310,574	17,709,583	**69,020,157**	31,548,307	7,925,176	**39,473,483**
Accrued interest on deposits	12,144,379	4,110,002	**16,254,381**	7,086,730	1,848,768	**8,935,498**
Total deposits	**554,965,239**	**354,260,093**	**909,225,332**	**418,861,586**	**213,599,927**	**632,461,513**
Other customer accounts	**12,272,560**	**6,281,826**	**18,554,386**	**16,839,523**	**16,053,103**	**32,892,626**
Total customer deposits	**706,172,967**	**420,374,985**	**1,126,547,952**	**523,023,129**	**275,476,211**	**798,499,340**

Other customer accounts are composed as follows:

	31 December 2007			*31 December 2006*		
	Local currency	*Foreign currency*	*Total*	*Local currency*	*Foreign currency*	*Total*
Deposits from liquidation of Xhaferi Foundation	1,085,776	25,241	**1,111,017**	957,828	23,706	**981,534**
Deposit guarantees for letters of credit	-	626,582	**626,582**	-	366,382	**366,382**
Escrow accounts	9,008,477	2,531,262	**11,539,739**	13,696,027	12,594,064	**26,290,091**
Bank drafts	-	8,051	**8,051**	-	6,309	**6,309**
Payment orders to be executed	60,416	178,155	**238,571**	20,944	332,563	**353,507**
Other	2,117,891	2,912,535	**5,030,426**	2,164,724	2,730,079	**4,894,803**
	12,272,560	**6,281,826**	**18,554,386**	**16,839,523**	**16,053,103**	**32,892,626**

"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 Financial Statements as of and for the year ended 31 December 2007
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18. Due to banks

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

	31 December 2007	*31 December 2006*
Deposits from resident banks	-	2,627,561
Current accounts of non resident banks	2,192,226	5,921,750
Current accounts of resident banks	21,805	16,208
	2,214,031	**8,565,519**

19. Accruals and other liabilities

A breakdown of accruals and other liabilities as of December 31, 2007 and 2006 is presented as follows:

	31 December 2007	*31 December 2006*
Creditors	1,864,538	1,842,012
Transit account	470,911	326,548
Reserve fund for retiring employees	1,016,894	726,888
Due to tax authorities	581,929	603,642
Social insurance	101,698	78,816
Accrued expenses	1,123,049	732,975
Other	1,110,287	865,686
	6,269,306	**5,176,567**

“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.

“Transit account” represents the undefined customer accounts that are cleared within a couple of days after the end of the year.

“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 3.13.

“Accrued expenses” includes USD 427,728 (2006: USD 303,729) of deposit insurance premium due for the last quarter of 2007 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.

Also, included in accrued expenses is the amount of USD 695,321 (2006: USD 429,246), which represent the accrued yearly performance bonus for management and branch/agency managers planned to be paid within the 1st quarter of 2008.

“Other” consists of two items. The first item of USD 1,038,510 (2006: USD 827,989) are payments due to construction companies in relation to semi finished home loans and the second item of USD 71,777 (2006: USD 37,697) represents cash guarantees received from the suppliers.

Notes to the Financial Statements as of and for the year ended 31 December 2007
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20. Retained earnings

Retained earnings represent the balance of earnings from 2006 year's profit. As described in note 1, the Bank has used its statutory retained earnings amounting to Lek 1,065,874,370 or USD 11,467,180 to increase its share capital on 27 April 2007.

21. Interest income

Interest income is composed as follows:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Treasury bills and investment securities	30,810,956	23,566,667
Placements with banks and balances with Central Bank	12,243,505	7,552,893
Loans and advances to customers	29,128,002	16,622,326
	72,182,463	**47,741,886**

Interest income can be further analysed as follows:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Available-for-sale financial assets	920,153	206,968
Held-to-maturity investments	42,134,308	30,912,592
Loans and receivables	29,128,002	16,622,326
	72,182,463	**47,741,886**

Interest income on impaired loans for the year ended December 31, 2007 was USD 148,756 (2006: USD 52,298).

