

**RAIFFEISEN BANK S.H.A.**

**Consolidated financial statements  
for the year ended 31 December 2007  
(with independent auditor's report thereon)**

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**KPMG Albania Sh.p.k.**  
"Dëshmorët e Kombit" Blvd.  
Twin Towers Buildings,  
Building 1, 13th floor  
Tirana, Albania

Telephone +355 4 274 524  
+355 4 274 534  
Telefax +355 4 235 534  
E-mail al-office@kpmg.com  
Internet www.kpmg.al

## Independent Auditors' Report

To the shareholder of  
Raiffeisen Bank Sh.a.

Tirana, 13 February 2008

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Raiffeisen Bank Sh.a. ("the Group"), which comprise the consolidated balance sheet as at 31 December 2007, 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.



*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Sh.p.k.

KPMG Albania Sh.p.k.  
“Deshmoret e Kombit” Blvd.  
Twin Towers Buildings  
Building 1, 13<sup>th</sup> floor  
Tirana, Albania

# RAIFFEISEN BANK SH.A.


Consolidated balance sheet as at 31 December 2007

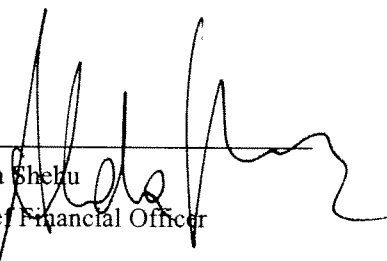
(in thousands of Lek)

	Note	31 December 2007	31 December 2006
<b>Assets</b>			
Cash and cash equivalents	7	29,815,034	28,203,064
Restricted balances	8	20,641,146	19,435,553
Available-for-sale investment securities	9.1	-	1,363,664
Investments held for trading	9.2	61,519	-
Held-to-maturity investment securities	9.3	122,764,017	129,885,821
Repurchase agreements	9.4	-	4,001,808
Loans and advances to customers	10	61,704,684	35,782,565
Deferred tax assets	11	-	28,137
Property, equipment and intangible assets	12	2,174,490	1,948,968
Other assets	13	512,308	82,492
<b>Total assets</b>		<b>237,673,198</b>	<b>220,732,072</b>
<b>Liabilities</b>			
Due to financial institutions	14	2,411,206	1,044,858
Reverse repurchase agreements	15	-	4,524,385
Due to customers	16	218,579,038	203,494,816
Deferred tax liabilities	11	19,477	-
Income tax payable		65,190	41,782
Other liabilities	17	1,205,643	1,117,041
<b>Total liabilities</b>		<b>222,280,554</b>	<b>210,222,882</b>
<b>Shareholder's equity</b>			
Share capital	18	4,348,233	4,348,233
General reserve	19	850,000	850,000
Retained earnings		10,167,732	5,283,788
<b>Total equity attributable to equity holder of the Bank</b>		<b>15,365,965</b>	<b>10,482,021</b>
<b>Minority interest</b>	20	<b>26,679</b>	<b>27,169</b>
<b>Total equity</b>		<b>15,392,644</b>	<b>10,509,190</b>
<b>Total liabilities and shareholder's equity</b>		<b>237,673,198</b>	<b>220,732,072</b>

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 50.

These consolidated financial statements have been approved by the Supervisory Board on February, 13 2008 and signed on its behalf by:

  
\_\_\_\_\_  
Oliver J. Whittle  
Chief Executive Officer

  
\_\_\_\_\_  
Alda Shehu  
Chief Financial Officer

# RAIFFEISEN BANK SH.A.

## Consolidated income statement for the year ended 31 December 2007

(in thousands of Lek)

	Note	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	21	16,086,066	12,938,279
Interest expense	22	(6,856,697)	(5,020,947)
<b>Net interest income</b>		<b>9,229,369</b>	<b>7,917,332</b>
Fee and commission income	23	1,429,643	923,239
Fee and commission expense		(271,571)	(241,399)
<b>Net fee and commission income</b>		<b>1,158,072</b>	<b>681,840</b>
Gain from disposals of securities		20,926	86,147
Net foreign exchange gain		380,090	196,383
Net other operating income/(expense)	24	179,197	(139,122)
		<b>580,213</b>	<b>143,408</b>
Deposit insurance premium	25	(422,857)	(458,377)
Personnel expenses	26	(1,760,504)	(1,454,596)
Depreciation and amortisation	12	(567,454)	(492,759)
General and administrative expenses	27	(1,690,146)	(1,489,865)
Net impairment loss on financial assets	10	(432,435)	(271,552)
		<b>(4,873,396)</b>	<b>(4,167,149)</b>
<b>Profit before income tax</b>		<b>6,094,258</b>	<b>4,575,431</b>
Income tax	28	(1,210,804)	(956,351)
<b>Profit for the year</b>		<b>4,883,454</b>	<b>3,619,080</b>
<b>Attributable to</b>			
Equity holder of the Bank		4,883,944	3,622,661
Minority interest		(490)	(3,581)
<b>Profit for the year</b>		<b>4,883,454</b>	<b>3,619,080</b>

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 50.

## RAIFFEISEN BANK SH.A.

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

(in thousands of Lek)

<i>(in LEK '000)</i>	Attributable to equity holder of the Bank			Minority interest	Total equity
	Share Capital	General Reserves	Retained Earnings		
<b>Balance at 31 December 2005</b>	<b>4,348,233</b>	-	<b>2,511,127</b>	-	<b>6,859,360</b>
Transfer of retained earnings to general reserve	-	850,000	(850,000)	-	-
Minority interest	-	-	-	30,750	<b>30,750</b>
Profit for the year	-	-	3,622,661	(3,581)	<b>3,619,080</b>
<b>Balance as at 31 December 2006</b>	<b>4,348,233</b>	<b>850,000</b>	<b>5,283,788</b>	<b>27,169</b>	<b>10,509,190</b>
Profit for the year	-	-	4,883,944	(490)	<b>4,883,454</b>
<b>Balance as at 31 December 2007</b>	<b>4,348,233</b>	<b>850,000</b>	<b>10,167,732</b>	<b>26,679</b>	<b>15,392,644</b>

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 50.

# RAIFFEISEN BANK SH.A.

## Consolidated statement of cash flows for the year ended 31 December 2007

(in thousands of Lek)

	Year ended 31 December 2007	Year ended 31 December 2006
<b>Cash flows from operating activities</b>		
<b>Net profit for the period before taxation</b>	<b>6,094,258</b>	<b>4,575,431</b>
<b>Non-cash items in the statement of income</b>		
Depreciation and amortisation	567,454	492,759
Fixed assets written off	55,757	120,317
Net impairment loss on financial assets	432,435	271,552
Net interest income	(9,229,369)	(7,917,332)
Change for provision for other debtors	(18,043)	41,443
<b>Operating cash flows before changes in working capital</b>	<b>(2,097,508)</b>	<b>(2,415,830)</b>
<b>Changes in working capital</b>		
Increase in restricted balances	(1,194,858)	(98,902)
Increase in loans and advances to customers	(26,139,885)	(18,263,027)
Increase/(Decrease) in Reverse repurchase agreements/in repurchase agreements	(500,000)	500,000
Increase in Trading Securities	(61,519)	-
(Increase)/Decrease in other assets	(415,291)	19,825
Increase in due to financial institutions	1,365,991	715,708
Increase in due to customers	13,792,196	9,264,010
Increase in other liabilities	92,120	803,688
	<b>(15,158,754)</b>	<b>(9,474,528)</b>
Interest received	14,447,820	11,162,026
Interest paid	(5,588,699)	(5,594,216)
Corporate income tax paid	(1,139,782)	(930,246)
<b>Net cash used in operating activities</b>	<b>(7,439,415)</b>	<b>(4,836,964)</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(773,353)	(525,473)
Purchases of intangible assets	(75,380)	(139,157)
Net proceeds from purchase and redemption of securities held to maturity	8,536,453	6,351,744
Proceeds from securities available for sale	1,363,664	4,495,839
<b>Net cash generated from investing activities</b>	<b>9,051,384</b>	<b>10,182,953</b>
<b>Increase in cash during the year</b>	<b>1,611,969</b>	<b>5,345,989</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>28,203,064</b>	<b>22,857,075</b>
<b>Cash and cash equivalents at the end of the year (Note 7)</b>	<b>29,815,033</b>	<b>28,203,064</b>

The consolidated cash flow 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 50.



# RAIFFEISEN BANK SH.A

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007 and 31 December 2006

### 1. Introduction

The name was changed to Raiffeisen Bank Sh.a. (the “Bank”) on 1 October 2004 from Banka e Kursimeve Sh.a (Savings Bank of Albania). Banka e Kursimeve was established in 1991, from part of the previous “Insurance and Savings Institute” entity, to collect deposits from individuals and enterprises, grant and maintain loans to private individuals, enterprises and state owned entities and carry out general banking services.

On 11 December 1992, the Bank was registered to operate as a bank in the Republic of Albania, in accordance with Law No. 7560 “On the Banking system in Albania”. The Bank of Albania at that time granted a non-transferable general banking license for an unlimited time period. On 27 July 1997, the Bank was incorporated as a Joint Stock Company based on Decision No. 17426 of the Court of Tirana District. The sole shareholder of the Bank was the Ministry of Finance with a paid up capital of LEK 700 million, which consists of 7,000 shares of LEK 100,000 nominal value each. Based on this decision, the Bank of Albania updated the license of the Bank to reflect these changes on 11 January 1999.

