RAIFFEISEN BANK SH.A.

Consolidated financial statements
for the year ended 31 December 2008
(with independent auditor's report thereon)

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Independent Auditors' Report

To the shareholder of
Raiffeisen Bank Sh.a.

Tirana, 5 May 2009

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Raiffeisen Bank Sh.a. ("the Bank"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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RAIFFEISEN BANK SH.A.

Consolidated balance sheet as at 31 December 2008

(in thousands of Lek)

	Note	31 December 2008	31 December 2007
Assets			
Cash and cash equivalents	7	6,563,688	29,815,034
Restricted balances	8	22,279,752	20,641,146
Investments held for trading	9.1	21,877,289	61,519
Held-to-maturity investment securities	9.2	115,992,749	122,764,017
Loans and advances to customers	10	83,374,927	61,704,684
Property, equipment and intangible assets	11	2,287,816	2,174,490
Equity investments	12	10,859	-
Prepaid income tax		319,749	-
Other assets	13	882,433	512,308
Total assets		**253,589,262**	**237,673,198**
Liabilities			
Due to financial institutions	14	3,151,021	2,411,206
Reverse repurchase agreements	15	11,395,040	-
Due to customers	16	216,067,206	218,579,038
Deferred tax liabilities	17	167,923	19,477
Income tax payable		6,190	65,190
Other liabilities	18	3,003,242	1,205,643
Total liabilities		**233,790,622**	**222,280,554**
Shareholder's equity			
Share capital	19	4,348,233	4,348,233
General reserve	20	850,000	850,000
Retained earnings		14,561,739	10,167,732
Total equity attributable to equity holder of the Bank		**19,759,972**	**15,365,965**
Minority interest	21	38,668	26,679
Total equity		**19,798,640**	**15,392,644**
Total liabilities and shareholder's equity		**253,589,262**	**237,673,198**

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 47.

These consolidated financial statements have been approved by the Supervisory Board on 31 March 2009 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 2008

(in thousands of Lek)

	Note	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	22	18,996,544	16,086,066
Interest expense	23	(8,954,111)	(6,856,697)
Net interest income		**10,042,433**	**9,229,369**
Fee and commission income	24	1,662,109	1,429,643
Fee and commission expense		(306,269)	(271,571)
Net fee and commission income		**1,355,840**	**1,158,072**
Gain from disposals of securities		10,199	20,926
Net foreign exchange gain		1,129,358	380,090
Net other operating income/(expense)	25	(275,384)	179,197
		864,173	**580,213**
Deposit insurance premium	26	(414,868)	(422,857)
Personnel expenses	27	(1,946,664)	(1,760,504)
Depreciation and amortisation	11	(638,749)	(567,454)
General and administrative expenses	28	(1,876,718)	(1,690,146)
Net impairment loss on financial assets	10	(1,690,037)	(432,435)
		(6,567,036)	**(4,873,396)**
Profit before income tax		**5,695,410**	**6,094,258**
Income tax	29	(600,550)	(1,210,804)
Profit for the year		**5,094,860**	**4,883,454**
Attributable to			
Equity holder of the Bank		5,082,871	4,883,944
Minority interest		11,989	(490)
Profit for the year		**5,094,860**	**4,883,454**

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 47.

RAIFFEISEN BANK SH.A.

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

(in thousands of Lek)

	Attributable to equity holder of the Bank					
(in LEK '000)	**Share Capital**	**General Reserves**	**Retained Earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2006	**4,348,233**	**850,000**	**5,283,788**	**10,482,021**	**27,169**	**10,509,190**
Profit for the year	-	-	4,883,944	**4,883,944**	(490)	**4,883,454**
Balance as at 31 December 2007	**4,348,233**	**850,000**	**10,167,732**	**15,365,965**	**26,679**	**15,392,644**
Dividend payment	-	-	(699,722)	**(699,722)**	-	**(699,722)**
Valuation result of Financial Instruments	-	-	10,858	**10,858**	-	**10,858**
Profit for the year	-	-	5,082,871	**5,082,871**	11,989	**5,094,860**
Balance as at 31 December 2008	**4,348,233**	**850,000**	**14,561,739**	**19,759,972**	**38,668**	**19,798,640**

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 47.

RAIFFEISEN BANK SH.A.