22. Interest expense

Interest expense raised from financial liabilities measured at amortized cost is composed as follows:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Due to banks	499,506	314,720
Customer deposits	32,660,925	20,315,800
	33,160,431	**20,630,520**

Notes to the Financial Statements as of and for the year ended 31 December 2007
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23. Fees and commissions, net

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

	Year ended 31 December 2007	***Year ended 31 December 2006***
Fee and commission income		
Lending activity	1,013,536	816,026
Payment services to clients	1,371,124	806,733
Customer accounts' maintenance	490,575	332,554
Cash transactions with clients	261,133	249,856
Card transactions	130,902	17,109
Inter bank transactions	67,628	42,884
Other fees and commissions	49,014	38,986
	3,383,912	2,304,148
Fee and commission expense		
Inter bank transactions	431	2,260
Customer accounts' maintenance	89,960	77,635
Payment services to clients	7,953	3,575
	98,344	83,470
Fees and commissions, net	**3,285,568**	**2,220,678**

24. 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 3.4 it also includes the revaluation of the Bank's share capital. The revaluation gain on this item for the year ended December 31, 2007 is USD 5,406,967 (2006: USD 2,627,003).

25. Other income, net

Other income and expenses are composed as follows:

	Year ended 31 December 2007	***Year ended 31 December 2006***
Other income		
Reversal of other debtors provisions	-	3,883
Gain on sale of fixed assets	12,131	4,141
Sundry	65,840	53,131
	77,971	61,155
Other expense		
Write off of fixed assets	4,131	7,408
Sundry	50	28
	4,181	7,436
Other income, net	**73,790**	**53,719**

Notes to the Financial Statements as of and for the year ended 31 December 2007
(amounts in USD, unless otherwise stated)

26. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Salaries	5,307,043	4,143,715
Performance bonus	1,366,850	1,438,551
Social insurance	706,797	694,087
Reserve fund for retiring employees	245,034	188,989
Training	226,784	161,577
Life insurance	5,774	4,824
Other	118,197	31,510
	7,976,479	**6,663,253**

27. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Marketing expenses	1,738,242	1,507,983
Telephone, electricity and IT expenses	1,609,359	1,204,434
Deposit insurance expense	1,572,156	1,166,833
Security and insurance expenses	643,944	562,396
Repairs and maintenance	585,656	405,241
Transportation and business related travel	521,589	482,622
Lease payments	504,850	319,835
Credit/debit cards expenses	473,728	299,119
Office stationery and supplies	295,289	234,418
Other external services (including external audit fees)	259,962	124,337
Representation expenses	166,408	119,096
Taxes other than tax on profits	37,560	32,716
Sundry	90,709	55,295
	8,499,452	**6,514,325**

28. Income tax

Income tax is comprised of:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Current income tax	4,219,041	2,864,034
Deferred tax loss (note 15)	150,254	42,491
	4,369,295	**2,906,525**

28. Income tax (continued)

Income tax in Albania is assessed at the rate of 20% (2006: 20%) of taxable income. The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Year ended 31 December 2007	*Year ended 31 December 2006*
Profit before taxes	**21,625,050**	**14,815,516**
Computed tax using applicable tax rate	4,325,010	2,963,103
Non tax deductible expenses	134,885	104,654
Start up costs amortized for tax purposes	(16,420)	(26,256)
Foreign exchange difference	(74,180)	(134,976)
Income tax	**4,369,295**	**2,906,525**

29. 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 credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risk.

(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 EUR 1,000,000 (2006: 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.

Maximum credit exposure
Maximum exposures to credit risk before collateral and other credit enhancements as of December 31, 2007 and 2006 are as follows:

	31 December 2007	*31 December 2006*
Treasury bills and other eligible bills	251,938,823	241,343,691
Due from other banks	218,311,284	140,613,900
Loans and advances to customers (net)	337,162,074	229,168,373
Investment securities - available for sale	12,215,324	7,444,820
Investment securities - held to maturity	193,725,179	119,890,480
Financial guarantees	15,823,265	26,256,641
Standby letters of credit	3,242,086	365,650
Commitments to extend credit	13,193,276	9,161,456
Maximum exposures to credit risk	**1,045,611,311**	**774,245,011**

Notes to the Financial Statements as of and for the year ended 31 December 2007
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29. Financial risk management (continued)

(a) Credit Risk:

Impaired loans and securities
Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded A to D in the Bank's internal credit risk grading system.