On 14 April 2004, the Ministry of Finance of Albania sold 100% of the issued and outstanding shares of the Group to Raiffeisen Zentralbank Osterreich Aktiengesellshafft (RZB AG).

On 21 July 2004, RZG AG transferred its 100% share in the Bank to RZB AG’s fully owned subsidiary Raiffeisen International AG, Vienna, Austria, which therefore is now the holder of 100% of the issued and outstanding shares of the Bank.

On 7 April 2006, the Bank bought 75% of the issued and outstanding shares of Raiffeisen Leasing Sh.a. (the “Subsidiary”). The consolidated financial statements of the Bank as at 31 December 2007 and 31 December 2006 comprise the Bank and its subsidiary (together referred to as the “Group”).

The Bank operates through a banking network as of 31 December 2007 of 96 service points (31 December 2006: 93 service points) throughout Albania, which are managed through 17 Regional Branches.

### Directors and Management as of 31 December 2007 and 2006

#### *Board of Directors (Supervisory Board)*

Heinz Höedl	Chairman
Herbert Stepic	Member
Peter Lennkh	Member
Martin Grill	Member
Aris Bogdaneris	Member

#### *Audit Committee*

Susana Mitter	Chairman
Johannes Kellner	Member
Heinz Hödl	Member

#### *Management Board*

Steven Grunerud	Chief Executive Officer
Christian Canacaris	Member
Robert Wright	Member
Peter Hakkenberg	Member
Artan Kadriaj	Member

In 2008, Steven Grunerud was replaced as Chief Executive Officer by Oliver J. Whittle.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

*(amounts in Lek'000, unless otherwise stated)*

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### 2. Basis of preparation

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB). These are the Group's first financial statements and IFRS 1 has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 31.

#### (b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment property is measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value.

#### (c) Functional and presentation currency

These consolidated financial statements are presented in Albanian Lek ("Lek"), which is the Group's functional currency. Except as indicated, financial information presented in Lek has been rounded to the nearest thousand

#### (d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of 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 recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are described in note 4.

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all the periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2006 for the purposes of the transition to IFRSs.

The accounting policies have been applied consistently by Group entities.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

*(amounts in Lek'000, unless otherwise stated)*

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### **3. Significant accounting policies (continued)**

#### **(a) Basis of consolidation**

##### **(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, 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 or convertible 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 Group prepares consolidated financial statements and separate financial statements in accordance with IFRS.

##### **(ii) Transactions eliminated on consolidation**

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised 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 transactions**

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the 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 to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

#### **(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. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

Interest income and expense presented in the income statement include interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### (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, including account servicing fees, sales commission, and placement fees, are recognised as the related services are performed.

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

#### (e) Operating lease

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.

#### (f) Operating expenses

The operating expenses are recognized when incurred.

#### (g) Employee benefits

- *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 Group 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.

- *Paid annual leave*

The Group recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

- *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 Group 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.

- *Termination benefits*

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognized if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### (h) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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.

Deferred tax is provided using the balance sheet method, providing 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 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 recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. 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 realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

#### (i) Financial assets and liabilities

##### *i Recognition*

The Group initially recognizes loans and advances, and deposits, on the date that they originate. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

##### *ii Derecognition*

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or 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 Group is recognized as a consolidated asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognized on its balance sheet, but retains either all 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 derecognized 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.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognized separately as assets and liabilities as appropriate.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### (i) Financial assets and liabilities (continued)

##### *ii Derecognition (continued)*

In transfers where control over the asset is retained, the Group continues to recognize 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.

##### *iii Amortized 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 amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

##### *iv Fair value measurement*

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

##### *v Offsetting*

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group 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 Group's trading activity.

##### *vi Identification and measurement of impairment*

At each balance sheet date the Group 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 on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group 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 Group, or economic conditions that correlate with defaults in the Group.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### (i) Financial assets and liabilities (continued)

##### *vi Identification and measurement of impairment (continued)*

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' 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 impairment loss is reversed through profit or loss.

##### *vii Designation at fair value through profit or loss*

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

#### (j) 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 Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

#### (k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of the portfolio that is managed together for the short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of the trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

#### (l) Non-trading derivatives

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives are measured at fair value in the balance sheet. When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net trading income.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### (l) Non-trading derivatives (continued)

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

#### (m) 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 Group does not intend to sell immediately or in the near term.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

When the Group 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 Group'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.

#### (n) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

##### *i Held-to-maturity*

Held-to-maturity investments are assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. Held-to-maturity investments are carried at amortised cost using the effective interest method.

Any sale or reclassification of a significant 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 Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

##### *ii Fair value through profit or loss*

The Group carries some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy 3(i)(vii).

##### *iii Available-for-sale*

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other 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 and the balance in equity is recognised in profit or loss.



# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### (o) Property and equipment

##### *i Recognition and measurement*

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

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

##### *ii Subsequent costs*

The cost of replacing 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 Group and its cost can be measured reliably. 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. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land and work in progress is not depreciated.

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

	<b>2007</b>	<b>2006</b>
	<b>(in years)</b>	<b>(in years)</b>
• Buildings	20	20
• Computers, ATM, and IT equipment	4	4
• Vehicles	5	5
• Leasehold improvements	2-4	2-4
• Other (Office furniture)	5	5

Useful lives and residual values are reassessed at the reporting date.

#### (p) Intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets are 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 intangible asset, from the date that it is available for use. The estimate useful life of intangible assets is four years.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### (q) Deposits and other financial liabilities

Deposits and other financial liabilities are the Group's main sources of debt funding.

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

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Deposits and other financial liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

#### (r) Impairment of non-financial assets

The carrying amounts of the Group'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.

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.

#### (s) Provisions

A provision is recognised if, as a result of a past event, the Group 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.

#### (t) 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 2007, and have not been applied in preparing these financial statements:

IFRS 8 *Operating Segments* (effective from 1 January 2009) requires segment disclosure based on the components of the entity that management monitors in making *decisions* about operating matters. Operating segments are components of an entity about which consolidated financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group does not expect the new Standard to have any impact on the financial statements.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

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### 3. Significant accounting policies (continued)

#### (t) New standards and interpretations not yet adopted (continued)

IAS 23 *Borrowing Costs - Revised* (effective from 1 January 2009) will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group has not yet completed its analysis of the impact of the revised Standard.

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007) requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Group's operations as the Group has not entered into any share-based payments arrangements.

IFRIC 12 *Service Concession Arrangements* (effective from 1 January 2008) provides *guidance* to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations as it has not entered into any service concession arrangement.

IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008) 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 Group does not expect the Interpretation to have any impact on the financial statements.

IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements (MFR) and their interactions* (effective for annual periods beginning on or after 1 January 2008) addresses: 1) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; 2) how a MFR might affect the availability of reductions in future contributions; and 3) when a MFR might give rise to a liability. No additional liability need be recognised by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. The Group does not expect the Interpretation to have any impact on the financial statements.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

*(amounts in Lek'000, unless otherwise stated)*

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### **4. Use of estimates and judgments**

Management discussed with the Audit Committee the development, selection and disclosure of the Group'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).

#### **Key sources of estimation uncertainty**

##### *Allowances for credit losses*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(i)(vi). The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently estimated by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

##### *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(i)(iv). 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.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

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### 5. Financial risk management

#### (a) Overview

The Group has exposure to the following risks from its use of financial instruments:

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

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

#### *Risk management framework*

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Group Asset and Liability (ALCO) and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group, 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 Group Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group 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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 5. Financial risk management (continued)

#### (b) Credit risk (continued)

##### *Management of credit risk*

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committee. A consolidated Bank Credit Risk Management division, reporting to the Bank Credit Committee, is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Bank Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive as appropriate. Risk grades are subject to regular reviews by Bank Credit Risk Management Division.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit Risk Management division on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

#### (i) *Investment securities*

	Available-for-sale investment securities		Investments held for trading		Held-to-maturity investment securities	
	2007	2006	2007	2006	2007	2006
Neither past due nor impaired						
Grade 1: Low-fair risk	-	1,363,664	61,519	-	122,764,017	129,885,821
<b>Carrying amount</b>	<b>-</b>	<b>1,363,664</b>	<b>61,519</b>	<b>-</b>	<b>122,764,017</b>	<b>129,885,821</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 5. Financial risk management (continued)

#### (b) Credit risk (continued)

##### (ii) Loans and advances to customers

	Loans and advances to customers	
	2007	2006
Individually impaired		
Grade 5: Impaired	2,504,814	518,620
Gross amount	2,504,814	518,620
Allowance for impairment	(659,555)	(188,198)
Carrying amount (A)	1,845,259	330,422
Portfolio based allowance for losses		
Enterprises		
Grade 1	8,832,473	1,542,869
Grade 1.5	7,873,540	4,324,416
Grade 2	6,416,962	2,406,564
Grade 2.5	6,212,609	5,414,329
Grade 3	3,809,357	3,483,605
Grade 3.5	9,368,624	5,062,261
Grade 4	1,215,817	4,585,954
Grade 4.5	286,483	893,261
Grade 5 (unrated)	52,261	23,787
	44,068,126	27,737,046
Private individuals	16,090,379	8,059,677
Gross amount	60,158,505	35,796,723
Allowance for impairment	(299,080)	(344,580)
Carrying amount (B)	59,859,425	35,452,143
<i>Past due but not impaired comprises:</i>		
30-60 days:	4,382,149	418,536
60-180 days:	434,654	12,198
Carrying amount	4,816,803	430,734
<b>Total carrying amount (A+B)</b>	<b>61,704,684</b>	<b>35,782,565</b>

#### *Impaired loans and securities*

Impaired loans and securities are loans and securities for which the Group 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 0.5 to 5 in the Group's internal credit risk grading system.