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

(in thousands of Lek)

	Year ended 31 December 2008	Year ended 31 December 2007
Cash flows from operating activities		
Net profit for the period before taxation	**5,695,410**	**6,094,258**
Non-cash items in the statement of income		
Depreciation and amortisation	638,749	567,454
Fixed assets written off	20,858	55,757
Net impairment loss on financial assets	1,690,037	432,435
Net interest income	(10,042,433)	(9,229,369)
Change for provision for other debtors	145,962	(18,043)
Operating cash flows before changes in working capital	**(1,851,417)**	**(2,097,508)**
Changes in working capital		
Increase in restricted balances	(1,668,958)	(1,194,858)
Increase in loans and advances to customers	(23,179,691)	(26,139,885)
Increase/(Decrease) in Reverse repurchase agreements/in repurchase agreements	11,345,546	(500,000)
Increase in Trading Securities	(21,815,770)	(61,519)
Increase in other assets	(370,125)	(415,291)
Increase in due to financial institutions	740,087	1,365,991
Increase/(Decrease) in due to customers	(3,787,102)	13,792,196
Increase in other liabilities	1,651,945	92,120
	(38,935,485)	**(15,158,754)**
Interest received	17,920,233	14,447,820
Interest paid	(7,629,620)	(5,588,699)
Corporate income tax paid	(831,162)	(1,139,782)
Net cash used in operating activities	***(29,476,034)***	***(7,439,415)***
Cash flows from investing activities		
Purchases of property and equipment	(604,778)	(773,353)
Purchases of intangible assets	(168,155)	(75,380)
Net proceeds from purchase and redemption of securities held to maturity	7,697,345	8,536,453
Proceeds from securities available for sale	-	1,363,665
Net cash generated from investing activities	**6,924,412**	**9,051,385**
Cash flows from financing activities		
Dividends paid from retained earnings for the previous year	(699,722)	-
Net cash used in financing activities	**(699,722)**	**-**
(Decrease)/Increase in cash during the year	**(23,251,344)**	**1,611,970**
Cash and cash equivalents at the beginning of the year	**29,815,034**	**28,203,064**
Cash and cash equivalents at the end of the year (Note 7)	**6,563,688**	**29,815,034**

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 47.

(amounts in Lek'000, unless otherwise stated)

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 2008 and 31 December 2007 comprise the Bank and its subsidiary (together referred to as the "Group").

The Bank operates through a banking network as of 31 December 2008 of 100 service points (31 December 2007: 96 service points) throughout Albania, which are managed through 19 Regional Branches.

Directors and Management as of 31 December 2008 and 2007

Board of Directors (Supervisory Board)

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

Audit Committee

Heinz Hödl	Chairman
Johannes Kellner	Member
Susana Mitter	Member

Management Board

Oliver J. Whittle	Chief Executive Officer
Christian Canacaris	Member
Robert Wright	Member
Peter Hakkenberg	Member

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).

(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

(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.

The accounting policies have been applied consistently by Group entities.

(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.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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 and interest on available-for-sale investment securities calculated on an effective interest rate basis.

(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) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

3. Significant accounting policies (continued)

(f) Operating lease and other operating expenses

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.

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.

(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.

3. Significant accounting policies (continued)

(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.

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.

3. Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

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.

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.

3. Significant accounting policies (continued)

(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.

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.

3. Significant accounting policies (continued)

(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.

(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.

3. Significant accounting policies (continued)

(o) Property and equipment (continued)

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:

	2008 (in years)	**2007 (in years)**
• 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.

(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.

3. Significant accounting policies (continued)

(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 2008, and have not been applied in preparing these financial statements:

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

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

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

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

3. Significant accounting policies (continued)

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

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

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

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

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

- Amended IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009) replaces the term minority interest with non-controlling interest, which is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The Group is currently in the process of determining the potential effect of this amended standard on the Group's financial statements.

- Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and* Obligations *Arising on Liquidation* (effective for annual periods beginning on or after 1 January 2009) introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions. The amendments are not relevant to the Group's consolidated financial statements as none of the Group entities have in the past issued puttable instruments that would be affected by the amendments.

3. Significant accounting policies (continued)

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

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

- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008) The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. The Group does not expect the Interpretation to have any impact on the consolidated financial statements.

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

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

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

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

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

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

- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective prospectively for annual periods beginning on or after 15 July 2009) applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution.

