Banka Kombetare Tregtare Sh.a.

Consolidated financial statements

for the year ended 31 December 2008

(with independent auditor's report thereon)

Contents

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Independent Auditors' Report

To the shareholders and management of
Banka Kombetare Tregtare Sh.a.

Tirana, 20 February 2009

We have audited the accompanying consolidated financial statements of Banka Kombetare Tregtare Sh.a. ("the Bank"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 consolidated 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider 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 principles 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 opinion.

Basis for Qualified Opinion

As explained in Note 3 (b), the Bank has treated its share capital issued in United States Dollars as a monetary item in the interim financial information and recognized the revaluation difference during the year ended 31 December 2008 in the income statement. This treatment is not in accordance with IAS 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. Accordingly, although this has no effect on total shareholders' equity, if this share capital was treated as a non-monetary item at 31 December 2008 the retained earnings would be decreased by USD 14,767,735, translation difference would be increased by USD 10,092,249, and net profit for the year then ended would be increased by USD 4,675,486.

Qualified Opinion

In our opinion, except for the effect on the consolidated financial statements of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Consolidated balance sheet as at 31 December 2008

(amounts in USD, unless otherwise stated)

	Notes	31 December 2008	31 December 2007
Assets			
Cash and balances with Central Bank	7	137,037,501	156,677,902
Placement and balances with banks	8	194,641,284	218,311,284
Treasury bills	9	230,059,221	251,938,823
Investment securities available-for-sale	10	5,827,116	12,215,324
Investment securities held-to-maturity	11	184,136,053	193,725,179
Loans and advances to customers	12	385,773,512	337,642,482
Property and equipment	13	18,701,259	14,109,572
Intangible assets	14	1,202,398	755,009
Non - current assets held for sale	15	937,541	487,377
Due from third parties	16	-	10,483,713
Other assets	17	2,973,703	3,330,019
Total assets		**1,161,289,588**	**1,199,676,684**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	18	1,047,954,782	1,126,547,952
Due to banks	19	21,643,509	2,214,031
Due to third parties	16	1,091,196	-
Deferred tax liabilities	20	167,338	78,463
Accruals and other liabilities	21	6,578,254	6,269,306
Total liabilities		**1,077,435,079**	**1,135,109,752**
Shareholders' equity			
Share capital	22	63,400,000	44,700,000
Translation difference	22	(829,955)	1,503,706
Fair value reserve	22	(198,883)	-
Retained earnings	22	1,939,830	1,107,471
Net profit for the year		19,543,517	17,255,755
Total shareholders' equity		**83,854,509**	**64,566,932**
Total liabilities and shareholders' equity		**1,161,289,588**	**1,199,676,684**

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 55.

The consolidated financial statements were authorised for release by the Board of Directors on 19 January 2009 and signed on its behalf by:

Seyhan Pencapligil
CEO and Board Member

Skender Emini
Head of Financial Control

Consolidated income statement for the year ended 31 December 2008

(amounts in USD, unless otherwise stated)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Interest			
Interest income	23	92,111,573	72,182,463
Interest expense	24	(46,965,320)	(33,160,431)
Net interest margin		**45,146,253**	**39,022,032**
Non-interest income, net			
Fees and commissions, net	25	3,966,669	3,285,568
Foreign exchange (FX) revaluation gain (loss), net	26	1,011,291	(1,280,953)
Profit from FX trading activities, net		2,322,799	1,806,241
Other income, net	27	15,132	73,790
Total non-interest income, net		**7,315,891**	**3,884,646**
Operating expenses			
Personnel	28	(10,882,636)	(7,976,479)
Administrative	29	(11,682,135)	(8,499,452)
Depreciation and amortization	13,14	(3,255,678)	(2,456,995)
Total operating expenses		**(25,820,449)**	**(18,932,926)**
Impairment of loans	12	(4,874,620)	(2,348,702)
Profit before taxes		**21,767,075**	**21,625,050**
Income tax	30	(2,223,558)	(4,369,295)
Net profit for the year		**19,543,517**	**17,255,755**

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 55.

Banka Kombetare Tregtare Sh.a.

Consolidated statement of changes in equity for the year ended 31 December 2008

(amounts in USD, unless otherwise stated)

	Share capital	Translation difference	Reserves	Fair value reserve	Retained earnings	Net profit for the year	Total
Balance at 1 January 2007	**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**
Appropriation of prior year net Profit	-	-	-	-	17,255,755	(17,255,755)	-
Adjustment of retained earnings with 2008 year end exchange rate	-	-	-	-	772,898	-	772,898
Increase in share capital	18,700,000	-	-	-	(18,700,000)	-	-
Fair value reserve for available-for-sale securities (Note 9,10)	-	-	-	(198,883)	-	-	(198,883)
Net profit for the year	-	-	-	-	-	19,543,517	19,543,517
Appropriation of 2007 year translation difference	-	(1,503,706)	-	-	1,503,706	-	-
Translation difference for the year	-	(829,955)	-	-	-	-	(829,955)
Balance at 31 December 2008	**63,400,000**	**(829,955)**	**-**	**(198,883)**	**1,939,830**	**19,543,517**	**83,854,509**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 55.

Consolidated statement of cash flows for the year ended 31 December 2008

(amounts in USD, unless otherwise stated)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Cash flows from operating activities:			
Profit before taxes		21,767,075	21,625,050
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	24	46,965,320	33,160,431
Interest income	23	(92,111,573)	(72,182,463)
Depreciation and amortization	13, 14	3,255,678	2,456,995
Gain on sale of property and equipment		(4,223)	(5,928)
Gain on sale of treasury bills		(34,547)	(28,550)
Gain on sale of non-current assets		(7,190)	-
Write-off of property and equipment		40,689	2,872
Write-off of small inventory		1,740	-
Loss on unrecoverable lost loans		4,532	-
Movement in the fair value reserve		208,463	-
Deferred tax asset/liability	20	97,853	150,254
Impairment of loans	12	4,874,620	2,348,702
Cash flows from operating profits before changes in operating assets and liabilities		(14,941,563)	(12,472,637)
(Increase)/decrease in operating assets:			
Restricted balances with central banks		5,811,463	(30,180,047)
Placements and balances with banks		(50,640,783)	(60,207,138)
Loans and advances to customers		(74,697,107)	(72,460,653)
Other assets		10,039,806	(11,142,044)
		(109,486,621)	(173,989,882)
Increase/(decrease) in operating liabilities:			
Due to customers		(19,642,892)	195,761,299
Due to third parties		1,143,759	-
Accruals and other liabilities		831,546	57,784
		(17,667,587)	195,819,083
Interest paid		(42,157,230)	(27,566,606)
Interest received		88,440,399	67,882,468
Income taxes paid		(2,356,027)	(4,069,446)
Net cash flows (used in) / from operating activities		(98,168,629)	45,602,980
Cash flows from investing activities			
Settlement / (purchases) of investment securities		4,309,544	(54,715,700)
(Purchases) / settlement of treasury bills		(20,665,956)	9,155,042
Purchases of property and equipment		(9,501,517)	(3,518,459)
Proceeds from sale of property and equipment		37,853	8,836
Proceeds from sale of treasury bills		30,070,197	12,486,374
Net cash (used in) / from investing activities		4,250,121	(36,583,907)
Cash flows from financing activities			
Proceeds from short term borrowings		20,382,732	(6,884,319)
Net cash (used in) / from financing activities		20,382,732	(6,884,319)
Net (decrease)/increase in cash and cash equivalents		**(73,535,776)**	**2,134,754**
Translation difference		(4,102,509)	11,915,080
Cash and cash equivalents at the beginning of the year	7	**172,487,366**	**158,437,532**
Cash and cash equivalents at the end of the year	7	**94,849,081**	**172,487,366**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 55.