#### *Past due but not impaired loans*

Loans and securities where contractual interest or principal payments are past due but the Group 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 Group.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 5. Financial risk management (continued)

#### (b) Credit risk (continued)

##### *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 Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

##### *Allowances for impairment*

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for Banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

##### *Write-off policy*

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Bank Problem Loans Committee determines that the loans / securities are uncollectible. This determination is reached 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.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	<b>Loans and advances to customers</b>	
	<b>Gross</b>	<b>Net</b>
<b>31 December 2007</b>		
<i>Individually impaired</i>		
Grade 5:Impaired	2,504,814	1,845,259
<b>Total</b>	<b>2,504,814</b>	<b>1,845,259</b>
<b>31 December 2006</b>		
<i>Individually impaired</i>		
Grade 5:Impaired	518,620	330,422
<b>Total</b>	<b>518,620</b>	<b>330,422</b>



# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 5. Financial risk management (continued)

#### (b) Credit risk (continued)

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2007 and 31 December 2006.

	<b>Against individually impaired</b>	<b>Against collectively impaired</b>	<b>Total</b>
Property	1,517,837	81,446,184	82,964,021
Pledge	137,618	26,685,431	26,823,049
Cash	-	1,246,095	1,246,095
<b>Total</b>	<b>1,655,455</b>	<b>109,377,711</b>	<b>111,033,166</b>

The collateral pledged against individually impaired loans as at 31 December 2006 was Lek 1,836,884 thousand.

#### *Minimum lease payments receivable*

The finance lease is presented within loans and advances to customers. A reconciliation of gross investment to present value of minimum lease payments receivable is presented below:

	<b>Finance lease</b>	
	<b>2007</b>	<b>2006</b>
Gross investment in the lease	1,192,978	208,218
Unearned financial income	215,433	41,887
	<b>977,545</b>	<b>166,331</b>

#### *Settlement risk*

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Bank Risk Management.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 5. Financial risk management (continued)

#### (b) Credit risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk as at 31 December 2007 and 31 December 2006 is shown below:

	31 December 2007					31 December 2006				
	Individual	Corporate	SME	Employees	Total	Individual	Corporate	SME	Employees	Total
<b>Overdraft</b>	<b>2,292,790</b>	<b>16,510,859</b>	<b>5,777,630</b>	<b>18,861</b>	<b>24,600,140</b>	<b>1,502,041</b>	<b>8,435,220</b>	<b>3,860,727</b>	<b>15,711</b>	<b>13,813,699</b>
<b>Loans</b>										
<i>Short term</i>	68,617	1,513,896	7,892	1,060	<b>1,591,465</b>	29,802	3,358,847	4,320	609	<b>3,393,578</b>
<i>Medium term</i>	5,082,414	8,572,373	6,348,534	237,713	<b>20,241,034</b>	5,185,518	6,239,201	5,090,014	248,270	<b>16,763,003</b>
<i>Long term</i>	5,300,889	3,079,569	1,404,032	102,917	<b>9,887,407</b>	5,966	1,134,784	32,312	-	<b>1,173,062</b>
	<b>10,451,920</b>	<b>13,165,838</b>	<b>7,760,458</b>	<b>341,690</b>	<b>31,719,906</b>	<b>5,221,286</b>	<b>10,732,832</b>	<b>5,126,646</b>	<b>248,879</b>	<b>21,329,643</b>
<b>Mortgage</b>	<b>2,676,426</b>	-	-	<b>515,756</b>	<b>3,192,182</b>	<b>803,819</b>	-	-	<b>295,563</b>	<b>1,099,382</b>
<b>Other</b>	<b>127,523</b>	<b>2,985,035</b>	<b>37,527</b>	<b>1,008</b>	<b>3,151,093</b>	<b>51,758</b>	<b>2,725</b>	<b>17,424</b>	<b>712</b>	<b>72,619</b>
<b>TOTAL (Note 10)</b>	<b>15,548,659</b>	<b>32,661,732</b>	<b>13,575,615</b>	<b>877,315</b>	<b>62,663,321</b>	<b>7,578,904</b>	<b>19,170,777</b>	<b>9,004,797</b>	<b>560,865</b>	<b>36,315,343</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

*(amounts in Lek'000, unless otherwise stated)*

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### 5. Financial risk management (continued)

#### (c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

#### *Management of liquidity risk*

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and severe market or internal conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group. The liquidity requirements of business units and subsidiaries are met through short-term loans from Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 5. Financial risk management (continued)

#### (c) Liquidity risk (continued)

The following table shows the undiscounted cash flows on the Group's financial assets and liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

#### *Residual contractual maturities of financial assets and liabilities*

	31 December 2007						Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	
<b>Assets</b>							
Cash and cash equivalents	29,324,420	490,614	-	-	-	-	29,815,034
Restricted balances	19,920,300	36,534	43,977	462,976	142,487	34,872	20,641,146
Investments held for trading	-	30,610	78	30,831	-	-	61,519
Investments held to maturity	5,887,103	17,389,436	20,603,216	34,890,800	43,993,462	-	122,764,017
Loans and advances to customers	5,030,756	5,693,941	6,469,964	16,256,782	26,047,738	2,205,503	61,704,684
Other assets, net	108,572	352,684	51,052	-	-	-	512,308
<b>Total</b>	<b>60,271,151</b>	<b>23,993,819</b>	<b>27,168,287</b>	<b>51,641,389</b>	<b>70,183,687</b>	<b>2,240,375</b>	<b>235,498,708</b>
<b>Liabilities</b>							
Due to financial institutions	1,923,088	-	-	488,118	-	-	2,411,206
Due to customers	90,745,302	32,214,410	29,138,379	53,961,682	12,519,265	-	218,579,038
Income tax payable	65,190	-	-	-	-	-	65,190
Other liabilities	1,147,601	9,798	-	-	48,244	-	1,205,643
<b>Total</b>	<b>93,881,181</b>	<b>32,224,208</b>	<b>29,138,379</b>	<b>54,449,800</b>	<b>12,567,509</b>	<b>-</b>	<b>222,261,077</b>
<b>Liquidity risk at 31 December 2007</b>	<b>(33,610,030)</b>	<b>(8,230,389)</b>	<b>(1,970,092)</b>	<b>(2,808,411)</b>	<b>57,616,178</b>	<b>2,240,375</b>	<b>13,237,631</b>
<b>Cumulative</b>	<b>(33,610,030)</b>	<b>(41,840,419)</b>	<b>(43,810,511)</b>	<b>(46,618,922)</b>	<b>10,997,256</b>	<b>13,237,631</b>	<b>-</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 5. Financial risk management (continued)

#### (c) Liquidity risk (continued)

	31 December 2006						Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	
<b>Assets</b>							
Cash and cash equivalents	28,203,064	-	-	-	-	-	28,203,064
Restricted balances	19,435,553	-	-	-	-	-	19,435,553
Investments held for trading	1,363,664	-	-	-	-	-	1,363,664
Investments held to maturity	8,239,014	21,713,156	26,276,331	45,866,941	27,790,379	-	129,885,821
Repurchase agreements	4,001,808	-	-	-	-	-	4,001,808
Loans and advances to customers	2,215,722	2,662,067	6,033,081	11,471,456	13,856,760	(456,521)	35,782,565
Other assets, net	35,559	20,424	26,509	-	-	-	82,492
<b>Total</b>	<b>63,494,384</b>	<b>24,395,647</b>	<b>32,335,921</b>	<b>57,338,397</b>	<b>41,647,139</b>	<b>(456,521)</b>	<b>218,754,967</b>
<b>Liabilities</b>							
Due to financial institutions	549,206	-	-	495,652	-	-	1,044,858
Reverse repurchase agreements	4,524,385	-	-	-	-	-	4,524,385
Due to customers	96,247,520	29,247,207	28,352,978	41,129,298	8,517,813	-	203,494,816
Income tax payable	41,782	-	-	-	-	-	41,782
Other liabilities	1,057,805	7,474	-	-	51,762	-	1,117,041
<b>Total</b>	<b>102,420,698</b>	<b>29,254,681</b>	<b>28,352,978</b>	<b>41,624,950</b>	<b>8,569,575</b>	<b>-</b>	<b>210,222,882</b>
<b>Liquidity risk at 31 December 2006</b>	<b>(38,926,314)</b>	<b>(4,859,034)</b>	<b>3,982,943</b>	<b>15,713,447</b>	<b>33,077,564</b>	<b>(456,521)</b>	<b>8,532,085</b>
<b>Cumulative</b>	<b>(38,926,314)</b>	<b>(43,785,348)</b>	<b>(39,802,405)</b>	<b>(24,088,95)</b>	<b>8,988,606</b>	<b>8,532,085</b>	<b>-</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 5. Financial risk management (continued)

#### (d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

#### *Management of market risks*

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. Bank Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

#### *Exposure to foreign exchange risk*

The Group is exposed to currency risk through transactions in foreign currencies. As the currency in which the Group presents its financial statements is the Albanian Lek, the Group's financial statements are affected by movements in the exchange rates between the Albanian Lek and other currencies. The Board of Directors sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily by Treasury and the Middle-office.