3. Significant accounting policies (continued)

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

- IFRIC 17 *Distributions of Non-cash Assets to Owners (continued)*. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders it is not possible to determine the effects of application in advance.

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

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 (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.

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.

Current developments

The Group operates in the condition of a dynamically developing global financial and economic crisis. Its further extension might result in negative implications on the financial position of the Group. The management of the Group performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets, applying the best banking practices. The management based on this analyses profitability, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis. In this way the Group responds to the challenges of the market environment, maintaining a stable capital and liquidity position.

(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.

(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

	Investments held for trading		**Held-to-maturity investment securities**	
	2008	**2007**	**2008**	**2007**
Neither past due nor impaired (internal rating used)				
Country rate: B2	8,661,705	-	-	-
Country rate: B4	13,215,584	61,519	115,992,749	122,764,017
Carrying amount	**21,877,289**	**61,519**	**115,992,749**	**122,764,017**

(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	
	2008	**2007**
Individually impaired		
Grade 5: Impaired		
Gross amount	2,153,907	2,504,814
Allowance for impairment	(1,406,318)	(659,555)
Carrying amount (A)	747,589	1,845,259
Portfolio based allowance for losses		
Enterprises		
Grade 1	8,892,841	8,832,473
Grade 1.5	7,153,586	7,873,540
Grade 2	6,292,073	6,416,962
Grade 2.5	6,956,334	6,212,609
Grade 3	7,965,754	3,809,357
Grade 3.5	16,336,120	9,368,624
Grade 4	4,249,189	1,215,817
Grade 4.5	2,260,391	286,483
Grade 5 (unrated)	48,835	52,262
	60,155,123	44,068,127
Private individuals	23,337,150	16,090,380
Gross amount	83,492,273	60,158,507
Allowance for impairment	(864,935)	(299,082)
Carrying amount (B)	82,627,338	59,859,425
Past due but not impaired comprises:		
30-60 days:	3,966,064	4,382,149
60-180 days:	825,978	434,654
Carrying amount	4,792,042	4,816,803
Total carrying amount (A+B)	**83,374,927**	**61,704,684**

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.

(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 the 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.

	Loans and advances to customers	
	Gross	**Net**
31 December 2008		
Individually impaired		
Grade 5:Impaired	2,153,907	747,589
Total	**2,153,907**	**747,589**
31 December 2007		
Individually impaired		
Grade 5:Impaired	2,504,814	1,845,259
Total	**2,504,814**	**1,845,259**

(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 2008 and 31 December 2007.

	2008			2007
	Against individually impaired	**Against collectively impaired**	**Total**	**Total**
Property	5,738,790	144,940,596	150,679,386	82,964,021
Pledge	1,472,708	109,743,089	111,215,797	26,823,050
Cash	2,018	7,643,151	7,645,169	1,246,095
Guarantee	-	3,935,567	3,935,567	-
Total	**7,213,516**	**266,262,403**	**273,475,919**	**111,033,166**

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:

	Finance lease 2008	2007
Gross investment in the lease	3,003,159	1,192,978
Unearned financial income	(519,218)	(215,433)
	2,483,941	**977,545**

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.

(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 2008 and 31 December 2007 is shown below:

	31 December 2008						31 December 2007				
	Individual	**Corporate**	**SME**	**Micro - Business**	**Employees**	**Total**	**Individual**	**Corporate**	**SME**	**Employees**	**Total**
Overdraft	**4,178,253**	**28,594,080**	**8,042,854**	**191,465**	**30,147**	**41,036,799**	**2,292,790**	**16,510,859**	**5,777,630**	**18,861**	**24,600,140**
Loans											
Short term	291,155	1,900,072	422,258	-	636	**2,614,121**	68,617	1,513,896	7,892	1,060	**1,591,465**
Medium term	4,441,122	8,293,487	6,203,375	98,626	203,349	**19,239,959**	5,082,414	8,572,373	6,348,534	237,713	**20,241,034**
Long term	8,591,693	4,893,493	2,983,715	2,496	177,517	**16,648,914**	5,300,889	3,079,569	1,404,032	102,917	**9,887,407**
	13,323,970	**15,087,052**	**9,609,348**	**101,122**	**381,502**	**38,502,994**	**10,451,920**	**13,165,838**	**7,760,458**	**341,690**	**31,719,906**
Mortgage	**5,232,522**	**-**	**-**	**9,054**	**714,563**	**5,956,139**	**2,676,426**	**-**	**-**	**515,756**	**3,192,182**
Other	**100,516**	**37,534**	**10,980**	**61**	**1,157**	**150,248**	**127,523**	**2,985,035**	**37,527**	**1,008**	**3,151,093**
TOTAL (Note 10)	**22,835,261**	**43,718,666**	**17,663,182**	**301,702**	**1,127,369**	**85,646,180**	**15,548,659**	**32,661,732**	**13,575,615**	**877,315**	**62,663,321**

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.