1. General

Banka Kombetare Tregtare Sh.a. (“BKT” or the “Bank”) 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 30 April 2008, increased its paid-up capital by USD 18,700,000 by allocation of the balance of retained earnings of Lek 1,476,178,000 as at 31 March 2008, translated into USD using the exchange rate announced by Bank of Albania as at 30 April 2008 (1USD=78.94 Lek). As a result 1,870,000 shares were issued to the existing 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 6,340,000, and the composition is as follows:

	No. of shares	***%***	***Total USD***
Calik / Seker Consortium	3,804,002	60	38,040,020
EBRD	1,267,999	20	12,679,990
IFC	1,267,999	20	12,679,990
	6,340,000	**100**	**63,400,000**

The increase of Paid-up Capital was registered in the Share Registration Centre of Albania on 03 November 2008.

The headquarters of BKT is located in Tirana. Currently in Albania, the Bank has a network of 26 branches, 22 agencies and 4 custom agencies. Eleven of the branches are in Tirana, while the others are located in Durres, Elbasan, Korca, Gjirokastra, Vlora, Lushnja, Shkodra, Fier, Berat, Pogradec, Saranda, Lezha, Kukes, Peshkopi and Fushe Kruja. Similarly, most of the agencies are in Tirana (eight of them), whereas the others are placed in Kamza, Vora, Bilisht, Delvina, Kavaja, Lac, Rreshen, Shkozet, Bushat, Koplik, Librazhd, Peqin, Rrogozhina and Durres Seaside, followed by custom agencies in Kakavija, Kapshtica, Durres Seaport and Rinas Airport. During 2008, the Bank opened five new branches and ten other agencies in Albania.

Last year signalled the initial international expansion of BKT network by opening of Prishtina Branch in Kosovo, which started its full activity at the beginning of September 2007, and which reached a network of 10 units by the end of 2008, through opening of three units in Prishtina and others located in Prizren, Peja, Ferizaj, Podujeva, Gjilan, Drenas and Rahovec.

The Bank had 763 (2007: 519) employees as at 31 December 2008, out of which 104 (2007: 11) employees belong to Kosovo Branch.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial assets, which are measured at fair value and assets held for sale, which are measured at the lower of carrying amount and fair value less costs to sell.

(c) Functional and presentation currency

These consolidated financial statements are presented in USD. Albanian Lek ("Lek") is the Bank's functional 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.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 4 and 5.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Bank entities.

(a) 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. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

On September 3, 2007 BKT opened its first branch outside of the territory of the Republic of Albania. The Administrative Office of this branch was opened in Prishtina, Kosovo.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, 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.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

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, dated 6 July 2000, 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.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into Lek at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Lek at spot exchange rates at the dates of the transactions. Foreign currency differences on the translation of foreign operations are recognised directly in equity. Such differences have been recognised in the foreign currency translation reserve.

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

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(iv) 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. Foreign currency differences are recognised in profit or loss on the settlement date.

(c) Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Lease payments made

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

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(f) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in 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 or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

3. Significant accounting policies (continued)

(f) Income tax expense (continued)

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting 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 reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

(g) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

See accounting policies 3(h), (i) and (j).

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(iii) Derecognition (continued)

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off certain loans and investment securities when they are determined to be uncollectible (see note 4).

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vi) Fair value measurement (continued)

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vii) Identification and measurement of impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

3. Significant accounting policies (continued)

(h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the balance sheet.

(i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (g)(vi).

(j) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity are recognised in profit or loss.

3. Significant accounting policies (continued)

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

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

- Buildings 20 years
- Motor vehicles 5 years
- Office equipment 5 years
- Computers and electronic equipment 4 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(l) Intangible assets

Intangible assets comprise of software acquired by the Bank. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is four years.

3. Significant accounting policies (continued)

(m) Non- current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Bank's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(n) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Deposits

Deposits are part of the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

(p) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. Significant accounting policies (continued)

(p) Provisions (continued)

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(q) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Bank makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

(ii) Defined benefit plans

The Bank has created a fully employer sponsored pension plan fund (See Note 21, “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 a minimum of 75% of their state monthly pension.

The Bank’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value and compare it with the net amount in the balance sheet. The discount rate is the yield at the reporting date on AAA credit-rated long-term bonds that have maturity dates approximating the terms of the Bank’s obligations.

(iii) Short-term benefits

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

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3. Significant accounting policies (continued)

(r) Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's format for segment reporting is based on geographical segments.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* (effective from 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Bank's 2009 consolidated financial statements, with retrospective application. The amendments to IFRS 2 are not relevant to the Bank's operations as the Bank does not have any share-based compensation plans.

- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009) incorporates a number of potentially significant changes including:

  - All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
  - Subsequent change in contingent consideration will be recognized in profit or loss.
  - Transaction costs, other than share and debt issuance costs, will be expensed as incurred.
  - The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  Revised IFRS 3 is not relevant to the Bank's operations as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

- IFRS 8 *Operating Segments* (effective from 1 January 2009) introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Bank's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Bank presents segment information in respect of its geographical segments. This standard will have no effect on the Bank's reported total profit or loss or equity.

- Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009) introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The Bank is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

3. Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted (continued)

- Revised IAS 23 *Borrowing Costs* (effective from 1 January 2009) removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (those that take a substantial period of time to get ready for use or sale) as part of the cost of that asset. Revised IAS 23 is not relevant to the Bank's operations as the Bank does not have any qualifying assets for which borrowing costs would be capitalised.

- Amended IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2009) removes the definition of "cost method" currently set out in IAS 27, and instead requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established. In addition, the amendments provide guidance when the receipt of dividend income is deemed to be an indicator of impairment. The amendments to IAS 27 are not relevant to these consolidated financial statements of the Bank.

- Amended IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009) replaces the term minority interest with non-controlling interest, which is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 is not relevant to the Bank's operations as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

- Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for annual periods beginning on or after 1 January 2009) introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions. The amendments are not relevant to the Bank's consolidated financial statements as the Bank has not issued puttable instruments that would be affected by the amendments.

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. The amendments to IAS 39 are not relevant to the Bank's operations as the Bank does not apply hedge accounting.

- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008) The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. The Bank is currently in the process of evaluating the potential effect of this interpretation.

3. Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted (continued)

- IFRIC 15 *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009) clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

  1. the agreement meets the definition of a construction contract in accordance with IAS 11.3;

  2. the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and

  3. the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

  In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Bank's operations as the Bank does not provide real estate construction services or develop real estate for sale.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008) explains the type of exposure that may be hedged, where in the Bank the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation. IFRIC 16 is not relevant to the Bank's operations as the Bank has not designated any hedges of a net investment in a foreign operation.

- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective prospectively for annual periods beginning on or after 15 July 2009) applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation.

- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2009 consolidated financial statements. The Bank does not expect these amendments to have any significant impact on the consolidated financial statements.

4. Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 5).

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(g)(vii).

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.

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 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.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(g)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

4. Use of estimates and judgements (continued)

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under note 3(g)(vi).

The Bank measures fair values using the following hierarchy of methods:

- Quoted market price in an active market for an identical instrument.
- Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

4. Use of estimates and judgements (continued)

Fair values

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 at 31 December 2008, the fair value of the Treasury bills held-to-maturity portfolio was USD 112,681,004 (2007: USD 183,856,490), which is lower than the carrying amount by USD 238,874 (2007: lower by USD 334,280).

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 at 31 December 2008, the fair value of the bond portfolio was USD 183,951,317 (2007: USD 195,010,027), which is lower than the carrying amount by USD 184,736 (2007: higher by USD 1,284,848).

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

5. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

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.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO), Risk Management Group and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All these bodies report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over EUR 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.

5. Financial risk management (continued)

(b) Credit Risk (continued)

Each business unit is required to comply with Bank credit policies and procedures. Regular audits of business units and Bank Credit Risk Management Department processes are undertaken by Internal Audit.

Maximum credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 31 December 2008 and 2007 are as follows:

	31 December 2008	31 December 2007
Treasury bills and other eligible bills	230,059,221	251,938,823
Due from other banks	194,641,284	218,311,284
Loans and advances to customers (net)	385,773,512	337,642,482
Investment securities - available for sale	5,827,116	12,215,324
Investment securities - held to maturity	184,136,053	193,725,179
Financial guarantees	18,324,015	15,823,265
Standby letters of credit	5,831,881	3,242,086
Commitments to extend credit	17,103,095	21,277,971
Maximum exposures to credit risk	**1,041,696,177**	**1,054,176,414**

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 the Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes on grading & 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.

5. Financial risk management (continued)

(b) Credit Risk (continued)

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.

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 2008	**Retail**	**Corporate**	**Advances**	**Total**
Neither past due nor impaired	104,566,182	231,402,834	5,589,790	341,558,806
Past due but not impaired	1,318,564	1,966,179	65,999	3,350,742
Individually impaired	17,326,818	31,136,500	992,534	49,455,852
Total Loans, Gross (Note 12)	**123,211,564**	**264,505,513**	**6,648,323**	**394,365,400**
Less: allowance for individually impaired loans	4,837,470	2,761,884	992,534	8,591,888
Total Loans, Net of impairment	**118,374,094**	**261,743,629**	**5,655,789**	**385,773,512**

	Loans and advances to customers			
31 December 2007	**Retail**	**Corporate**	**Advances**	**Total**
Neither past due nor impaired	87,793,293	223,041,664	5,762,361	316,597,318
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 (Note 12)	**96,322,287**	**239,103,190**	**6,385,558**	**341,811,035**
Less: allowance for individually impaired loans	2,472,577	1,112,083	583,893	4,168,553
Total Loans, Net of impairment	**93,849,710**	**237,991,107**	**5,801,665**	**337,642,482**

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

Rating	**31 December 2008**	**31 December 2007**
A – Good	9,884,191	7,544,109
B – Acceptable	219,620,001	215,807,685
C - Close Monitoring	30,479,809	12,753,024
D – Unacceptable	3,396,276	2,850,726
(Note 12)	**263,380,277**	**238,955,544**
Accrued interest	2,073,905	1,718,199
Less: unamortized deferred fee income	(948,669)	(1,570,553)
Total	**264,505,513**	**239,103,190**

5. Financial risk management (continued)

(b) Credit Risk (continued)

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**
31 December 2008	206,483	8,884,614	-	9,091,097
31 December 2007	110,810	3,032,473	-	3,143,283

Set out below is the ageing analysis as at 31 December 2008 of all past due loans either impaired or not impaired individually:

	Loans and advances to customers			
31 December 2008	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 30 days	3,838,754	6,939,383	164,071	10,942,208
Past due 31-60 days	1,480,924	2,002,974	92,750	3,576,648
Past due 61-90 days	774,935	1,744,401	18,962	2,538,298
Past due 91-180 days	1,632,147	3,321,504	231,493	5,185,144
Past due 180 days- 365 days	1,573,081	6,160,310	747	7,734,138
Past due 1-2 years	1,316,553	714,873	58,286	2,089,712
Past due over 2 years	151,346	551,199	-	702,545
Total	**10,767,740**	**21,434,644**	**566,309**	**32,768,693**

	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**

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

	Loans and advances to customers			
31 December 2008	**Retail**	**Corporate**	**Advances**	**Total Loans**
Residential, commercial or industrial Property	271,836,274	567,247,489	-	839,083,763
Financial assets	2,439,551	51,981,793	-	54,421,344
Other	18,747,121	24,591,386	-	43,338,507
Total	**293,022,946**	**643,820,668**	**-**	**936,843,614**

	Loans and advances to customers			
31 December 2007	**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**

5. Financial risk management (continued)

(b) Credit Risk (continued)

Credit quality of other financial assets is detailed as follows:

31 December 2008	Treasury Bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Total
Good	230,059,221	194,641,284	5,827,116	184,136,053	614,663,674
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**230,059,221**	**194,641,284**	**5,827,116**	**184,136,053**	**614,663,674**

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**

(c) 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 fall due. The purpose of Liquidity Risk Management (LRM) is to make sure that Bank is able to meet all payment obligations when they fall 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 in the monitoring and management of liquidity. The involvement of different bodies helps provide clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to the Treasury Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to the 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 the following tables.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2008, 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	137,037,501	-	-	-	-	137,037,501
Placement and balances with banks	83,315,204	34,687,035	76,639,045	-	-	194,641,284
Treasury bills	29,300,797	39,700,263	161,058,161	-	-	230,059,221
Investment securities available-for-sale	3,540,121	-	-	2,286,995	-	5,827,116
Investment securities held-to-maturity	1,773,025	4,688,428	28,912,920	142,313,482	6,448,198	184,136,053
Loans and advances to customers	21,805,515	36,987,330	84,994,546	139,986,368	101,999,753	385,773,512
Property and equipment	-	-	-	6,796,219	11,905,040	18,701,259
Intangible assets	-	-	-	1,202,398	-	1,202,398
Non current assets held for sale	-	-	937,541	-	-	937,541
Other assets	2,973,703	-	-	-	-	2,973,703
Total assets	**279,745,866**	**116,063,056**	**352,542,213**	**292,585,462**	**120,352,991**	**1,161,289,588**
Liabilities and shareholders' equity						
Customer deposits	392,510,540	195,933,926	420,389,577	37,691,864	1,428,875	1,047,954,782
Due to banks	12,638,133	9,005,376	-	-	-	21,643,509
Due to third parties	1,091,196	-	-	-	-	1,091,196
Deferred tax liabilities	-	-	-	167,338	-	167,338
Accruals and other liabilities	5,240,274	-	-	-	1,337,980	6,578,254
Shareholders' equity	-	-	-	-	83,854,509	83,854,509
Total liabilities and shareholders' equity	**411,480,143**	**204,939,302**	**420,389,577**	**37,859,202**	**86,621,364**	**1,161,289,588**
Net Position	**(131,734,277)**	**(88,876,246)**	**(67,847,364)**	**254,726,260**	**33,731,627**	**-**
Cumulative Net Position	**(131,734,277)**	**(220,610,523)**	**(288,457,887)**	**(33,731,627)**	**-**	**-**

The new LRM approach of the Bank implemented in 2007 resulted in positive liquidity gaps for all time buckets up to one year as at 31 December 2008. This resulted mainly because of the following three main assumptions:

- Using statistical method and historical data (derived since 2001), the actual LRM reports include analysis into the behavioural re-investment pattern of deposits;
- Short term securities available for sale are considered liquid through the secured funding from Bank of Albania;
- 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.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 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	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)**	**-**	**-**

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

Exposure to liquidity risk

One of the key ratios used by the Bank for managing liquidity risk is the ratio of highly liquid assets to total assets, which should be at a minimum of 15%. For this purpose highly liquid assets are considered: cash balances, unrestricted balances with central bank, current account balances with banks, placements with banks matured within seven days, 80% of treasury bills portfolio with remaining maturity more than two weeks, and 80% of government securities portfolio with remaining maturity less than one year. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's regulator, Bank of Albania.