#### *Exposure to interest rate risk*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a regular basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

<b>2007</b>	<b>up to 1 Year scenarios</b>		<b>over 1 Year scenarios</b>	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Estimated Profit (loss) effect	(316,128)	316,128	458,394	(458,394)
<b>2006</b>	<b>up to 1 Year scenarios</b>		<b>over 1 Year scenarios</b>	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Estimated Profit (loss) effect	(240,472)	240,472	330,776	(330,776)

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 5. Financial risk management (continued)

#### (d) Market risks (continued)

Overall interest rate risk positions are managed by Treasury, which uses investment securities, advances to banks and deposits from banks to manage the overall position arising from the Group's trading and non-trading activities.

A summary of the Group's interest rate re-pricing analysis is as follows:

	31 December 2007						Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	
<b>Assets</b>							
Cash and cash equivalents	29,324,420	490,614	-	-	-	-	29,815,034
Restricted balances	19,920,300	36,534	43,977	462,976	142,487	34,872	20,641,146
Investments held for trading	-	30,610	78	30,831	-	-	61,519
Investments held to maturity	5,887,103	17,389,436	20,603,216	34,890,800	43,993,462	-	122,764,017
Loans and advances to customers	8,194,895	5,693,941	6,469,964	28,033,574	14,270,946	(958,636)	61,704,684
Other assets, net	108,572	352,684	51,052	-	-	-	512,308
<b>Total</b>	<b>63,435,290</b>	<b>23,993,819</b>	<b>27,168,287</b>	<b>63,418,181</b>	<b>58,406,895</b>	<b>(923,764)</b>	<b>235,498,708</b>
<b>Liabilities</b>							
Due to financial institutions	1,923,088	-	-	488,118	-	-	2,411,206
Due to customers	90,745,302	32,214,410	29,138,379	53,961,682	12,519,265	-	218,579,038
Other liabilities	1,147,601	9,798	-	-	48,244	-	1,205,643
<b>Total</b>	<b>93,815,991</b>	<b>32,224,208</b>	<b>29,138,379</b>	<b>54,449,800</b>	<b>12,567,509</b>	<b>-</b>	<b>222,195,887</b>
<b>Gap at 31 December 2007</b>	<b>(30,380,701)</b>	<b>(8,230,389)</b>	<b>(1,970,092)</b>	<b>8,968,381</b>	<b>45,839,386</b>	<b>(923,764)</b>	<b>13,302,821</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 5. Financial risk management (continued)

#### (d) Market risks (continued)

	31 December 2006						Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	
<b>Assets</b>							
Cash and cash equivalents	28,203,064	-	-	-	-	-	28,203,064
Restricted balances	19,435,553	-	-	-	-	-	19,435,553
Available-for-sale investments	1,363,664	-	-	-	-	-	1,363,664
Investments held to maturity	8,239,014	21,713,156	26,276,331	45,866,941	27,790,379	-	129,885,821
Repurchase agreements	4,001,808	-	-	-	-	-	4,001,808
Loans and advances to customers	2,215,722	2,662,067	6,033,081	11,471,456	13,856,760	(456,521)	35,782,565
Other assets, net	35,559	20,424	26,509	-	-	-	82,492
<b>Total</b>	<b>63,494,384</b>	<b>24,395,647</b>	<b>32,335,921</b>	<b>57,338,397</b>	<b>41,647,139</b>	<b>(456,521)</b>	<b>218,754,967</b>
<b>Liabilities</b>							
Due to financial institutions	549,206	-	-	495,652	-	-	1,044,858
Reverse repurchase agreements	4,524,385	-	-	-	-	-	4,524,385
Due to customers	96,247,520	29,247,207	28,352,978	41,129,298	8,517,813	-	203,494,816
Other liabilities	1,057,805	7,474	-	-	51,762	-	1,117,041
<b>Total</b>	<b>102,378,916</b>	<b>29,254,681</b>	<b>28,352,978</b>	<b>41,624,950</b>	<b>8,569,575</b>	<b>-</b>	<b>210,181,100</b>
<b>Gap at 31 December 2006</b>	<b>(38,884,532)</b>	<b>(4,859,034)</b>	<b>3,982,943</b>	<b>15,713,447</b>	<b>33,077,564</b>	<b>(456,521)</b>	<b>8,573,867</b>



# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 5. Financial risk management (continued)

#### (d) Market risks (continued)

The analysis of assets and liabilities as at 31 December 2007 and 31 December 2006 by the foreign currencies in which they were denominated was as follows:

	31 December 2007					31 December 2006				
	Lek	EUR	USD	Other	Total	Lek	EUR	USD	Other	Total
<b>Assets</b>										
Cash and cash equivalents	4,696,005	15,470,508	5,969,613	3,678,908	29,815,034	7,889,544	8,871,325	8,754,574	2,687,621	28,203,064
Restricted balances	13,871,398	5,123,028	1,646,720	-	20,641,146	14,150,376	3,906,726	1,378,451	-	19,435,553
Securities available for sale	-	-	-	-	-	1,363,664	-	-	-	1,363,664
Investments held for trading	61,519	-	-	-	61,519	-	-	-	-	-
Investments held to maturity	122,764,017	-	-	-	122,764,017	124,513,364	5,372,457	-	-	129,885,821
Repurchase agreements	-	-	-	-	-	4,001,808	-	-	-	4,001,808
Loans to customers	21,550,805	33,977,414	5,853,821	322,644	61,704,684	9,345,041	22,787,971	3,644,262	5,291	35,782,565
Deferred tax assets	-	-	-	-	-	28,137	-	-	-	28,137
Property, equipment, intangibles	2,159,353	15,137	-	-	2,174,490	1,941,196	7,772	-	-	1,948,968
Other assets, net	339,416	171,927	9,334	(8,369)	512,308	31,994	47,458	2,327	713	82,492
<b>Total</b>	<b>165,442,513</b>	<b>54,758,014</b>	<b>13,479,488</b>	<b>3,993,183</b>	<b>237,673,198</b>	<b>163,265,124</b>	<b>40,993,709</b>	<b>13,779,614</b>	<b>2,693,625</b>	<b>220,732,072</b>
<b>Liabilities</b>										
Due to financial institutions	328,574	1,566,724	514,912	996	2,411,206	250,548	514,877	278,364	1,069	1,044,858
Reverse repurchase agreement	-	-	-	-	-	4,524,385	-	-	-	4,524,385
Due to customers	150,405,876	51,076,533	13,412,339	3,684,290	218,579,038	151,426,687	35,891,568	13,538,271	2,638,290	203,494,816
Deferred tax liabilities	19,477	-	-	-	19,477	-	-	-	-	-
Income tax payable	65,190	-	-	-	65,190	41,782	-	-	-	41,782
Other liabilities	790,470	375,297	(270,789)	310,665	1,205,643	605,117	389,016	121,012	1,896	1,117,041
Minority Interest	26,679	-	-	-	26,679	27,169	-	-	-	27,169
Shareholder's equity	12,930,365	2,435,600	-	-	15,365,965	5,095,417	5,386,604	-	-	10,482,021
<b>Total</b>	<b>164,566,631</b>	<b>55,454,154</b>	<b>13,656,462</b>	<b>3,995,951</b>	<b>237,673,198</b>	<b>161,971,105</b>	<b>42,182,065</b>	<b>13,937,647</b>	<b>2,641,255</b>	<b>220,732,072</b>
<b>Net Position</b>	<b>875,882</b>	<b>(696,140)</b>	<b>(176,974)</b>	<b>(2,768)</b>	<b>-</b>	<b>1,294,019</b>	<b>(1,188,356)</b>	<b>(158,033)</b>	<b>52,370</b>	<b>-</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

*(amounts in Lek'000, unless otherwise stated)*

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### 5. Financial risk management (continued)

#### (e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 Group's operations and are faced by all business entities.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank 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 Bank 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 Group.

#### (f) Capital management

##### *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 "Banking Law of the Republic of Albania".

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

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### 5. Financial risk 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 required Capital Adequacy Ratio is 12%.

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 ratio 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. Five categories of risk weights (0%, 20%, 50%, 100%, 150%) are applied; for example cash and money market instruments 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 it must be supported by capital equal to 12% of the carrying amount.

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.

	31 December 2007	31 December 2006
Total risk weighted assets	70,274,788	47,421,379
Total risk weighted off balance exposures	5,880,361	2,820,611
Total	76,155,149	50,241,990
Regulatory capital	12,094,643	8,413,194
Capital adequacy ratio	15.88%	16.75%

The modified capital adequacy ratio is equal to the capital adequacy ratio.

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 shareholder 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.