(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 2008						
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Non-specific**	**Total**
Assets							
Cash and cash equivalents	6,563,688	-	-	-	-	-	6,563,688
Restricted balances	21,180,754	46,632	735,614	148,560	135,527	32,665	22,279,752
Investments held for trading	327,953	1,477,455	1,972,485	1,790,202	16,309,194	-	21,877,289
Investments held to maturity	8,454,346	13,098,795	15,270,440	32,665,841	46,503,327	-	115,992,749
Loans and advances to customers	9,213,318	9,000,391	9,070,999	24,526,143	33,835,330	(2,271,254)	83,374,927
Other assets and prepaid income tax	670,998	59,918	471,144	122	-	-	1,202,182
Total	**46,411,057**	**23,683,191**	**27,520,682**	**59,130,868**	**96,783,378**	**(2,238,589)**	**251,290,587**
Liabilities							
Due to financial institutions	2,158,868	992,153	-	-	-	-	3,151,021
Repurchase agreements	7,258,166	4,136,874	-	-	-	-	11,395,040
Due to customers	86,736,803	32,496,287	26,185,136	63,282,047	7,366,933	-	216,067,206
Income tax payable	6,190	-	-	-	-	-	6,190
Other liabilities	2,610,735	392,507	-	-	-	-	3,003,242
Total	**98,770,762**	**38,017,821**	**26,185,136**	**63,282,047**	**7,366,933**	**-**	**233,622,699**
Liquidity risk at 31 December 2008	**(52,359,705)**	**(14,334,630)**	**1,335,546**	**(4,151,179)**	**89,416,445**	**(2,238,589)**	**17,667,888**
Cumulative	**(52,359,705)**	**(66,694,335)**	**(65,358,789)**	**(69,509,968)**	**19,906,477**	**17,667,888**	

(amounts in Lek'000, unless otherwise stated)

5. Financial risk management (continued)

(c) Liquidity risk (continued)

	31 December 2007						
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Non-specific**	**Total**
Assets							
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 and prepaid income tax	108,572	352,684	51,052	-	-	-	512,308
Total	**60,271,151**	**23,993,819**	**27,168,287**	**51,641,389**	**70,183,687**	**2,240,375**	**235,498,708**
Liabilities							
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
Total	**93,881,181**	**32,224,208**	**29,138,379**	**54,449,800**	**12,567,509**	**-**	**222,261,077**
Liquidity risk at 31 December 2007	**(33,610,030)**	**(8,230,389)**	**(1,970,092)**	**(2,808,411)**	**57,616,178**	**2,240,375**	**13,237,631**
Cumulative	**(33,610,030)**	**(41,840,419)**	**(43,810,511)**	**(46,618,922)**	**10,997,256**	**13,237,631**	**-**

(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 it financial statements is the Albanian Lek, the Group's financial statements are effected 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:

2008	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Estimated Profit (loss) effect	(381,786)	381,786	580,913	(580,913)

2007	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Estimated Profit (loss) effect	(316,128)	316,128	458,394	(458,394)

(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 2008						
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Non-specific**	**Total**
Assets							
Cash and cash equivalents	6,563,688	-	-	-	-	-	6,563,688
Restricted balances	21,180,754	46,632	735,614	148,560	135,527	32,665	22,279,752
Investments held for trading	327,953	1,477,455	1,972,485	1,790,202	16,309,194	-	21,877,289
Investments held to maturity	8,454,346	13,098,795	15,270,440	32,665,841	46,503,327	-	115,992,749
Loans and advances to customers	49,001,088	5,761,198	5,084,407	23,289,287	2,510,201	(2,271,254)	83,374,927
Other assets and prepaid income tax	670,998	59,918	471,144	122	-	-	1,202,182
Total	**86,198,827**	**20,443,998**	**23,534,090**	**57,894,012**	**65,458,249**	**(2,238,589)**	**251,290,587**
Liabilities							
Due to financial institutions	2,158,868	992,153	-	-	-	-	3,151,021
Repurchase agreements	7,258,166	4,136,874	-	-	-	-	11,395,040
Due to customers	86,736,803	32,496,287	26,185,136	63,282,047	7,366,933	-	216,067,206
Other liabilities	2,610,735	392,507	-	-	-	-	3,003,242
Total	**98,764,572**	**38,017,821**	**26,185,136**	**63,282,047**	**7,366,933**	**-**	**233,616,509**
Gap at 31 December 2008	**(12,565,745)**	**(17,573,823)**	**(2,651,046)**	**(5,388,035)**	**58,091,316**	**(2,238,589)**	**17,674,078**