Details of the reported Bank ratio of highly liquid assets to total assets at the reporting dates were as follows:

	2008	**2007**
At 31 December	24.7%	28.9%

5. Financial risk management (continued)

(d) 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 following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency as at 31 December 2008 and 2007 in accordance with the Bank of Albania foreign currency disclosure requirements:

31 December 2008	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets					
Cash and balances with Central Bank	67,520,190	14,902,718	53,793,915	820,678	137,037,501
Placements and balances with banks	-	105,734,987	75,315,316	13,590,981	194,641,284
Treasury bills	230,059,221	-	-	-	230,059,221
Investment securities available-for-sale	5,827,116	-	-	-	5,827,116
Investment securities held-to-maturity	179,120,191	5,015,862	-	-	184,136,053
Loans and advances to customers	151,312,720	28,977,224	200,167,846	5,315,722	385,773,512
Property and equipment	16,338,185	-	2,363,074	-	18,701,259
Intangible assets	1,202,398	-	-	-	1,202,398
Non current assets held for sale	937,541	-	-	-	937,541
Other assets	892,788	403,932	1,674,409	2,574	2,973,703
Total assets	**653,210,350**	**155,034,723**	**333,314,560**	**19,729,955**	**1,161,289,588**
Off balance sheet items	176,911	42,819,397	15,490,843	2,439,861	60,927,012
Liabilities and shareholders' equity					
Customer deposits	637,338,846	98,713,244	296,599,953	15,302,739	1,047,954,782
Due to banks	16,011,705	2,725	5,629,079	-	21,643,509
Due to third parties	1,091,196	-	-	-	1,091,196
Deferred tax liabilities	167,338	-	-	-	167,338
Accruals and other liabilities	1,568,738	3,899,339	1,073,500	36,677	6,578,254
Shareholders' equity	20,582,762	63,400,000	(128,253)	-	83,854,509
Total liabilities and shareholders' equity	**676,760,585**	**166,015,308**	**303,174,279**	**15,339,416**	**1,161,289,588**
Off balance sheet items	-	17,959,752	36,192,242	6,775,018	60,927,012
Net position (GAP)	**(23,373,324)**	**13,879,060**	**9,438,882**	**55,382**	**-**
Cumulative net position	(23,373,324)	(9,494,264)	(55,382)	-	
Total assets / Total liabilities	96.55%	107.54%	102.78%	100.25%	100%
GAP / FX denominated assets		0.07	0.027	0.002	
Sensitivity analysis					
Lek depreciates by 10%		1,261,733	643,255	5,035	1,910,023
Lek depreciates by 5%		660,908	336,943	2,637	1,000,488
Lek appreciates by 5%		(730,477)	(372,411)	(2,915)	(1,105,803)
Lek appreciates by 10%		(1,542,118)	(786,201)	(6,154)	(2,334,473)

The property and equipment in foreign currency is related to Kosovo Branch.

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

31 December 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	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	
Sensitivity analysis					
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)

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.

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2008 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	4.38%	0.70%	2.28%
Placement and balances with banks	N/A	2.24%	4.99%
Treasury bills	8.11%	N/A	N/A
Investment securities	9.43%	8.30%	N/A
Loans and advances to customers	12.60%	6.61%	9.29%
Liabilities			
Customer deposits	4.73%	2.06%	3.67%
Due to banks	6.95%	0.10%	0.10%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2007 were 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	7.87%	N/A	N/A
Investment securities	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 interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2008 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	137,037,501	-	-	-	-	137,037,501
Placement and balances with banks	83,315,204	34,687,035	76,639,045	-	-	194,641,284
Treasury bills	29,300,797	39,700,263	161,058,161	-	-	230,059,221
Investment securities available-for-sale	3,540,121	-	-	2,286,995	-	5,827,116
Investment securities held-to-maturity	1,773,025	21,275,104	107,101,707	52,553,881	1,432,336	184,136,053
Loans and advances to customers	300,058,962	20,347,914	36,795,079	9,986,412	18,585,145	385,773,512
Total	**555,025,610**	**116,010,316**	**381,593,992**	**64,827,288**	**20,017,481**	**1,137,474,687**
Liabilities						
Customer deposits	392,510,540	195,933,926	420,389,577	37,691,864	1,428,875	1,047,954,782
Due to banks	12,638,133	9,005,376	-	-	-	21,643,509
Total	**405,148,673**	**204,939,302**	**420,389,577**	**37,691,864**	**1,428,875**	**1,069,598,291**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2007 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	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	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**

Interest rate sensitivity

The sensitivity analysis below has 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 to the net profit, assuming all the other variables are held constant:

	31 December 2008	*31 December 2007*
Interest rate increases by 2%	1,667,027	2,803,021
Interest rate increases by 1.5%	1,250,270	2,102,266
Interest rate increases by 1%	833,514	1,401,510
Interest rate decreases by 1%	(833,514)	(1,401,510)
Interest rate decreases by 1.5%	(1,250,270)	(2,102,266)
Interest rate decreases by 2%	(1,667,027)	(2,803,021)

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank’s operations.

5. Financial risk management (continued)

(e) Operational risks (continued)

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with internal standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

(f) 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".

5. Financial risk management (continued)

(f) Capital management (continued)

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.

6. Segmental reporting

As at 31 December 2008, the Bank's geographical segments are as follows:

	Albania	Kosovo	Consolidated
Assets			
Cash and balances with Central Bank	128,091,046	8,946,455	137,037,501
Placement and balances with banks	194,641,284	-	194,641,284
Treasury bills	230,059,221	-	230,059,221
Investment securities available-for-sale	5,827,116	-	5,827,116
Investment securities held-to-maturity	184,136,053	-	184,136,053
Loans and advances to customers	372,122,325	13,651,187	385,773,512
Property and equipment	16,338,185	2,363,074	18,701,259
Intangible assets	1,202,398	-	1,202,398
Non - current assets held for sale	937,541	-	937,541
Other assets	7,335,428	(4,361,725)*	2,973,703
Total assets	**1,140,690,597**	**20,598,991**	**1,161,289,588**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	1,036,154,765	11,800,017	1,047,954,782
Due to banks	21,643,509	-	21,643,509
Due to third parties	1,091,196	-	1,091,196
Deferred tax liabilities	167,338	-	167,338
Accruals and other liabilities	6,513,698	64,556	6,578,254
Total liabilities	**1,065,570,506**	**11,864,573**	**1,077,435,079**
Shareholders' equity			
Share capital			63,400,000
Translation difference			(829,955)
Fair value reserve			(198,883)
Retained earnings			1,939,830
Net profit for the year			19,543,517
Total shareholders' equity			**83,854,509**
Total liabilities and shareholders' equity			**1,161,289,588**

***** Included within the USD 4,361,725 credit for Kosovo 'Other assets' is an amount of USD 4,542,817, which represents intra-group balances between the Head Office and Branches in Albania and Kosovo Branch as at 31 December 2008, has been eliminated in consolidation.