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

There have been no material changes in the Bank's management of capital during the period.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

*(amounts in Lek'000, unless otherwise stated)*

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### **6. Fair values of financial assets and liabilities**

#### *Loans and advances to credit institutions*

Loans and advances to credit institutions include inter-bank placements and items in the course of collection. As loans, advances and overnight deposits are short term and at floating rates, their fair value is considered to equate to their carrying amount.

#### *Investment securities*

Investment securities include treasury bills and government bonds. The fair value for these investment securities 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 2007 and 31 December 2006, the fair value of the treasury bills and bonds equates its carrying value.

#### *Loans and advances to customers*

Loans and advances are net of allowances for impairment. The Group'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.

#### *Due to customers*

The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount repayable on demand. The fair value of time deposits with stated maturity as at 31 December 2007 is approximately Lek 218,535,725 thousand (31 December 2006: Lek 203,494,816 thousand) whilst their carrying value is Lek 218,579,038 thousand (31 December 2006: Lek 203,494,816 thousand).

#### *Due to banks and financial institutions*

The estimated fair value of loans and advances have an estimated fair value approximately equal to their carrying amount because of either their short-term nature and underlying interest rates, which approximate market rates.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 7. Cash and cash equivalents

	31 December 2007	31 December 2006
<i>Cash on hand</i>	2,857,923	2,306,647
<i>Central Bank</i>		
Current accounts	13,515	6,005,978
Deposits	3,000,370	-
<i>Banks</i>		
Current accounts with resident banks	1,301	4,425
Current accounts with non-resident banks	78,083	856,841
Deposits with resident banks	727,141	733,200
Deposits with non-resident banks	23,136,701	18,295,973
<b>Total</b>	<b>29,815,034</b>	<b>28,203,064</b>

Current accounts with the Bank of Albania bear no interest. Deposits with the Central Bank earn annual interest at 4.5 %.

The annual interest rates on term deposits with non-resident banks as at 31 December 2007 vary from 2.25% to 6.62% (31 December 2006 : 1.70% to 5.35%). The annual interest rates on term deposits with resident banks as at 31 December 2007 vary from 3.65 % - 5.06% (31 December 2006: 3.65% to 5.4%).

### 8. Restricted balances

	31 December 2007	31 December 2006
<i>Central Bank</i>		
Statutory reserves	19,920,300	19,120,909
<i>Banks</i>		
Guarantee accounts	720,846	314,644
<b>Total</b>	<b>20,641,146</b>	<b>19,435,553</b>

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Group should maintain a minimum of 10% of customer deposits with the Central Bank as a reserve account. The statutory reserve is not available for the Groups' day-to-day operations.

Interest on statutory reserves in the Central Bank is calculated as follows:

-Lek balances: 70% of the repurchase agreements rate: 4.38% per annum as of 31 December 2007 (31 December 2006: 3.85% per annum);

-EUR balances: 70% of the one-month EUR LIBOR rate: 3.11% per annum as of 31 December 2007 (31 December 2006: 2.57%); and

-USD balances: 70% of the one-month USD LIBOR rate: 3.40% per annum as of 31 December 2007 (31 December 2006: 3.75% per annum).

### 9. Investment in securities

#### 9.1 Available-for-sale investment securities

Available-for-sale investment securities as at 31 December 2006 represent treasury bills of the Albanian Government. The fair value of these securities as at 31 December 2006, approximated their carrying value. There are no such investments as at 31 December 2007.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 9. Investment in securities (continued)

#### 9.2 Investments held for trading

Securities held for trading with a carrying amount of Lek 61,519 thousand (2006: nil) comprise treasury bills of the Albanian Government.

#### 9.3 Held-to-maturity investment securities

The held-to-maturity investment securities comprise treasury bills and bonds of Albanian Government as follows:

	31 December 2007	31 December 2006
Treasury bills	57,988,865	89,015,234
Government Bonds	64,775,152	40,870,587
<b>Total</b>	<b>122,764,017</b>	<b>129,885,821</b>

As at 31 December 2006 treasury bills with a carrying amount of Lek 4,524,385 thousand (2007: nil) were pledged as security for the reverse repurchase agreements portfolio (refer to note 15).

##### 9.3.1 Treasury Bills

Treasury bills as at 31 December 2007 relate to zero-coupon treasury bills of the Government of Albania, with maturities ranging between January 2008 to December 2008, with yields ranging from 5.09% to 9.08% per annum (31 December 2006: from 4.04% to 9.05%).

	31 December 2007	31 December 2006
Nominal value of treasury bills	59,518,083	91,295,503
Unamortized discount	(1,529,218)	(2,280,269)
<b>Total</b>	<b>57,988,865</b>	<b>89,015,234</b>

##### 9.3.2 Government Bonds

Government Bonds as at 31 December 2007 represent 2-year, 3-year, 5-year and 7-year bonds denominated in Lek issued by the Government of Albania with coupon rates ranging from 6.20% to 11.00% per annum (31 December 2006: from 6.20% to 9.20%).

	31 December 2007	31 December 2006
Nominal value of bonds	63,386,339	40,140,578
Unamortized discount	(62,908)	(152,074)
Accrued interest	1,451,721	882,083
<b>Total</b>	<b>64,775,152</b>	<b>40,870,587</b>

### 9.4 Repurchase agreements

The repurchase agreements totalling Lek 4,001,808 thousand as at 31 December 2006 related to repurchase agreements with Bank of Albania with maturity of 6 days. They bear interest of 5.50%. Treasury bills with a carrying amount of Lek 4,001,808 thousand as of 31 December 2006 were pledged as security for these repurchase agreements. There were no such repurchase agreements at 31 December 2007.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 10. Loans and advances to customers

	31 December 2007	31 December 2006
Loans and advances to customers	62,663,321	36,315,343
Allowance for loan loss impairment	(958,637)	(532,778)
<b>Net carrying amount</b>	<b>61,704,684</b>	<b>35,782,565</b>

Movements in net allowance for loan loss impairment are as follows:

	31 December 2007	31 December 2006
Balance at the beginning of the year	532,778	261,226
Allowance for loan loss impairment	432,436	271,552
Loans written off	(6,577)	-
<b>Balance at the end of the period</b>	<b>958,637</b>	<b>532,778</b>

The interest rates of loans and advances to customers vary from 4.28% to 13.27% p.a. in foreign currencies and from 2.4% to 30% p.a. in Lek (31 December 2006: from 3.5% to 19.73%).

The balance of loans and advances to customers includes a loan to a non-resident corporate given from the Group through Raiffeisen Bank Kosovo based on the Participating Agreement with that bank, dated 14 October 2005. The carrying amount of this participation as at 31 December 2007 is Lek 403,527 thousand (2006: Lek 478,965 thousand) and represents 0.66 % of the total loan portfolio.

Additionally, included in loans and advances to customers are loans to Raiffeisen Leasing Bulgaria with a carrying amount of Lek 396,106 thousand (2006: Lek 670,643 thousand) and Raiffeisen Leasing Croatia with a carrying amount of Lek 1,220,343 thousand (2006: nil).

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 11. Deferred tax assets /(liabilities)

The movement in the deferred income tax account is as follows:

	31 December 2007	31 December 2006
Balance at the beginning of the year	28,137	-
Deferred tax benefit relating to the origination and reversal of temporary differences	(47,614)	28,137
<b>Balance at the end of the year</b>	<b>(19,477)</b>	<b>28,137</b>

Movements in temporary differences during the year are recognised in the income statement.

Deferred tax has been calculated based on the enacted tax rate for 2008 of 10% (2007: 20%). As at 31 December 2007 and 31 December 2006 deferred tax assets and liabilities have been recognized for the following items:

	31 December 2007	31 December 2006
<b><i>Deferred tax asset</i></b>		
Accelerated depreciation	28,879	28,137
Deferred lease disbursement fees	1,069	-
Other assets recognized as expenses	511	-
	30,459	28,137
<b><i>Deferred tax liability</i></b>		
Allowance for impairment losses	(49,936)	-
	(49,936)	-
<b>Net deferred tax assets / (liabilities)</b>	<b>(19,477)</b>	<b>28,137</b>

### 12. Property, equipment and intangible assets

	31 December 2007	31 December 2006
Property and equipment	1,900,035	1,651,782
Intangible assets	274,455	297,186
<b>Total</b>	<b>2,174,490</b>	<b>1,948,968</b>

There are no assets pledged as collateral as at 31 December 2007 (2006: none).



# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 12. Property, equipment and intangible assets (continued)

	Intangible assets	Land and Buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
<b>Cost</b>							
Balance at 1 January 2006	364,668	581,654	1,287,618	209,456	117,161	311,271	2,871,828
Additions	139,157	75,703	90,962	69,515	220,475	66,271	662,083
Disposals	(127,969)	-	(43,372)	(12,751)	(41,978)	(28,498)	(254,568)
Transfer from work in progress	45,230	45,145	42,147	8,546	(144,999)	3,931	-
Balance at 31 December 2006	421,086	702,502	1,377,355	274,766	150,659	352,975	3,279,343
Balance at 1 January 2007	421,086	702,502	1,377,355	274,766	150,659	352,975	3,279,343
Additions	75,380	65,944	251,786	52,766	272,948	129,909	848,733
Disposals	-	(34,349)	(109,411)	(61,022)	-	(28,576)	(233,358)
Transfer from work in progress	19,000	84,299	137,586	34,616	(287,104)	11,603	-
<b>Balance at 31 December 2007</b>	<b>515,466</b>	<b>818,396</b>	<b>1,657,316</b>	<b>301,126</b>	<b>136,503</b>	<b>465,911</b>	<b>3,894,718</b>
<b>Accumulated Depreciation</b>							
Balance at 1 January 2006	(121,354)	(27,703)	(560,792)	(104,321)	-	(157,697)	(971,867)
Charge for the period	(85,632)	(37,862)	(268,485)	(44,626)	-	(56,154)	(492,759)
Disposals	83,086	6,150	9,244	11,762	-	24,009	134,251
Balance at 31 December 2006	(123,900)	(59,415)	(820,033)	(137,185)	-	(189,842)	(1,330,375)
Balance at 1 January 2007	(123,900)	(59,415)	(820,033)	(137,185)	-	(189,842)	(1,330,375)
Charge for the period	(117,111)	(51,611)	(282,458)	(52,277)	-	(63,997)	(567,454)
Disposals	-	2,194	98,355	57,303	-	19,749	177,601
<b>Balance at 31 December 2007</b>	<b>(241,011)</b>	<b>(108,832)</b>	<b>(1,004,136)</b>	<b>(132,159)</b>	<b>-</b>	<b>(234,090)</b>	<b>(1,720,228)</b>
<b>Carrying amount</b>							
As at 1 January 2006	243,314	553,951	726,826	105,135	117,161	153,574	1,899,961
As at 31 December 2006	297,186	643,087	557,322	137,581	150,659	163,133	1,948,968
As at 31 December 2007	274,455	709,564	653,180	168,967	136,503	231,821	2,174,490

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 13. Other assets

	31 December 2007	31 December 2006
VAT receivable	174,981	26,365
Prepaid expenses & Accruals	100,187	20,519
Moneygram	83,619	13,203
Inventories	16,880	14,942
Sundry debtors, net	136,641	7,463
<b>Total</b>	<b>512,308</b>	<b>82,492</b>

Sundry debtors, net are comprised as follows:

	31 December 2007	31 December 2006
Sundry debtors	141,252	26,598
Provisions for losses from other debtors	(4,611)	(19,135)
<b>Total Sundry debtors, net</b>	<b>136,641</b>	<b>7,463</b>

Movements in the provisions for sundry debtors are as follows:

	31 December 2007	31 December 2006
Balance at the beginning of the period	19,135	19,509
Provision reversal for the period	(14,630)	-
Foreign exchange effect	106	(374)
<b>Balance at the end of the period</b>	<b>4,611</b>	<b>19,135</b>

### 14. Due to financial institutions

	31 December 2007	31 December 2006
<b>Current accounts</b>		
Resident banks and financial institutions	35,540	273,440
Non-resident banks and financial institutions	1,230,552	1,753
	<b>1,266,092</b>	<b>275,193</b>
<b>Deposits</b>		
Resident banks and financial institutions	1,145,114	769,665
<b>Total</b>	<b>2,411,206</b>	<b>1,044,858</b>

The interest rates for borrowed funds from financial institutions varied from 2.47% to 6.30% during the year ended 31 December 2007 (2006: 1.9% to 5.38%).

### 15. Reverse repurchase agreements

The reverse repurchase agreements totalling Lek 4,524,385 thousand as at 31 December 2006 relate to reverse repurchase agreements with Bank of Albania with maturities from 28 to 91 days. They bear interest, which varies from 5.65% to 6.51%. Treasury bills with a carrying amount of Lek 4,524,385 thousand as of 31 December 2006 were pledged as security for these reverse repurchase agreements (refer to note 9.3). No such agreements existed at 31 December 2007.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 16. Due to customers

	31 December 2007	31 December 2006
Current accounts	38,741,770	31,584,421
Deposits	177,558,041	168,419,369
Other accounts	2,279,227	3,491,026
<b>Total</b>	<b>218,579,038</b>	<b>203,494,816</b>

For current accounts and time deposits the annual interest rates applicable for the various fixed terms during the period from 1 January to 31 December 2007 were as follows:

(in %)	LEK	USD	EUR
Current accounts	0.10 - 1.5	0.10 - 0.30	0.10 - 0.50
Demand deposits	0.25 - 2.10	0.25 - 4.00	0.10 - 2.50
Time deposits - 3 month	3.00 - 6.00	3.05 - 3.80	2.70 - 4.20
Time deposits - 6 month	3.90 - 6.50	3.25 - 4.10	3.10 - 4.40
Time deposits - 12 month	4.55 - 7.60	4.10 - 4.85	3.60 - 4.70
Time deposits - 13 month	n/a	n/a	3.80 - 4.20
Time deposits - 24 month	5.00 - 8.00	4.65 - 5.35	3.70 - 4.85
Time deposits - 25 month	n/a	n/a	4.10 - 4.55
Time deposits - 36 month	n/a	4.95 - 5.50	3.85 - 5.30

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 16. Due to customers (continued)

Balances due to customers by maturity and currency type are as follows:

	31 December 2007			31 December 2006		
	LEK	Foreign currency	Total	LEK	Foreign currency	Total
<b>Current accounts</b>	<b>28,260,977</b>	<b>10,480,793</b>	<b>38,741,770</b>	<b>25,129,372</b>	<b>6,455,049</b>	<b>31,584,421</b>
<b>Deposits</b>						
On demand	12,032,288	8,884,290	20,916,578	22,449,943	12,859,434	35,309,377
1 month - 3 months	750,796	5,251,572	6,002,368	4,218,838	4,086,701	8,305,539
3 months - 6 months	8,590,018	7,359,923	15,949,941	9,203,083	4,166,577	13,369,660
6 months - 12 months	20,263,350	9,167,630	29,430,980	21,046,134	6,186,392	27,232,526
12 months - 24 months	60,718,606	21,130,888	81,849,494	55,977,428	14,236,667	70,214,095
24 months - 36 months	15,963,480	3,005,923	18,969,403	9,701,981	1,693,667	11,395,648
36 months	1,351	1,162,736	1,164,087	-	608,447	608,447
Accrued interest on deposits	2,567,920	707,270	3,275,190	1,661,610	322,467	1,984,077
	<b>120,887,809</b>	<b>56,670,232</b>	<b>177,558,041</b>	<b>124,259,017</b>	<b>44,160,352</b>	<b>168,419,369</b>
<b>Other accounts</b>						
Guarantee deposits	723,167	942,097	1,665,264	1,523,717	1,341,411	2,865,128
Cheques in circulation	1,502	2	1,504	25,919	3	25,922
Dormant customer accounts	143,335	7,832	151,167	193,897	47,634	241,531
Other	388,930	72,362	461,292	294,763	63,682	358,445
	<b>1,256,934</b>	<b>1,022,293</b>	<b>2,279,227</b>	<b>2,038,296</b>	<b>1,452,730</b>	<b>3,491,026</b>
<b>Total</b>	<b>150,405,720</b>	<b>68,173,318</b>	<b>218,579,038</b>	<b>151,426,685</b>	<b>52,068,131</b>	<b>203,494,816</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 17. Other liabilities

	31 December 2007	31 December 2006
Accrued expenses	231,480	200,190
Provision for litigation	48,244	51,762
Other creditors	238,872	393,605
Withholding Tax payable	69,313	41,215
VAT payable	166	39
Deferred income	328,700	228,722
Due to employees	263,914	182,033
Due to Social Insurance	24,954	19,475
<b>Total</b>	<b>1,205,643</b>	<b>1,117,041</b>

Included in "Accrued expenses" is an amount of Lek 105,714 thousand (2006: Lek 114,594 thousand) of accrued deposit insurance premium payable for customers' deposits.

The movements in the provisions for litigation are as follows:

	31 December 2007	31 December 2006
Balance at the beginning of the year	51,762	9,946
Provisions expense for the year	-	41,816
Reversal of provisions for the year	(3,518)	-
<b>Balance at the end of the year</b>	<b>48,244</b>	<b>51,762</b>

Deferred income is comprised from loan administration fees that will be amortised over the life of the loan granted to customers, corporate, small business enterprises and individuals.

### 18. Share capital

In September 2007 the Group converted EUR 14,592,965 of the subscribed capital into Lek 1,834,335,665. Accordingly the Group has part of its share capital denominated in EUR and part in Lek.

As at 31 December 2007 the subscribed capital of the Group was EUR 20,000,000 (Lek equivalent: Lek 2,513,897 thousand) and Lek 1,834,336 thousand made up of 4,047 shares with a nominal value of EUR 4,942 each and 2,953 shares with a nominal value of Lek 621,177 each. As at 31 December 2006 the subscribed capital of the Group was EUR 34,592,965 (Lek equivalent: 4,348,233 thousand) made up of 7,000 shares with a nominal value of EUR 4,942 each.