(amounts in Lek'000, unless otherwise stated)

5. Financial risk management (continued)

(d) Market risks (continued)

	31 December 2007						
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Non-specific**	**Total**
Assets							
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	108,572	352,684	51,052	-	-	-	512,308
Total	**63,435,290**	**23,993,819**	**27,168,287**	**63,418,181**	**58,406,895**	**(923,764)**	**235,498,708**
Liabilities							
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
Total	**93,815,991**	**32,224,208**	**29,138,379**	**54,449,800**	**12,567,509**	**-**	**222,195,887**
Gap at 31 December 2007	**(30,380,701)**	**(8,230,389)**	**(1,970,092)**	**8,968,381**	**45,839,386**	**(923,764)**	**13,302,821**

(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 2008 and 31 December 2007 by the foreign currencies in which they were denominated was as follows:

	31 December 2008					31 December 2007				
	Lek	**EUR**	**USD**	**Other**	**Total**	**Lek**	**EUR**	**USD**	**Other**	**Total**
Assets										
Cash and cash equivalents	4,658,121	1,149,019	577,269	179,279	6,563,688	4,696,005	15,470,508	5,969,613	3,678,908	29,815,034
Restricted balances	13,919,858	6,378,424	1,981,470	-	22,279,752	13,871,398	5,123,028	1,646,720	-	20,641,146
Investments held for trading	13,215,584	-	-	8,661,705	21,877,289	61,519	-	-	-	61,519
Investments held to maturity	115,992,749	-	-	-	115,992,749	122,764,017	-	-	-	122,764,017
Loans to customers	26,593,338	48,174,083	7,903,475	704,031	83,374,927	21,550,805	33,977,414	5,853,821	322,644	61,704,684
Property, equipment, intangibles	2,287,816	-	-	-	2,287,816	2,159,353	15,137	-	-	2,174,490
Equity Investments	10,859	-	-	-	10,859	-	-	-	-	-
Other assets and prepaid tax	555,607	632,415	13,312	848	1,202,182	339,416	171,927	9,334	(8,369)	512,308
Total	**177,233,932**	**56,333,941**	**10,475,526**	**9,545,863**	**253,589,262**	**165,442,513**	**54,758,014**	**13,479,488**	**3,993,183**	**237,673,198**
Liabilities										
Due to financial institutions	67,034	2,831,912	250,879	1,196	3,151,021	328,574	1,566,724	514,912	996	2,411,206
Reverse repurchase agreement	11,395,040	-	-	-	11,395,040	-	-	-	-	-
Due to customers	144,490,529	55,155,046	13,539,816	2,881,815	216,067,206	150,405,876	51,076,533	13,412,339	3,684,290	218,579,038
Deferred tax liabilities	167,923	-	-	-	167,923	19,477	-	-	-	19,477
Income tax payable	6,190	-	-	-	6,190	65,190	-	-	-	65,190
Other liabilities	1,652,655	1,273,027	109,844	(32,284)	3,003,242	790,470	375,297	(270,789)	310,665	1,205,643
Minority Interest	38,668	-	-	-	38,668	26,679	-	-	-	26,679
Shareholder's equity	19,759,972	-	-	-	19,759,972	12,930,365	2,435,600	-	-	15,365,965
Total	**177,578,011**	**59,259,985**	**13,900,539**	**2,850,727**	**253,589,262**	**164,566,631**	**55,454,154**	**13,656,462**	**3,995,951**	**237,673,198**
Net Position	**(344,079)**	**(2,926,044)**	**(3,425,013)**	**6,695,136**	**-**	**875,882**	**(696,140)**	**(176,974)**	**(2,768)**	**-**

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".