6. Segmental reporting (continued)

As at 31 December 2008, the Bank's geographical segments are as follows:

	Albania	**Kosovo**	**Consolidated**
Interest			
Interest income	91,568,189	543,384	92,111,573
Interest expense	(46,696,038)	(269,282)	(46,965,320)
Net interest margin	**44,872,151**	**274,102**	**45,146,253**
Non-interest income, net			
Fees and commissions, net	3,768,329	198,340	3,966,669
Foreign exchange revaluation gain (loss), net	1,011,284	7	1,011,291
Profit from FX trading activities, net	2,322,799	-	2,322,799
Other income (expense), net	14,989	143	15,132
Total non-interest income, net	**7,117,401**	**198,490**	**7,315,891**
Operating expenses			
Personnel	(10,233,019)	(649,617)	(10,882,636)
Administrative	(10,990,200)	(691,935)	(11,682,135)
Depreciation and amortization	(3,090,428)	(165,250)	(3,255,678)
Total operating expenses	**(24,313,647)**	**(1,506,802)**	**(25,820,449)**
Impairment of loans	(4,874,620)	-	(4,874,620)
Profit/(loss) before taxes	**22,801,285**	**(1,034,210)**	**21,767,075**
Income tax	(2,223,558)	-	(2,223,558)
Net profit/(loss) for the year	**20,577,727**	**(1,034,210)**	**19,543,517**

6. Segmental reporting (continued)

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

	Albania	Kosovo	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	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
Deferred tax assets	-	-	-
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/Branches in Albania and Kosovo Branch as at 31 December 2007, has been eliminated during consolidation.

6. Segmental reporting (continued)

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

	Albania	**Kosovo**	**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/(loss) before taxes	**21,749,048**	**(123,998)**	**21,625,050**
Income tax	(4,369,295)	-	(4,369,295)
Net profit/(loss) for the year	**17,379,753**	**(123,998)**	**17,255,755**

7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 31 December 2008 and 2007, are detailed as follows:

	31 December 2008	**31 December 2007**
Cash on hand	36,381,496	28,741,465
Capital equivalency deposit	7,277,980	8,600,352
Bank of Albania		
Current account	77,844	20,210,548
Statutory reserve	93,228,492	99,039,955
Accrued interest	71,689	85,582
	93,378,025	119,336,085
	137,037,501	**156,677,902**

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 Bank of Kosovo, in order to obtain the license for Kosovo Branch, opened in 2007.

7. Cash and balances with Central Bank (continued)

Cash and cash equivalents as at 31 December 2008 and 2007, are presented as follows:

	31 December 2008	31 December 2007
Cash and balances with Central Bank	137,037,501	156,677,902
Statutory reserve	(93,228,492)	(99,039,955)
Current accounts with banks	5,626,557	1,856,221
Accrued interest with banks	2,394,732	1,088,054
Placements with maturities of 3 months or less	43,018,783	111,905,144
	94,849,081	**172,487,366**

8. Placements and balances with banks

Placements and balances with banks as at 31 December 2008 and 31 December 2007 consisted as follows:

	31 December 2008	31 December 2007
Placements	180,825,295	213,983,812
Cash collateral held by financial institutions	5,794,700	1,383,197
Current accounts	5,626,557	1,856,221
Accrued interest	2,394,732	1,088,054
	194,641,284	**218,311,284**

Placements are held with non-resident banks from Organisation for Economic Cooperation and Development ("OECD") countries and have contractual maturities up to 1 year. 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 cash deposits, which secure risks that are related to the credit cards activity of the Bank.

9. Treasury bills

Treasury bills bear interest at market rates ranging from 7.12% p.a. to 8.88% p.a. on a compound basis and are all denominated in Lek. Treasury bills by original maturity are presented as follows:

	31 December 2008	31 December 2007
Treasury bills available-for-sale	117,139,343	67,748,053
Treasury bills held-to-maturity	112,919,878	184,190,770
	230,059,221	**251,938,823**

Treasury bills available-for-sale

Treasury bills available-for-sale by original maturity as at 31 December 2008 and 31 December 2007 are presented as follows:

	31 December 2008				31 December 2007		
	Purchase Value	Amortized discount	Marked to market gain (loss)	Fair value	Purchase Value	Amortized discount	Fair value
3 months	13,457	24	22	13,503	52,822	111	52,933
6 months	2,341,424	44,710	4,603	2,390,737	1,470,733	43,536	1,514,269
12 months	110,834,222	4,102,660	(201,779)	114,735,103	64,186,768	1,994,083	66,180,851
	113,189,103	**4,147,394**	**(197,154)**	**117,139,343**	**65,710,323**	**2,037,730**	**67,748,053**

9. Treasury bills (continued)

Treasury bills held-to-maturity

Treasury bills held-to-maturity by original maturity as at 31 December 2008 and 31 December 2007 are presented as follows:

	31 December 2008			31 December 2007		
	Purchase Value	Amortized discount	Amortized cost	Purchase Value	Amortized discount	Amortized cost
3 months	-	-	-	5,384,688	11,894	5,396,582
6 months	5,659,634	111,233	5,770,867	24,536,749	550,476	25,087,225
12 months	103,354,018	3,794,993	107,149,011	149,299,458	4,407,505	153,706,963
	109,013,652	**3,906,226**	**112,919,878**	**179,220,895**	**4,969,875**	**184,190,770**

As at 31 December 2008, the fair value of the Treasury bills held-to-maturity portfolio was USD 112,681,004, which is lower than the carrying value by USD 238,874, while as at 31 December 2007 the fair value of this portfolio was USD 183,856,490, which was lower than the carrying value by USD 334,280.