### 19. General reserve

In June 2006, the Group created a general reserve of Lek 850 million based on the decision of the Group's sole shareholder dated May 17, 2006. The general reserve was created from the distribution of net profit after tax and before dividends of fiscal year 2005 in accordance with the law No. 7638, dated November 19,1992, "On commercial companies" and the decision of the Supervisory Council of the Bank of Albania No. 51, dated April 22, 1999.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 20. Minority interest

Based on the decision of the Group's sole shareholder dated 7 April 2006, in collaboration with Raiffeisen - Leasing International Gesellschaft m.b.H, the Group has incorporated a leasing company in the Republic of Albania in the form of a joint stock company to exercise leasing activity as provided by the applicable Albanian legislation on Financial Leasing. The leasing company named Raiffeisen Leasing sh.a. has a paid-in capital of EUR 1 million. The Group participates with a share of 75% for an amount of EUR 750 thousand (equivalent of Lek 92,250 thousand). The remaining share of 25% of the paid-in capital of Raiffeisen Leasing sh.a., is owned by Raiffeisen -Leasing International Gesellschaft m.b.H.

Company Name	% of holding	Capital	Current year loss	Prior year loss	Net value
Raiffeisen Bank Sh.a	75%	92,250	(1,470)	(10,743)	80,037
Raiffeisen -Leasing International Gesellschaft m.b.H.	25%	30,750	(490)	(3,581)	26,679

### 21. Interest income

Interest income by category is as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Bank deposits	1,834,588	1,537,228
Loans and advances to customers	4,835,551	2,292,990
Investment securities	9,338,248	9,079,679
Repurchase agreement	77,679	28,382
<b>Total</b>	<b>16,086,066</b>	<b>12,938,279</b>

### 22. Interest expense

Interest expense by category is as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Banks	61,337	29,574
Customers	6,580,624	4,778,653
Reverse repurchase agreement	214,736	212,720
<b>Total</b>	<b>6,856,697</b>	<b>5,020,947</b>

### 23. Fee and commission income

Fees and commissions received were comprised as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Funds transfers	927,424	684,211
Lending activities	245,115	106,687
Other banking services	257,104	132,341
<b>Total</b>	<b>1,429,643</b>	<b>923,239</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 24. Net other operating income (expense)

	Year ended 31 December 2007	Year ended 31 December 2006
Other revenue	306,151	87,896
Other expenses	(126,954)	(227,018)
<b>Total</b>	<b>179,197</b>	<b>(139,122)</b>

In "Other revenues" is included income from sale of fixed assets amounting to Lek 197,627 thousand (2006: Lek 1,188 thousand). In other expenses is included the write off of fixed assets amounting to Lek 14,429 thousand (2006: Lek 145,591 thousand), and taxes other than income tax amounting to Lek 10,315 thousand (2006: Lek 9,587 thousand).

### 25. Deposit insurance premium

Legislation from 18 October 2002, determined that the Banks should pay a deposit insurance premium. This premium is based on the rate of 0.5% per annum, payable quarterly and is calculated as a percentage of the daily average deposit balances up to Lek 700,000 for individuals for the period from October to December of the previous year.

### 26. Personnel expenses

	Year ended 31 December 2007	Year ended 31 December 2006
Salaries	1,428,527	1,161,418
Social insurance	175,599	178,256
Personnel training	73,734	57,017
Other personnel costs	82,644	57,905
<b>Total</b>	<b>1,760,504</b>	<b>1,454,596</b>

As at 31 December 2007, the Group had 1,385 employees (2006: 1,271 employees).

### 27. General and administrative expenses

	Year ended 31 December 2007	Year ended 31 December 2006
Consultancy and legal fee	576,305	532,279
Utilities	305,931	251,084
Marketing expenses	270,138	240,969
Communication expenses	206,006	188,678
Repair and maintenance	190,368	137,810
Stationery expenses	75,578	63,847
Travel expenses	35,749	37,465
ATM maintenance and servicing	23,955	15,133
Guarantee of Albanian T-Bills	-	16,975
Other	6,116	5,625
<b>Total</b>	<b>1,690,146</b>	<b>1,489,865</b>

Consultancy and legal fees include head office management charge totalling Lek 487,779 thousand in 2007 (2006: Lek 390,560 thousand).

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 28. Income tax

Income tax in Albania is assessed at the rate of 20% (2006: 20%) of taxable income:

	Year ended 31 December 2007	Year ended 31 December 2006
Current tax	1,163,190	984,488
Deferred taxes	47,614	(28,137)
<b>Total</b>	<b>1,210,804</b>	<b>956,351</b>

The following is a reconciliation of income taxes calculated at the applicable tax rate to income tax expense.

	Year ended 31 December			
	Tax rate	2007	Tax rate	2006
Profit before taxes		6,094,258		4,575,431
Prima facie tax calculated at 20%	20%	1,218,852	20%	915,086
Non tax deductible expenses	-	13,374	1%	41,265
Reduction in tax rate	-	(21,422)	-	-
<b>Income tax expense</b>		<b>1,210,804</b>		<b>956,351</b>

### 29. Contingencies and commitments

	31 December 2007		31 December 2006	
	Lek	Foreign currency	Total	Total
<i>Contingent liabilities</i>				
Bank Guarantees issued	232,999	7,266,262	7,499,261	1,260,319
Letters of Credit	-	993,750	993,750	651,917
Unused credit lines	4,817,650	2,480,700	7,298,350	7,367,570
Other commitments	-	-	-	5,412
Litigation	48,244	-	48,244	51,762
<b>Total</b>	<b>5,098,893</b>	<b>10,740,712</b>	<b>15,839,605</b>	<b>9,336,980</b>
<i>Contingent assets</i>				
Bank Guarantees received	67,545	2,851,954	2,919,499	290,012
Operating lease commitments	16,432	279,415	295,847	335,440
<b>Total</b>	<b>83,977</b>	<b>3,131,369</b>	<b>3,215,346</b>	<b>625,452</b>

Most of the above bank guarantees and letters of credit are for periods of less than one year and are collateralized by customer escrow deposits.

#### Litigation

As at 31 December 2007 the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Group's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at 31 December 2007 and at 31 December 2006.



# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 29. Contingencies and commitments (continued)

#### Lease commitments

The Group has entered into non-cancelable lease commitments for the Head Office and the branches. Such commitments as at 31 December 2007 and 31 December 2006 are as follows:

	31 December 2007	31 December 2006
Not later than 1 year	118,097	148,714
Later than 1 year and not later than 5 years	177,750	186,726
<b>Total</b>	<b>295,847</b>	<b>335,440</b>

### 30. Related parties

#### Parent and ultimate controlling party and fellow subsidiaries

The Group has a related party relationship with Raiffeisen International AG, Raiffeisen Zentralbank Osterreich Aktiengesellschaft (RZB AG), and with fellow subsidiaries.

The aggregate value of transactions and outstanding balances relating to these entities were as follows:

	31 December 2007	31 December 2006
<b>Amounts due from:</b>		
RZB AG	10,867,216	133,659
Raiffeisen Group It	5,086	-
Raiffeisen Bank Bulgaria Ead	2,759	9,163
Raiffeisen Bank Kosovo	19,543	13,609
Raiffeisen Leasing Bulgaria Ood	396,106	670,643
Raiffeisen-Leasing D.O.O.	1,220,343	-
Tatra Banka	11,070	1,254,942
<b>Assets total</b>	<b>12,522,123</b>	<b>2,082,016</b>
<b>Amounts due to:</b>		
RZB AG	(681,300)	(1,336)
Raiffeisen International AG	(26,541)	(8,598)
Raiffeisen Group It	(2,113)	-
Raiffeisen Leasing Bulgaria Ood	(87)	-
Tatra Banka	(14,815)	(5,572)
Rieef Portfolio Bulgaria	(185)	-
Ukrainian Processing Center	(258)	-
<b>Liabilities total</b>	<b>(725,299)</b>	<b>(15,506)</b>

The aggregate value of the contingent liabilities of the Group to these entities as at 31 December 2007 was Lek 2,252,358 thousand (31 December 2006: Lek 192,611 thousand) and represents Bank Guarantees and Letters of Credit.

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 30. Related parties (continued)

	2007	2006
<b>Net interest income</b>		
RZB AG	240,338	111,020
Raiffeisen Bank Bulgaria Ead	63	477
Raiffeisen Leasing Bulgaria Ood	28,582	32,688
Raiffeisen-Leasing D.O.O.	23,652	-
Rieef Portfolio Bulgaria	35,331	16,442
Raiffeisen Bank Belgrade	-	14,225
<b>Net fee and commission expense</b>		
RZB AG	(3,158)	(2,206)
Raiffeisen Bank Bulgaria Ead	(7)	(100)
Tatra Banka	(94,068)	(84,275)
Ukrainian Processing Center	(2,821)	-
Raiffeisenbank Austria d.d., Zagreb (HR)	(10)	-
<b>Net trading profit</b>		
Raiffeisenbank Austria d.d., Zagreb (HR)	6,674	-
<b>Purchase of assets and operating expenses</b>		
RZB AG	(2,507)	(2,162)
Raiffeisen International AG	(599,219)	(480,481)
Raiffeisen Group It	(64,304)	(81,307)
Tatra Banka	(1,638)	(3,360)
Raiffeisen Investment	-	(3,194)
Raiffeisen Bank Belgrade	-	(24)
<b>Transactions, net</b>	<b>(433,092)</b>	<b>(482,257)</b>

### Administrators

The aggregate value of transactions and outstanding balances relating to the Administrators were as follows:

	2007	2006
<b>Balance sheet</b>		
Amounts due from Administrators	38,357	86,283
Amounts due to Administrators	(11,621)	(15,067)
<b>Net balances due from Administrators</b>	<b>26,736</b>	<b>71,216</b>
<b>Income statement</b>		
Wages, salaries and bonuses	(191,607)	(172,561)
<b>Total</b>	<b>(191,607)</b>	<b>(172,561)</b>

### Subsidiary

The Bank holds 75% of the shares of Raiffeisen Leasing sh.a. Consequently, the Bank consolidates this entity.