Risk Committee is engaged with the grading of the customers and their scoring according to the proper categories. It decides the changes on grading and takes the necessary operations according to the monitoring procedures. The risk committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

Past due but not impaired loans
Loans and securities, where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment
The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. It consists in the specific loss component that relates to individually significant exposures. Refer to note 4.a.

Write-off policy
The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Bank of Albania "On Credit Risk Management". The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

	Loans and advances to customers			
31 December 2007	**Retail**	**Corporate**	**Advances**	**Total Loans**
Neither past due nor impaired	87,644,163	222,894,018	5,762,361	316,300,542
Past due but not impaired	1,021,020	790,267	40,911	1,852,198
Individually impaired	7,507,974	15,271,259	582,286	23,361,519
Total Loans, Gross	**96,173,157**	**238,955,544**	**6,385,558**	**341,514,259**
Less: allowance for individually impaired loans	2,472,577	1,112,083	583,893	4,168,553
Total Loans, Net of impairment	**93,700,580**	**237,843,461**	**5,801,665**	**337,345,706**

Notes to the Financial Statements as of and for the year ended 31 December 2007
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29. Financial risk management (continued)

(a) Credit Risk:

	Loans and advances to customers			
31 December 2006	**Retail**	**Corporate**	**Advances**	**Total Loans**
Neither past due nor impaired	61,352,764	156,339,612	4,820,206	222,512,582
Past due but not impaired	16,802	-	-	16,802
Individually impaired	1,710,452	6,706,160	297,055	8,713,667
Total Loans, Gross	**63,080,018**	**163,045,772**	**5,117,261**	**231,243,051**
Less: allowance for individually impaired loans	378,658	733,914	301,686	1,414,258
Total Loans, Net of impairment	**62,701,360**	**162,311,858**	**4,815,575**	**229,828,793**

Set out below is an analysis about the credit quality of corporate loans and advances to customers:

Rating	*31 December 2007*	*31 December 2006*
A - Good	7,544,109	20,075,816
B - Acceptable	215,807,685	137,300,668
C - Close Monitoring	12,753,024	4,189,606
D - Unacceptable	2,850,726	1,479,682
Total	**238,955,544**	**163,045,772**

Set out below are the carrying amount of loans and advances to customers whose term have been renegotiated:

	Loans and advances to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
As at 31 December 2007	110,810	3,032,473	-	3,143,283
As at 31 December 2006	110,370	210,642	-	321,012

Set out below is the ageing analysis of all past due loans either impaired or not impaired individually:

	Loans and advances to customers			
31 December 2007	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 30 days	1,915,435	2,078,433	149,157	4,143,025
Past due 31-60 days	612,296	218,251	74,284	904,831
Past due 61-90 days	600,798	856,256	79,543	1,536,597
Past due 91-180 days	720,053	991,502	-	1,711,555
Past due 180 days- 365 days	653,125	1,374,112	62,034	2,089,271
Past due 1-2 years	163,838	662,858	-	826,696
Past due over 2 years	30,340	590,800	-	621,140
Total	**4,695,885**	**6,772,212**	**365,018**	**11,833,115**

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29. Financial risk management (continued)

(a) Credit Risk:

31 December 2006	*Loans and advances to customers* Retail	Corporate	Advances	Total Loans
Past due up to 30 days	158,915	-	176,458	335,373
Past due 31-60 days	199,858	379,700	-	579,558
Past due 61-90 days	38,559	29,048	-	67,607
Past due 91-180 days	165,721	1,110,344	66,531	1,342,596
Past due 180 days- 365 days	108,865	298,693	-	407,558
Past due 1-2 years	190,524	941,436	-	1,131,960
Past due over 2 years	-	179,412	-	179,412
Total	**862,442**	**2,938,633**	**242,989**	**4,044,064**

Set out below is an analysis of collateral and credit enhancement obtained during the years:

31 December 2007	*Loans and advances to customers* Retail	Corporate	Advances	Total Loans
Residential, commercial or industrial property	211,321,550	457,732,748	-	669,054,298
Financial assets	2,267,254	54,198,107	-	56,465,361
Other	17,874,366	19,287,546	-	37,161,912
Total	**231,463,170**	**531,218,401**	**-**	**762,681,571**