10. Investment securities available-for-sale

Investment securities available-for-sale as at 31 December 2008 comprise two Lek denominated bonds as follows:

	31 December 2008					
Issuer	**Nominal value**	**Unamortized discount**	**Accrued interest**	**Marked to market gain (loss)**	**Fair value**	**Maturity date**
Lek Denominated Bond						
Government of Albania	3,412,581	(33)	129,033	(1,460)	3,540,121	17 January 2009
Government of Albania	2,275,054	-	12,210	(269)	2,286,995	12 December 2013
	5,687,635	**(33)**	**141,243**	**(1,729)**	**5,827,116**	

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

	31 December 2007				
Issuer	**Nominal value**	**Unamortized discount**	**Accrued interest**	**Fair 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**	

11. Investment securities held-to-maturity

Investment securities held-to-maturity as at 31 December 2008 comprise only one USD and Lek denominated bonds (with two, three, five and seven year original maturity) as follows:

	31 December 2008					
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	(10,249)	26,111	5,015,862	15 June 2010	BB-
	5,000,000	**(10,249)**	**26,111**	**5,015,862**		
Lek Denominated Bonds						
Government of Albania	4,550,108	679	137,641	4,688,428	19 February 2009	B1
Government of Albania	2,275,054	(2,010)	36,676	2,309,720	18 April 2009	B1
Government of Albania	2,843,817	-	8,421	2,852,238	18 June 2009	B1
Government of Albania	2,275,054	-	67,057	2,342,111	20 August 2009	B1
Government of Albania	1,137,527	(1,506)	26,106	1,162,127	19 September 2009	B1
Government of Albania	7,962,689	-	301,045	8,263,734	18 January 2010	B1
Government of Albania	7,393,926	-	226,008	7,619,934	20 February 2010	B1
Government of Albania	1,706,291	-	29,583	1,735,874	18 April 2010	B1
Government of Albania	1,706,291	-	66,735	1,773,026	05 January 2009	B1
Government of Albania	1,706,291	(783)	58,393	1,763,901	05 July 2009	B1
Government of Albania	18,200,432	(74,136)	356,526	18,482,822	05 October 2009	B1
Government of Albania	4,550,108	(8,503)	193,531	4,735,136	05 January 2010	B1
Government of Albania	4,550,108	6,239	186,858	4,743,205	05 July 2010	B1
Government of Albania	7,962,689	(43,956)	163,589	8,082,322	05 October 2010	B1
Government of Albania	7,962,689	-	345,607	8,308,296	07 January 2011	B1
Government of Albania	1,706,291	-	35,753	1,742,044	07 April 2011	B1
Government of Albania	12,512,797	-	190,144	12,702,941	08 November 2011	B1
Government of Albania	15,925,378	-	661,297	16,586,675	09 February 2012	B1
Government of Albania	9,100,216	-	139,949	9,240,165	08 May 2012	B1
Government of Albania	23,888,067	-	335,923	24,223,990	08 November 2012	B1
Government of Albania	31,850,756	-	170,934	32,021,690	08 November 2012	B1
Government of Albania	2,275,054		32,422	2,307,476	12 December 2013	B1
Government of Albania	1,421,909	-	10,427	1,432,336	07 December 2014	B1
	175,463,542	**(123,976)**	**3,780,625**	**179,120,191**		
	180,463,542	**(134,225)**	**3,806,736**	**184,136,053**		

As at 31 December 2008, the fair value of the held-to-maturity bond portfolio was USD 183,951,317, which is lower than the carrying value by USD 184,736. Six of the Lek bonds issued by the Government of Albania have been purchased during 2008, totalling to a face value of USD 58.5 million.

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

Investment securities held-to-maturity comprise only one USD and Lek denominated bonds (with two, three, five and seven year original maturity) as at 31 December 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 at 31 December 2007, the fair value of the held-to-maturity bond portfolio was USD 195,010,027, which exceeds the carrying value by USD 1,284,848.

12. Loans and advances to customers

Loans and advances to customers consisted of the following:

	31 December 2008	31 December 2007
Loans and advances to customers, gross	393,407,390	341,514,259
Accrued interest	3,183,087	2,524,949
Less allowances for impairment on loans and advances	(8,591,888)	(4,168,553)
Less unamortized deferred fee income	(2,225,077)	(2,228,173)
	385,773,512	**337,642,482**

Movements in the allowance for impairment on loans and advances:

	2008	2007
At 1 January	4,168,553	1,414,258
Impairment charge for the year	4,874,620	2,348,702
Reversals during the year	-	-
Translation difference	(451,285)	405,593
At the end of the year	**8,591,888**	**4,168,553**

As at 31 December 2008, the Bank's loans in arrears for more than 30 days totalled USD 21,826,485 (2007: USD 7,950,388). All loans are secured by mortgages and personal guarantees.

As at 31 December 2008 the breakdown of the loan portfolio is as follows:

Individuals	60.5%
Private Enterprises	36.3%
Public Enterprises	3.0%
Structured Finance	0.2%

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

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

Loans in Lek	1.80% to 21.00%
Loans in Euro	2.00% to 15.40%
Loans in USD	3.59% to 15.20%
Loans in CHF	3.10% to 8.31%

12. Loans and advances to customers (continued)

The classification of corporate loans by industry is as follows:

	31 December 2008		31 December 2007	
	USD	**%**	**USD**	**%**
Wholesale Trade	59,362,876	23%	51,414,658	21%
Construction	50,096,516	19%	45,164,142	19%
Retail Trade	25,182,629	10%	19,211,306	8%
Hotels and Restaurants	22,355,119	8%	24,296,651	10%
Other Community, Social and Personal Activities	22,151,142	8%	17,428,342	7%
Manufacturing of Other Non-metallic Products	16,053,890	6%	14,530,063	6%
Manufacture of Food Products, Beverages	14,793,085	6%	9,125,845	4%
Personal Needs	8,980,362	3%	9,034,208	4%
Manufacture of Rubber and Plastic Products	7,446,238	3%	5,033,350	2%
Manufacture of Wood and Wood Products	6,952,958	3%	6,929,790	3%
Financial Intermediation	6,379,287	2%	2,520,415	1%
Education	4,513,188	2%	4,362,311	2%
Manufacturing of Basic Metallic	3,660,309	1%	5,521,995	2%
Real Estate, Renting and Business Activity	2,679,493	1%	10,917,500	5%
Transport, Storage and Communication	2,505,451	1%	2,186,994	1%
Manufacture of Pulp, Paper and Paper Products	1,939,926	1%	1,648,357	1%
Manufacture of Textile and Textile Products	1,921,428	1%	1,952,878	1%
Other Sectors	6,406,380	2%	7,676,739	3%
	263,380,277	**100%**	**238,955,544**	**100%**

The classification of retail loans by type is as follows:

	31 December 2008		31 December 2007	
	USD	**%**	**USD**	**%**
Home purchase	69,595,681	52%	58,069,075	57%
Home improvement	19,047,636	15%	11,215,160	11%
Home reconstruction	11,989,449	9%	9,626,683	9%
Super Loan	10,047,392	8%	9,207,249	9%
Shop purchase	8,804,803	7%	5,464,569	5%
Home advances	6,601,129	5%	6,385,558	6%
Overdraft and credit cards	2,345,590	2%	1,022,425	1%
Car purchase	711,586	1%	979,408	1%
Other types	883,847	1%	588,588	1%
	130,027,113	**100%**	**102,558,715**	**100%**

13. Property and equipment

Property and equipment as at 31 December 2008 and 2007 are composed as follows:

(In USD)	Land and buildings	Vehicles and other equipment	IT equipment	Office equipment	Total
Gross value					
At 1 January 2007	**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**
Additions	3,578,365	1,168,361	2,956,998	432,036	**8,135,760**
Disposals / transfers	(42,429)	(125,575)	(303,965)	(2,036)	**(474,005)**
Translation difference	(847,975)	(184,290)	(474,191)	(44,675)	**(1,551,131)**
At 31 December 2008	**17,657,817**	**4,127,015**	**10,522,714**	**1,196,284**	**33,503,830**
Accumulated depreciation					
At 1 January 2007	**(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)**
Charge for the year	(686,080)	(542,073)	(1,499,895)	(102,857)	**(2,830,905)**
Disposals / write offs	9,370	125,112	301,800	1,610	**437,892**
Translation difference	340,013	126,184	369,703	38,176	**874,076**
At 31 December 2008	**(5,752,777)**	**(2,096,370)**	**(6,296,847)**	**(656,577)**	**(14,802,571)**
Net book value					
At 31 December 2007	**9,553,776**	**1,462,926**	**2,875,417**	**217,453**	**14,109,572**
At 31 December 2008	**11,905,040**	**2,030,645**	**4,225,867**	**539,707**	**18,701,259**