(amounts in Lek'000, unless otherwise stated)

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%.

The capital adequacy ratios are calculated based on the results of the Bank and not the consolidated results of the Group.

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 2008	**31 December 2007**
Total risk weighted assets	83,226,018	70,274,788
Total risk weighted off balance exposures	4,473,552	5,880,361
Total	**87,699,570**	**76,155,149**
Regulatory capital	14,409,386	12,094,643
Capital adequacy ratio	16.43%	15.88%

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.

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, government bonds and municipality 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 2008, the fair value of held-to-maturity investment securities is approximately Lek 115,540,954 thousand (31 December 2007: Lek 122,350,055 thousand) whilst their carrying value is Lek 115,992,749 thousand (31 December 2007: Lek 122,764,017 thousand).

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 2008 is approximately Lek 216,084,187 thousand (31 December 2007: Lek 218,535,725 thousand) whilst their carrying value is Lek 216,067,206 thousand (31 December 2007: Lek 218,579,038 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.

(amounts in Lek'000, unless otherwise stated)

7. Cash and cash equivalents

	31 December 2008	31 December 2007
Cash on hand	2,112,009	2,857,923
Central Bank		
Current accounts	1,799,636	13,515
Deposits	1,200,148	3,000,370
Banks		
Current accounts with resident banks	394	1,301
Current accounts with non-resident banks	688,629	78,083
Deposits with resident banks	34,586	727,141
Deposits with non-resident banks	728,286	23,136,701
Total	**6,563,688**	**29,815,034**

Current accounts with the Bank of Albania bear no interest. Deposits with the Central Bank earn annual interest at 4.5 % (31 December 2007: 4.5%).

The annual interest rates on term deposits with non-resident banks as at 31 December 2008 vary from 0.25% to 1.9% (31 December 2007 : 2.25% to 6.62%). The annual interest rates on term deposits with resident banks as at 31 December 2008 vary from 3% - 6.5% (31 December 2007: 3.65 % - 5.06%).

8. Restricted balances

	31 December 2008	31 December 2007
Central Bank		
Statutory reserves	21,170,205	19,920,300
Banks		
Guarantee accounts	1,109,547	720,846
Total	**22,279,752**	**20,641,146**

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: 4.375% per annum as of 31 December 2008 (31 December 2007: 4.38% per annum);

-EUR balances: 70% of the EUR LIBOR rate: 2.275% per annum as of 31 December 2008 (31 December 2007: 3.11%); and

-USD balances: 70% of the USD LIBOR rate: 0.7% per annum as of 31 December 2008 (31 December 2007: 3.40% per annum).

(amounts in Lek'000, unless otherwise stated)

9. Investment in securities

9.1 Investments held for trading

Securities held for trading comprise treasury bills and bonds of Albanian Government and Hungarian municipality bonds as follows:

	31 December 2008	31 December 2007
Treasury bills	5,568,095	61,519
Government Bonds	7,647,489	-
Hungarian municipality Bonds	8,661,705	-
Total	**21,877,289**	**61,519**

Treasury bills as at 31 December 2008 relate to zero-coupon treasury bills of the Government of Albania, with maturities ranging between January 2009 to December 2009, with yields ranging from 6.24% to 8.72% per annum (31 December 2007: from 6.36% to 8.20%).

Government Bonds as at 31 December 2008 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 8.15% to 11.00% per annum (31 December 2007: nil).

Hungarian Municipality Bonds as at 31 December 2008 represent bonds denominated in CHF issued by the municipalities of Hungary with coupon rates ranging from 3.585% to 4.855% per annum (31 December 2007: nil).

9.2 Held-to-maturity investment securities

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

	31 December 2008	31 December 2007
Treasury bills	37,588,649	57,988,865
Government Bonds	78,404,100	64,775,152
Total	**115,992,749**	**122,764,017**

As at 31 December 2008 treasury bills with a carrying amount of Lek 11,395,040 thousand (2007: nil) were pledged as security for the repurchase agreements portfolio (refer to note 15).

9.2.1 Treasury Bills

Treasury bills as at 31 December 2008 relate to zero-coupon treasury bills of the Government of Albania, with maturities ranging between January 2009 to December 2009, with yields ranging from 6.24% to 9.5% per annum (31 December 2007: from 5.09% to 9.08%).