31 December 2006	*Loans and advances to customers* Retail	Corporate	Advances	Total Loans
Residential, commercial or industrial property	134,993,075	270,629,148	-	405,622,223
Financial assets	738,293	27,624,485	-	28,362,778
Other	10,111,929	56,820,090	-	66,932,019
Total	**145,843,297**	**355,073,723**	**-**	**500,917,020**

Credit quality of other financial assets is detailed as follows:

31 December 2007	Treasury bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Total
Good	251,938,823	218,311,284	12,215,324	193,725,179	676,190,610
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**251,938,823**	**218,311,284**	**12,215,324**	**193,725,179**	**676,190,610**

31 December 2006	Treasury bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Total
Good	241,343,691	140,613,900	7,444,820	119,890,480	509,292,891
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**241,343,691**	**140,613,900**	**7,444,820**	**119,890,480**	**509,292,891**

29. Financial risk management (continued)

(b) Liquidity risk:

Liquidity risk is the current and prospective risk to earnings or capital arising from Bank's inability to meet its obligations when they come due without incurring unacceptable losses. The purpose of Liquidity Risk Management (LRM) is to make sure that Bank is able to meet all payment obligations when they come due, without incurring unacceptable losses. Bank's LRM policy includes how the Bank identifies, measures, monitors and control that risk.

Organization of LRM: Bank's LRM Organization includes two different bodies into the monitoring and management of liquidity. The involvement of different bodies guarantees clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to Treasury Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to Risk Management Group. The main purpose of the Risk Management Group, which conducts daily overview of LRM reports, is to provide early warning signal of liquidity risk to the top management of Bank.

LRM Reports: Bank's LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under business as usual scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows/outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity. An analysis of the Bank's expected timing of cash flows by simple remaining maturity is shown in note 31.

(c) Market risk:

1) 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 and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions. The Bank's net open foreign currency position and sensitivity analysis based on reasonably possible changes in foreign exchange rates against local currency at December 31, 2007 and 2006 are shown in note 32.

2) 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. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the balance sheet date were outstanding for the whole year. The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in note 33.

29. Financial risk management (continued)

(d) Capital management:

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Regulatory capital
The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 9662 date 18.12.2006 "On Banks in the Republic of Albania".

Capital Adequacy Ratio
The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and off balance-sheet items, expressed as a percentage. The minimum Capital Adequacy Ratio required by Bank of Albania is 12%, whereas the Bank's internal operations covenants requires a minimum ratio of 15%.

The Modified Capital Adequacy Ratio is the proportion of the base capital to risk-weighted assets and off balance-sheet items, expressed as a percentage. The minimum modified capital adequacy is 6%.

Risk-Weighted Assets (RWAs)
Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments with Bank of Albania have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that capital equal to 12% of the carrying amount must support it.
Off-balance-sheet credit related commitments are taken into account. The amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

Compliance
The Bank and its individually regulated operations have complied with all internally and externally imposed capital requirements throughout the period.

30. 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 December 31, 2007, the fair value of the Treasury bills portfolio was USD 251,604,543 (2006: USD 240,616,431), which is lower than the carrying amount by USD 334,280 (2006: lower by USD 727,260).

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 December 31, 2007, the fair value of the entire bond portfolio was USD 195,010,027 (2006: USD 120,618,556), which exceeds the carrying amount by USD 1,284,848 (2006: USD 728,076).

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.

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, mostly because of their short-term nature and underlying interest rates, which approximate market rates.