14. Intangible assets

Intangible assets as at 31 December 2008 and 2007 are composed as follows:

(In USD)	**Software**
Gross value	
At 1 January 2007	**1,989,277**
Additions	401,847
Translation difference	269,989
At 31 December 2007	**2,661,113**
Additions	899,052
Translation difference	(151,959)
At 31 December 2008	**3,408,206**
Accumulated depreciation	
At 1 January 2007	**(1,358,097)**
Charge for the year	(332,020)
Translation difference	(215,987)
At 31 December 2007	**(1,906,104)**
Charge for the year	(424,773)
Translation difference	125,069
At 31 December 2008	**(2,205,808)**
Net book value	
At 31 December 2007	**755,009**
At 31 December 2008	**1,202,398**

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 users during 2007 and 2008.

15. Non – current assets held for sale

This item includes the collateral values of some unrecoverable loans totalling to USD 937,541 (2007: USD 487,377), 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.

16. Due from / to 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 credit balance as at 31 December 2008 at USD 1,091,196 (2007: USD 10,483,713 - debit balance) 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.

17. Other assets

Other assets**,** net as at 31 December 2008 and 2007 are as follows:

	31 December 2008	31 December 2007
Cheques for collection and payments in transit	15,327	42,328
Inventory	694	5,102
Spot transactions revaluation gain	336,768	245,595
Other debtors, net	2,620,914	3,036,994
	2,973,703	**3,330,019**

"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 are composed as follows:

	31 December 2008	31 December 2007
Other debtors	2,623,568	3,039,648
Provision	(2,654)	(2,654)
	2,620,914	**3,036,994**

"Other debtors" are composed of four main items. The first item of USD 521,869 (2007: USD 348,953) consists mostly of USD 468,436 (2007: USD 298,204), which represents credit disbursement and administration costs paid by the Bank, but charged and repayable by the borrowers and of USD 28,233, which is fully cash collateralised. The other three items represent advance payments to suppliers (due to opening of new branches in Albania and Kosovo) of USD 1,117,145 (2007: USD 2,237,768), prepaid expenses of USD 772,428 (2007: USD 452,927) and income tax receivable of USD 212,126.

18. Customer deposits

Customer deposits as at 31 December 2008 and 2007 are composed as follows:

	31 December 2008	31 December 2007
Current accounts:		
Individuals	47,179,146	39,349,356
Private enterprises	90,340,733	90,321,721
State owned entities	38,180,694	69,097,157
	175,700,573	**198,768,234**
Deposits:		
Individuals	796,489,288	825,377,085
Private enterprises	35,030,796	48,967,285
State owned entities	22,603,322	34,880,962
	854,123,406	**909,225,332**
Other customer accounts:		
Individuals	4,796,374	6,430,380
Private enterprises	12,565,033	11,399,469
State owned entities	769,396	724,537
	18,130,803	**18,554,386**
	1,047,954,782	**1,126,547,952**

18. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

	31 December 2008			31 December 2007		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Current accounts	**116,540,606**	**59,159,967**	**175,700,573**	**138,935,168**	**59,833,066**	**198,768,234**
Deposits						
On demand	187,073	1,931,010	**2,118,083**	42,892	124,288	**167,180**
One month	24,311,276	47,728,451	**72,039,727**	30,924,207	53,162,205	**84,086,412**
Three months	57,220,808	61,917,774	**119,138,582**	66,693,976	76,672,907	**143,366,883**
Six months	89,927,080	59,203,555	**149,130,635**	116,027,878	61,730,362	**177,758,240**
Twelve months	275,961,175	147,559,303	**423,520,478**	277,821,333	140,750,746	**418,572,079**
Two years and over	48,454,761	19,917,704	**68,372,465**	51,310,574	17,709,583	**69,020,157**
Accrued interest on deposits	15,009,466	4,793,970	**19,803,436**	12,144,379	4,110,002	**16,254,381**
Total deposits	**511,071,639**	**343,051,767**	**854,123,406**	**554,965,239**	**354,260,093**	**909,225,332**
Other customer accounts	**9,726,601**	**8,404,202**	**18,130,803**	**12,272,560**	**6,281,826**	**18,554,386**
Total customer deposits	**637,338,846**	**410,615,936**	**1,047,954,782**	**706,172,967**	**420,374,985**	**1,126,547,952**

Other customer accounts are composed as follows:

	31 December 2008			31 December 2007		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Deposits from liquidation of Xhaferi Foundation	1,023,698	20,744	**1,044,442**	1,085,776	25,241	**1,111,017**
Deposit guarantees for letters of credit	-	3,980,915	**3,980,915**	-	626,582	**626,582**
Escrow accounts	7,165,226	2,693,932	**9,859,158**	9,008,477	2,531,262	**11,539,739**
Bank drafts	-	7,611	**7,611**	-	8,051	**8,051**
Payment orders to be executed	69,797	155,753	**225,550**	60,416	178,155	**238,571**
Other	1,467,880	1,545,247	**3,013,127**	2,117,891	2,912,535	**5,030,426**
	9,726,601	**8,404,202**	**18,130,803**	**12,272,560**	**6,281,826**	**18,554,386**

"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).

19. Due to banks

Due to banks as at 31 December 2008 and 2007 consisted as follows:

	31 December 2008	31 December 2007
Treasury bills sold under Repo agreements with Central Bank	13,733,490	-
Deposits from resident banks	2,277,373	-
Current accounts of non resident banks	5,619,745	2,192,226
Current accounts of resident banks	12,901	21,805
	21,643,509	**2,214,031**

The Bank, as at 31 December 2008, has borrowed for ten days from one resident bank in Lek. The contractual maturity and its balance are detailed as follows:

Bank	Principal	Accrued interest	Total deposit	Maturity date
Credins Bank	2,275,054	2,319	2,277,373	05 January 2009
	2,275,054	**2,319**	**2,277,373**	

20. Deferred tax liabilities

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 10%. The movement on the deferred income tax account is as follows:

	31 December 2008	31 December 2007
Balance at 1 January	(78,463)	75,246
Income statement benefit/(expense)	(97,853)	(150,254)
Exchange differences	8,978	(3,455)
Balance at the end of the year	**(167,338)**	**(78,463)**

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

	31 December 2008	31 December 2007
Deferred income on fees on loans	222,508	445,635
Allowance for loan impairment	(594,844)	(862,654)
Decelerated depreciation	202,757	320,643
Start up costs written off	2,241	17,913
	(167,338)	**(78,463)**

21. Accruals and other liabilities

A breakdown of accruals and other liabilities as at 31 December 2008 and 2007 is presented as follows:

	31 December 2008	31 December 2007
Creditors	1,900,317	1,864,538
Transit account	324,323	470,911
Reserve fund for retiring employees	1,337,980	1,016,894
Due to tax authorities	551,981	581,929
Social insurance	144,140	101,698
Accrued expenses	1,160,886	1,123,049
Other	1,158,627	1,110,287
	6,578,254	**6,269,306**

"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" mostly 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.