# RAIFFEISEN BANK S.H.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 31. Explanation of transition to IFRSs

As stated in note 2(a), these are the Group's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2007, the comparative information presented in these financial statements for the year ended 31 December 2006 and in the preparation of an opening IFRS balance sheet at 1 January 2006 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

#### Reconciliation of balance sheet

	Note	1 January 2006			31 December 2006		
		Previous GAAP	Effect of transition to IFRSs	IFRSs	Previous GAAP	Effect of transition to IFRSs	IFRSs
<b>Assets</b>							
Cash and cash equivalents		22,857,075	-	22,857,075	28,203,064	-	28,203,064
Restricted balances		19,324,957	-	19,324,957	19,435,553	-	19,435,553
Available-for-sale securities		5,859,503	-	5,859,503	1,363,664	-	1,363,664
Held-to-maturity securities		134,600,231	-	134,600,231	129,885,821	-	129,885,821
Repurchase agreements		-	-	-	4,001,808	-	4,001,808
Loans, advances to customers	a	17,876,267	(210,593)	17,665,674	36,127,145	(344,580)	35,782,565
Deferred tax assets	b	-	-	-	-	28,137	28,137
Property, equipment, intangibles	c	1,858,184	39,231	1,897,415	1,897,224	51,744	1,948,968
Other assets	c, e	141,174	(39,231)	101,943	141,220	(58,728)	82,492
<b>Total assets</b>		<b>202,517,391</b>	<b>(210,593)</b>	<b>202,306,798</b>	<b>221,055,499</b>	<b>(323,427)</b>	<b>220,732,072</b>
<b>Liabilities</b>							
Due to financial institutions		329,150	-	329,150	1,044,858	-	1,044,858
Reverse repurchase agreement		-	-	-	4,524,385	-	4,524,385
Due to customers		194,828,461	-	194,828,461	203,494,816	-	203,494,816
Income tax payable		-	-	-	41,782	-	41,782
Other liabilities	a	500,420	(210,593)	289,827	1,461,621	(344,580)	1,117,041
<b>Total liabilities</b>		<b>195,658,031</b>	<b>(210,593)</b>	<b>195,447,438</b>	<b>210,567,462</b>	<b>(344,580)</b>	<b>210,222,882</b>
<b>Shareholder's equity</b>							
Share capital		4,348,233	-	4,348,233	4,348,233	-	4,348,233
General reserve		-	-	-	850,000	-	850,000
Translation difference	d	(107,827)	107,827	-	(67,632)	67,632	-
Retained earnings	f	2,618,954	(107,827)	2,511,127	5,328,521	(44,733)	5,283,788
<b>Total equity attributable to equity holder of the Bank</b>		<b>6,859,360</b>	<b>-</b>	<b>6,859,360</b>	<b>10,459,122</b>	<b>22,899</b>	<b>10,482,021</b>
<b>Minority interest</b>	e	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,915</b>	<b>(1,746)</b>	<b>27,169</b>
<b>Total equity</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>10,488,037</b>	<b>21,153</b>	<b>10,509,190</b>
<b>Total liabilities and equity</b>		<b>202,517,391</b>	<b>(210,593)</b>	<b>202,306,798</b>	<b>221,055,499</b>	<b>(323,427)</b>	<b>220,732,072</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 31. Explanation of transition to IFRSs (continued)

#### Reconciliation of profit for 2006

	Note	Previous GAAP	Effect of transition to IFRSs	IFRSs
Interest income		12,938,279	-	12,938,279
Interest expense		(5,020,947)	-	(5,020,947)
<b>Net interest income</b>		<b>7,917,332</b>	<b>-</b>	<b>7,917,332</b>
Fees and commissions income		923,239	-	923,239
Fees and commissions expense		(241,399)	-	(241,399)
<b>Net commission income</b>		<b>681,840</b>	<b>-</b>	<b>681,840</b>
Gain from disposals of securities		86,147	-	86,147
Net foreign exchange gain	d, e	163,173	33,210	196,383
Other operating income/(expense), net		(139,122)	-	(139,122)
		<b>110,198</b>	<b>33,210</b>	<b>143,408</b>
<b>Operating expenses</b>				
Deposit insurance premium		(458,377)	-	(458,377)
Personnel expenses		(1,454,596)	-	(1,454,596)
Depreciation and amortisation		(492,759)	-	(492,759)
General and administrative expenses		(1,489,865)	-	(1,489,865)
Net impairment loss on financial assets		(271,552)	-	(271,552)
<b>Total operating expenses</b>		<b>(4,167,149)</b>	<b>-</b>	<b>(4,167,149)</b>
<b>Net profit before tax</b>		<b>4,542,221</b>	<b>33,210</b>	<b>4,575,431</b>
Income tax	b	(984,488)	28,137	(956,351)
<b>Net profit for the year</b>		<b>3,557,733</b>	<b>61,347</b>	<b>3,619,080</b>
<b>Attributable to</b>				
Equity holder of the Bank		3,559,568	63,093	3,622,661
Minority interest	e	(1,835)	(1,746)	(3,581)
<b>Net profit for the year</b>		<b>3,557,733</b>	<b>61,347</b>	<b>3,619,080</b>

# RAIFFEISEN BANK SH.A

## Notes to the consolidated financial statements for the year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

### 31. Explanation of transition to IFRSs (continued)

#### Notes to the reconciliation of balance sheet and profit for 2006

- (a) Under previous GAAP the portfolio-based allowance for loan losses was included in other liabilities. In accordance with IFRS the loans to customers are presented net of these allowances.

The effect was to decrease the other liabilities by Lek 210,593 thousand at 1 January 2006 and by Lek 344,580 thousand at 31 December 2006, and to decrease loans to customers by the same amount.

- (b) Under previous GAAP, the Group did not recognise a deferred tax asset.

The effect on the income statement for the year ended 31 December 2006 was to decrease the previously reported tax charge by Lek 28,137 thousand. Additionally the retained earnings were increased by Lek 28,137 thousand.

- (c) Under previous GAAP the leasehold improvements are classified as other assets. In accordance with IFRS these balances are included in property and equipment.

The effect was to decrease the other assets by Lek 39,231 thousand at 1 January 2006 and by Lek 51,744 thousand at 31 December 2006, and to increase property and equipment by the same amount.

- (d) An amount of Lek 107,827 thousand at 1 January 2006 and an amount of Lek 67,632 thousand at 31 December 2006, has been reclassified from the translation difference recognised under previous GAAP to retained earnings. The amount represents the effect of retranslation to Lek of the share capital denominated in foreign currency, at the exchange rate at the reporting date. Share capital is translated using the exchange rate at the date of the transaction under IFRSs.

The effect on the income statement for the year ended 31 December 2006 was to decrease the previously reported net foreign exchange gain by Lek 40,195 thousand.

- (e) Under previous GAAP, the Subsidiary did not recognise the effect of differences in the foreign exchange rate in the income statement, but included them in the balance sheet. In accordance with IFRS the effect of these changes is recognised as foreign exchange gain/(loss).

The effect was to decrease the other assets by Lek 6,984 thousand and the minority interest by Lek 1,746 thousand at 31 December 2006, and to decrease the retained earnings by Lek 5,238 thousand. The effect on the income statement for the year ended 31 December 2006 was to decrease the previously reported net foreign exchange gain by Lek 5,238 thousand.

- (f) The effect of the above adjustments on retained earnings is as follows:

	Note	1 January 2006	31 December 2006
Deferred tax assets	b	-	28,137
Translation difference	d	(107,827)	(67,632)
Foreign exchange loss	e	-	(5,238)
<b>Total adjustment to equity</b>		<b>(107,827)</b>	<b>(44,733)</b>

# **RAIFFEISEN BANK SH.A**

## **Notes to the consolidated financial statements for the year ended 31 December 2007**

*(amounts in Lek'000, unless otherwise stated)*

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### **31. Explanation of transition to IFRSs (continued)**

#### **Explanation of material adjustments to the cash flow statement for 2006**

Restricted balances with the Central Bank of Lek 19,920,300 thousand were classified as cash and cash equivalents under previous GAAP and are reclassified as operating cash flows under IFRSs.

Highly liquid financial assets with original maturities of less than three months of Lek 23,943,226 thousand, which are subject to insignificant risk of changes in their fair value, and form an integral part of the Group's cash management were classified as operating cash flows under previous GAAP and are reclassified as cash and cash equivalents under IFRSs.

There are no other material differences between the cash flow statement presented under IFRSs and the cash flow statement presented under previous GAAP.

### **32. Subsequent events**

The shareholder's decision on 13 February 2008 declared the distribution of dividends to the shareholder of EUR 5.5 million (equivalent of Lek 669,790 thousand).

There are no other significant events after the balance sheet date that may require adjustment or disclosure in the consolidated financial statements.