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31. Liquidity risk

As of December 31, 2007, 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	156,677,902	-	-	-	-	156,677,902
Placement and balances with banks	76,679,526	63,468,743	77,529,817	633,198	-	218,311,284
Treasury bills held-to-maturity	24,987,931	32,566,719	194,384,173	-	-	251,938,823
Investment securities available-for-sale	-	-	8,462,714	3,752,610	-	12,215,324
Investment securities held-to-maturity	1,248,989	24,147,649	36,856,736	129,952,723	1,519,082	193,725,179
Loans and advances to customers	13,903,680	25,985,869	74,764,128	129,701,122	93,287,683	337,642,482
Property and equipment	-	-	-	4,555,797	9,553,775	14,109,572
Intangible assets	-	-	-	755,009	-	755,009
Non current assets held for sale	-	-	487,377	-	-	487,377
Due from third parties	10,483,713					10,483,713
Other assets	3,330,019	-	-	-	-	3,330,019
Total assets	**287,311,760**	**146,168,980**	**392,484,945**	**269,350,459**	**104,360,540**	**1,199,676,684**
Liabilities and shareholders' equity						
Customer deposits	428,507,955	213,831,714	433,118,753	51,089,530	-	1,126,547,952
Due to banks	2,214,031	-	-	-	-	2,214,031
Deferred tax liabilities	-	-	-	78,463	-	78,463
Accruals and other liabilities	5,252,411	-	-	-	1,016,895	6,269,306
Shareholders' equity	-	-	-	-	64,566,932	64,566,932
Total liabilities and shareholders' equity	**435,974,397**	**213,831,714**	**433,118,753**	**51,167,993**	**65,583,827**	**1,199,676,684**
Net Position	**(148,662,637)**	**(67,662,734)**	**(40,633,808)**	**218,182,466**	**38,776,713**	**-**
Cumulative Net Position	**(148,662,637)**	**(216,325,371)**	**(256,959,179)**	**(38,776,713)**	**-**	**-**

As explained in note 29.b, the new LRM approach of the Bank implemented in 2007 resulted to positive liquidity gap-s for all the time buckets up to one year as of 31 December 2007.

The new LRM policy of the Bank, among others, is based on three main assumptions:

- Using statistical method and historical data (derived since 2001), the actual LRM reports include into analysis the behavioural re-investment pattern of deposits;
- Short term securities available for sale are considered liquid through the secured funding from Bank of Albania after the hair-cut;
- Bank's reserve requirements held with BoA are considered as non-liquid assets.

LRM reports are produced for each single currency Lek, Euro and USD and for the total balance sheet as well. Maximum cumulative outflow limits, which are managed and monitored on a daily-basis, have been assigned for each of the above currencies.

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31. Liquidity risk (continued)

As of December 31, 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	98,690,893	-	-	-	-	98,690,893
Placement and balances with banks	122,112,902	13,446,217	5,054,781	-	-	140,613,900
Treasury bills held-to-maturity	30,152,798	47,119,847	164,071,046	-	-	241,343,691
Investment securities available-for-sale	-	-	-	7,444,820	-	7,444,820
Investment securities held-to-maturity	1,106,790	10,872,685	15,808,022	92,102,983	-	119,890,480
Loans and advances to customers	15,237,282	16,569,207	42,834,473	92,330,734	62,196,677	229,168,373
Capital equivalency deposit	-	-	-	-	6,577,969	6,577,969
Property and equipment	-	-	-	3,150,123	8,292,837	11,442,960
Intangible assets	-	-	-	631,180	-	631,180
Deferred tax assets	-	-	-	75,246	-	75,246
Other assets	1,889,142	-	-	-	-	1,889,142
Total assets	**269,189,807**	**88,007,956**	**227,768,322**	**195,735,086**	**77,067,483**	**857,768,654**
Liabilities and shareholders' equity						
Customer deposits	307,632,937	172,012,273	277,653,395	41,200,735	-	798,499,340
Due to banks	8,565,519	-	-	-	-	8,565,519
Accruals and other liabilities	4,449,680	-	-	-	726,887	5,176,567
Shareholders' equity	-	-	-	-	45,527,228	45,527,228
Total liabilities and shareholders' equity	**320,648,136**	**172,012,273**	**277,653,395**	**41,200,735**	**46,254,115**	**857,768,654**
Net Position	**(51,458,329)**	**(84,004,317)**	**(49,885,073)**	**154,534,351**	**30,813,368**	**-**
Cumulative Net Position	**(51,458,329)**	**(135,462,646)**	**(185,347,719)**	**(30,813,368)**	**-**	**-**

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 33.

Notes to the Financial Statements as of and for the year ended 31 December 2007
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32. Foreign currency risk

The following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency as of December 31, 2007 and 2006 in accordance with the Bank of Albania foreign currency disclosure requirements.