"Accrued expenses" includes USD 468,033 (2007: USD 427,728) of deposit insurance premium due for the last quarter of 2008 according to the Law no. 8873 "On the Insurance of Deposits" dated 29 March 2002, that provides insurance coverage to individual depositors against bank failures.

Accrued expenses for personnel amounting to USD 692,853 (2007: USD 695,321), represents the accrued amounts of yearly performance bonus for management and branch/agency managers planned to be paid within the 1st quarter of 2009.

"Other" consists of two items. The first item of USD 1,084,369 (2007: USD 1,038,510) are payments due to construction companies in relation to semi finished home loans and the second item of USD 74,258 (2007: USD 71,777) represents cash guarantees received from suppliers.

22. Shareholders' equity

Share Capital

At 31 December 2008 the authorised share capital comprised 6,340,000 ordinary shares (2007: 4,470,000). The shares have a par value of USD 10. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends from time to time, if declared. All shares rank equally with regard to the Bank's residual assets.

Translation difference

The translation difference comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of consolidated financial statements from functional currency to presentation currency.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired.

22. Shareholders' equity (continued)

Retained earnings

Retained earnings as at 31 December 2008 represent the cumulative non distributed earnings from 2007 year's profit. As described in Note 1, the Bank has used its statutory retained earnings amounting to Lek 1,476,178,000 or USD 18,700,000 to increase its share capital on 30 April 2008.

23. Interest income

Interest income is composed as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Treasury bills and investment securities	40,108,250	30,810,956
Placements with banks and balances with Central Bank	13,763,062	12,243,505
Loans and advances to customers	38,240,261	29,128,002
	92,111,573	**72,182,463**

Interest income can be further analysed as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Available-for-sale financial assets	8,904,544	920,153
Held-to-maturity investments	44,966,768	42,134,308
Loans and receivables	38,240,261	29,128,002
	92,111,573	**72,182,463**

Interest income on impaired loans for the year ended 31 December 2008 was USD 533,072 (2007: USD 148,756).

24. Interest expense

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

	Year ended 31 December 2008	Year ended 31 December 2007
Due to banks	623,389	499,506
Customer deposits	46,341,931	32,660,925
	46,965,320	**33,160,431**

25. Fees and commissions, net

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

	Year ended 31 December 2008	Year ended 31 December 2007
Fee and commission income		
Payment services to clients	1,741,695	1,371,124
Lending activity	1,415,630	1,013,536
Customer accounts' maintenance	530,999	490,575
Cash transactions with clients	271,672	261,133
Card transactions	234,609	130,902
Inter bank transactions	76,280	67,628
Other fees and commissions	60,284	49,014
	4,331,169	*3,383,912*
Fee and commission expense		
Inter bank transactions	(246,604)	(431)
Customer accounts' maintenance	(103,038)	(89,960)
Payment services to clients	(14,858)	(7,953)
	(364,500)	*(98,344)*
Fees and commissions, net	**3,966,669**	**3,285,568**

26. Foreign exchange revaluation gain / (loss), net

Foreign exchange revaluation gain / (loss) represent the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in Note 3(b) it also includes the revaluation of the Bank's share capital. The revaluation loss on the share capital revaluation for the year ended 31 December 2008 is USD 4,675,486 (2007: USD 5,406,967 - gain).

27. Other income, net

Other income and expenses are composed as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Other income		
Gain on sale of fixed assets	4,223	12,131
Gain on sale of non-current assets	7,190	-
Sundry	64,925	65,840
	76,338	77,971
Other expense		
Loss on sale or write off of fixed assets	(40,689)	(4,131)
Loss on unrecoverable lost loans	(4,532)	-
Provision on write off of small inventory	(1,740)	-
Sundry	(14,245)	(50)
	(61,206)	(4,181)
Other income, net	**15,132**	**73,790**

28. Personnel expenses

Personnel expenses are composed as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Salaries	7,786,775	5,307,043
Performance bonus	1,291,879	1,366,850
Social insurance	1,019,787	706,797
Training	383,632	226,784
Reserve fund for retiring employees	304,200	245,034
Life insurance	6,920	5,774
Other	89,443	118,197
	10,882,636	**7,976,479**

29. Administrative expenses

Administrative expenses are composed as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Marketing expenses	2,704,643	1,738,242
Telephone, electricity and IT expenses	2,008,858	1,609,359
Deposit insurance expense	1,954,124	1,572,156
Lease payments	1,061,610	504,850
Repairs and maintenance	805,448	585,656
Security and insurance expenses	752,542	643,944
Transportation and business related travel	694,086	521,589
Credit/debit cards expenses	480,666	473,728
Office stationery and supplies	395,627	295,289
Taxes other than tax on profits	301,189	37,560
Representation expenses	222,053	166,408
Other external services (including external audit fees)	202,259	259,962
Sundry	99,030	90,709
	11,682,135	**8,499,452**

30. Income tax

Income tax is comprised of:

	Year ended 31 December 2008	Year ended 31 December 2007
Current income tax	2,125,705	4,219,041
Deferred tax expense (note 20)	97,853	150,254
	2,223,558	**4,369,295**

30. Income tax (continued)

Income tax in Albania is assessed at the rate of 10% (2007: 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 2008	Year ended 31 December 2007
Profit before taxes	**21,767,075**	**21,625,050**
Computed tax using applicable tax rate	2,176,708	4,325,010
Non tax deductible expenses	139,733	134,885
Foreign exchange difference	(92,883)	(90,600)
Income tax	**2,223,558**	**4,369,295**
Effective tax rate	**10%**	**20%**

31. 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 had only one placement transaction with its shareholders during 2008, which contractual details are as follows:

Related party	Currency	Amount	Interest rate	Value date	Maturity date
Aktifbank	USD	8,000,000	4.42%	22 April 2008	22 April 2009

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, 2008	Year ended 31 December 2007
Directors	40,000	42,336
Executive officers	2,007,921	1,541,002
	2,047,921	**1,583,338**

32. Contingencies and commitments including off-balance sheets items

Guarantees and letters of credit

	31 December 2008	31 December 2007
Guarantees in favour of customers	18,324,015	15,823,265
Guarantees received from credit institutions	4,031,390	1,431,200
Letters of credit issued to customers	5,831,881	3,242,086

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 2008	31 December 2007
Undrawn credit commitments	17,103,095	21,277,971
Outstanding cheques of non-resident banks	181,630	165,334
Spot foreign currency contract	60,927,012	17,105,398
Collaterals for loan portfolio	936,843,614	762,681,571

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 at 31 December 2008.

Lease commitments

Such commitments for the years ended 31 December 2008 and 2007 are composed as follows:

	31 December 2008	31 December 2007
Not later than 1 year	1,414,921	627,865
Later than 1 year and not later than 5 years	5,341,250	2,176,507
Later than 5 years	4,628,021	1,669,868
Total	**11,384,192**	**4,474,240**

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2008 with a maximum duration of ten years.

The Bank had 61 rented buildings as at 31 December 2008, in which are included the rented space dedicated to off site disaster recovery and the 12 buildings rented for units of Kosovo Branch.

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

33. Post balance sheet events

There are no events after the balance sheet date that would require either adjustments or additional disclosures in the financial statements.