2007	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets					
Cash and balances with Central Bank	90,534,391	12,934,280	52,069,179	1,140,052	156,677,902
Placements and balances with banks	364,107	128,211,097	70,450,148	19,285,932	218,311,284
Treasury bills held-to-maturity	251,938,823	-	-	-	251,938,823
Investment securities available-for-sale	12,215,324	-	-	-	12,215,324
Investment securities held-to-maturity	188,740,407	4,984,772	-	-	193,725,179
Loans and advances to customers	143,614,324	23,651,720	163,648,580	6,727,858	337,642,482
Property and equipment	13,303,775	-	805,797	-	14,109,572
Intangible assets	755,009	-	-	-	755,009
Non current assets held for sale	452,117	-	35,260	-	487,377
Due from third parties	10,483,713				10,483,713
Other assets	520,867	26,534	2,782,497	121	3,330,019
Total assets	**712,922,857**	**169,808,403**	**289,791,461**	**27,153,963**	**1,199,676,684**
Off balance sheet items	3,092,081	10,441,115	279,143	3,293,059	17,105,398
Liabilities and shareholders' equity					
Customer deposits	706,172,967	113,768,552	286,257,240	20,349,193	1,126,547,952
Due to banks	893	866,531	1,346,607	-	2,214,031
Deferred tax liabilities	78,463	-	-	-	78,463
Accruals and other liabilities	1,569,738	3,640,370	996,534	62,664	6,269,306
Shareholders' equity	19,866,932	44,700,000	-	-	64,566,932
Total liabilities and shareholders' equity	**727,688,993**	**162,975,453**	**288,600,381**	**20,411,857**	**1,199,676,684**
Off balance sheet items	-	5,441,232	1,909,928	9,754,238	17,105,398
Net position (GAP)	**(11,674,055)**	**11,832,833**	**(439,705)**	**280,927**	**-**
Cumulative net position	(11,674,055)	158,778	(280,927)	-	
Total assets / Total liabilities	98.40%	107.03%	99.85%	100.93%	100%
GAP / FX denominated assets		0.07	(0.002)	0.01	
Lek depreciates by 10%		1,075,712	(116,433)	25,539	984,818
Lek depreciates by 5%		563,468	(60,989)	13,377	515,856
Lek appreciates by 5%		(622,781)	67,409	(14,786)	(570,158)
Lek appreciates by 10%		(1,314,759)	142,307	(31,214)	(1,203,666)

Notes to the Financial Statements as of and for the year ended 31 December 2007
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32. Foreign currency risk (continued)

2006	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets					
Cash and balances with Central Bank	51,530,167	13,208,790	33,159,971	791,965	98,690,893
Placements and balances with banks	-	110,314,134	15,810,586	14,489,180	140,613,900
Treasury bills held-to-maturity	241,343,691	-	-	-	241,343,691
Investment securities available-for-sale	7,444,820	-	-	-	7,444,820
Investment securities held-to-maturity	114,933,180	4,957,300	-	-	119,890,480
Loans and advances to customers	97,944,717	23,495,821	104,103,260	3,624,575	229,168,373
Capital equivalency deposit	-	-	6,577,969	-	6,577,969
Property and equipment	11,442,960	-	-	-	11,442,960
Intangible assets	631,180	-	-	-	631,180
Deferred tax assets	75,246	-	-	-	75,246
Other assets	1,628,396	51,876	208,749	121	1,889,142
Total assets	**526,974,357**	**152,027,921**	**159,860,535**	**18,905,841**	**857,768,654**
Off balance sheet items	616,040	4,616,682	713,657	1,001,226	6,947,605
Liabilities and shareholders' equity					
Customer deposits	523,023,129	105,517,651	154,832,772	15,125,788	798,499,340
Due to banks	2,128,151	5,416,323	1,021,044	1	8,565,519
Accruals and other liabilities	1,175,970	3,135,282	766,684	98,631	5,176,567
Shareholders' equity	12,527,228	33,000,000	-	-	45,527,228
Total liabilities and shareholders' equity	**538,854,478**	**147,069,256**	**156,620,500**	**15,224,420**	**857,768,654**
Off balance sheet items	-	1,734,309	526,237	4,687,059	6,947,605
Net position (GAP)	**(11,264,081)**	**7,841,038**	**3,427,455**	**(4,412)**	**-**
Cumulative net position	(11,264,081)	(3,423,043)	4,412	-	
Total assets / Total liabilities	97.91%	105.27%	102.18%	99.98%	100%
GAP / FX denominated assets		0.05	0.02	(0.0002)	
Lek depreciates by 10%		712,822	311,587	(401)	1,024,008
Lek depreciates by 5%		373,383	163,212	(210)	536,385
Lek appreciates by 5%		(412,686)	(180,392)	232	(592,846)
Lek appreciates by 10%		(871,227)	(380,828)	490	(1,251,565)

Notes to the Financial Statements as of and for the year ended 31 December 2007
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33. Interest rate risk

The average effective yields of significant categories of financial assets and liabilities of the Bank as of December 31, 2007 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	4.38%	3.40%	3.12%
Placement and balances with banks	N/A	4.75%	4.36%
Treasury bills held-to-maturity	7.87%	N/A	N/A
Investment securities held-to-maturity	8.87%	4.90%	N/A
Loans and advances to customers	12.83%	8.84%	9.64%
Liabilities			
Customer deposits	4.38%	3.56%	3.10%
Due to banks	0.10%	0.10%	0.10%

The average effective yields of significant categories of financial assets and liabilities of the Bank as of December 31, 2006 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	3.67%	3.72%	2.43%
Placement and balances with banks	N/A	5.28%	3.61%
Treasury bills held-to-maturity	6.59%	N/A	N/A
Investment securities held-to-maturity	8.31%	5.73%	N/A
Loans and advances to customers	11.25%	6.21%	9.41%
Liabilities			
Customer deposits	3.57%	3.41%	2.35%
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 December 31, 2007 are 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	156,677,902	-	-	-	-	156,677,902
Placement and balances with banks	76,679,526	63,468,743	77,529,817	633,198	-	218,311,284
Treasury bills held-to-maturity	24,987,931	32,566,719	194,384,173	-	-	251,938,823
Investment securities available-for-sale	-	-	8,462,714	3,752,610	-	12,215,324
Investment securities held-to-maturity	1,248,989	24,147,649	36,856,736	129,952,723	1,519,082	193,725,179
Loans and advances to customers	268,730,686	15,408,432	30,429,376	11,235,765	11,838,223	337,642,482
Total	**528,325,034**	**135,591,543**	**347,662,816**	**145,574,296**	**13,357,305**	**1,170,510,994**
Liabilities						
Customer deposits	428,507,955	213,831,714	433,118,753	51,089,530	-	1,126,547,952
Due to banks	2,214,031	-	-	-	-	2,214,031
Total	**430,721,986**	**213,831,714**	**433,118,753**	**51,089,530**	**-**	**1,128,761,983**

Notes to the Financial Statements as of and for the year ended 31 December 2007
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33. Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as of 31 December 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	98,690,893	-	-	-	-	98,690,893
Placement and balances with banks	122,112,902	13,446,217	5,054,781	-	-	140,613,900
Treasury bills held-to-maturity	30,152,798	47,119,847	164,071,046	-	-	241,343,691
Investment securities available-for-sale	-	-	-	7,444,820	-	7,444,820
Investment securities held-to-maturity	1,106,790	10,872,685	15,808,022	92,102,983	-	119,890,480
Loans and advances to customers	194,684,736	10,399,745	14,073,321	8,721,355	1,289,216	229,168,373
Total	**446,748,119**	**81,838,494**	**199,007,170**	**108,269,158**	**1,289,216**	**837,152,157**
Liabilities						
Customer deposits	307,632,937	172,012,273	277,653,395	41,200,735	-	798,499,340
Due to banks	8,565,519	-	-	-	-	8,565,519
Total	**316,198,456**	**172,012,273**	**277,653,395**	**41,200,735**	**-**	**807,064,859**

Interest rate sensitivity

The sensitivity analysis below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The following is a stipulation of effects of changes in interest rate in the net profit, assuming all the other variables are held constant:

	2007	***2006***
Interest rate increases by 2%	2,803,021	1,927,155
Interest rate increases by 1.5%	2,102,266	1,445,366
Interest rate increases by 1%	1,401,510	963,578
Interest rate decreases by 1%	(1,401,510)	(963,578)
Interest rate decreases by 1.5%	(2,102,266)	(1,445,366)
Interest rate decreases by 2%	(2,803,021)	(1,927,155)

Notes to the Financial Statements as of and for the year ended 31 December 2007
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34. Segmental reporting

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

	Albania	Kosova	Consolidated
Assets			
Cash and balances with Central Bank	147,898,667	8,779,235	156,677,902
Placement and balances with banks	218,311,284	-	218,311,284
Treasury bills held-to-maturity	251,938,823	-	251,938,823
Investment securities available-for-sale	12,215,324	-	12,215,324
Investment securities held-to-maturity	193,725,179	-	193,725,179
Loans and advances to customers	337,642,482	-	337,642,482
Property and equipment	13,303,775	805,797	14,109,572
Intangible assets	755,009	-	755,009
Non - current assets held for sale	487,377	-	487,377
Due from third parties	10,483,713	-	10,483,713
Other assets	3,315,655	14,364	3,330,019
Total assets	**1,190,077,288**	**9,599,396**	**1,199,676,684**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	1,120,637,245	5,910,707	1,126,547,952
Due to banks	2,214,031	-	2,214,031
Deferred tax liabilities	78,463	-	78,463
Accruals and other liabilities	6,254,449	14,857	6,269,306
Total liabilities	**1,129,184,188**	**5,925,564**	**1,135,109,752**
Shareholders' equity			
Share capital			44,700,000
Translation difference			1,503,706
Reserves			-
Retained earnings			1,107,471
Net profit for the year			17,255,755
Total shareholders' equity			**64,566,932**
Total liabilities and shareholders' equity			**1,199,676,684**

An amount of USD 3,536,770, which represents intra-group transactions between Head Office in Albania and Prishtina Branch as of December 31, 2007, has been eliminated during consolidation.

Notes to the Financial Statements as of and for the year ended 31 December 2007
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34. Segmental reporting (continued)

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

	Albania	Kosova	Consolidated
Interest			
Interest income	71,987,756	194,707	72,182,463
Interest expense	(33,136,547)	(23,884)	(33,160,431)
Net interest margin	**38,851,209**	**170,823**	**39,022,032**
Non-interest income, net			
Fees and commissions, net	3,284,893	675	3,285,568
Foreign exchange revaluation gain (loss), net	(1,309,954)	29,001	(1,280,953)
Profit from FX trading activities, net	1,806,241	-	1,806,241
Other income (expense), net	73,552	238	73,790
Total non-interest income, net	**3,854,732**	**29,914**	**3,884,646**
Operating expenses			
Personnel	(7,911,277)	(65,202)	(7,976,479)
Administrative	(8,270,680)	(228,772)	(8,499,452)
Depreciation and amortization	(2,426,234)	(30,761)	(2,456,995)
Total operating expenses	**(18,608,191)**	**(324,735)**	**(18,932,926)**
Impairment of loans	(2,348,702)	-	(2,348,702)
Profit before taxes	**21,749,048**	**(123,998)**	**21,625,050**
Income tax	(4,369,295)	-	(4,369,295)
Net profit for the year	**17,379,753**	**(123,998)**	**17,255,755**

35. 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 significant related party transactions during 2007.

35. Related party transactions (continued)

Transactions with directors and executive officers

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

	Year ended December 31, 2007	*Year ended 31 December 2006*
Directors	42,336	42,336
Executive officers	1,541,002	1,254,992
	1,583,338	**1,297,328**

36. Contingencies and commitments including off-balance sheets items

Guarantees

	31 December 2007	*31 December 2006*
Guarantees in favour of customers	15,823,265	26,256,641
Guarantees received from credit institutions	1,431,200	1,204,589
Letters of credit issued to customers	3,242,086	365,650

Guarantees and letters of credit issued in favour of customers mostly 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.

Other

	31 December 2007	*31 December 2006*
Undrawn credit commitments (credit cards and overdrafts)	13,193,276	9,161,456
Outstanding cheques of non-resident banks	165,334	134,226
Spot foreign currency contract	7,105,398	6,947,605
Collaterals for loan portfolio	762,681,571	500,917,020

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 December 31, 2007

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

Lease commitments

Such commitments for the years ended December 31, 2007 and 2006 are composed as follows:

	31 December 2007	*31 December 2006*
Not later than 1 year	627,865	347,820
Later than 1 year and not later than 5 years	2,176,507	1,281,615
Later than 5 years	1,669,868	862,930
Total	**4,474,240**	**2,492,365**

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2007 with a maximum duration of ten years.

The Bank had 36 rented buildings as of December 31, 2007, in which are included the rented space dedicated to off site disaster recovery and the building of Kosova Branch opened in 2007.

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