	31 December 2008	31 December 2007
Nominal value of treasury bills	38,675,939	59,518,083
Unamortized discount	(1,087,290)	(1,529,218)
Total	**37,588,649**	**57,988,865**

(amounts in Lek'000, unless otherwise stated)

9. Investment in securities (continued)

9.2.2 Government Bonds

Government Bonds as at 31 December 2008 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 7% to 11.00% per annum (31 December 2007: from 6.20% to 11.00%).

	31 December 2008	31 December 2007
Nominal value of bonds	76,531,138	63,386,339
Unamortized discount	30,888	(62,908)
Accrued interest	1,842,074	1,451,721
Total	**78,404,100**	**64,775,152**

10. Loans and advances to customers

	31 December 2008	31 December 2007
Loans and advances to customers	85,646,180	62,663,321
Allowance for loan loss impairment	(2,271,253)	(958,637)
Net carrying amount	**83,374,927**	**61,704,684**

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

	31 December 2008	31 December 2007
Balance at the beginning of the year	958,637	532,779
Allowance for loan loss impairment	1,690,037	432,435
Loans written off	(377,421)	(6,577)
Balance at the end of the period	**2,271,253**	**958,637**

The interest rates of loans and advances to customers vary from 3.99 % to 23.09 % p.a. in foreign currencies and from 2.94 % to 33 % p.a. in Lek (31 December 2007: from 4.28% to 13.27% p.a. in foreign currencies and from 2.4% to 30% p.a. in Lek).

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 2008 is Lek 336,985 thousand (2007: Lek 403,527 thousand) and represents 0.4% 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 134,210 thousand (2007: Lek 396,106 thousand) and Raiffeisen Factoring Bulgaria with a carrying amount of Lek 1,238,274 thousand (2007: nil).

11. Property, equipment and intangible assets

	31 December 2008	31 December 2007
Property and equipment	1,978,504	1,900,035
Intangible assets	309,312	274,455
Total	**2,287,816**	**2,174,490**

There are no assets pledged as collateral as at 31 December 2008 (2007: none).

(amounts in Lek'000, unless otherwise stated)

11. Property, equipment and intangible assets (continued)

	Intangible assets	Land and Buildings	Computers and ATMs	Vehicles	Work in progress	Other	Total
Cost							
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	-
Balance at 31 December 2007	**515,466**	**818,396**	**1,657,316**	**301,126**	**136,503**	**465,911**	**3,894,718**
Balance at 1 January 2008	515,466	818,396	1,657,316	301,126	136,503	465,911	3,894,718
Additions	168,155	-	162,121	40,180	276,635	125,842	772,933
Disposals	-	-	(124,038)	(55,187)	(1,985)	(86,156)	(267,366)
Transfer from work in progress	-	212,632	78,966	9,693	(303,907)	2,616	-
Balance at 31 December 2008	**683,621**	**1,031,028**	**1,774,365**	**295,812**	**107,246**	**508,213**	**4,400,285**
Accumulated Depreciation							
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
Balance at 31 December 2007	**(241,011)**	**(108,832)**	**(1,004,136)**	**(132,159)**	**-**	**(234,090)**	**(1,720,228)**
Balance at 1 January 2008	(241,011)	(108,832)	(1,004,136)	(132,159)	-	(234,090)	(1,720,228)
Charge for the period	(133,298)	(72,109)	(296,902)	(54,489)	-	(81,951)	(638,749)
Disposals	-	-	122,973	50,823	-	72,712	246,508
Balance at 31 December 2008	**(374,309)**	**(180,941)**	**(1,178,065)**	**(135,825)**	**-**	**(243,329)**	**(2,112,469)**
Carrying amount							
As at 1 January 2007	**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**
As at 31 December 2008	**309,312**	**850,087**	**596,300**	**159,987**	**107,246**	**264,884**	**2,287,816**

(amounts in Lek'000, unless otherwise stated)

12. Equity Investments

The Group owns 2,355 shares in Visa Inc. with a total value of Lek 10,859 thousand (2007: nil).

13. Other assets

	31 December 2008	31 December 2007
VAT receivable	455,817	174,981
Withholding tax receivable	6,759	-
Prepaid expenses & Accruals	200,470	100,187
Moneygram	32,013	83,619
Inventories	13,739	16,880
Sundry debtors, net	173,635	136,641
Total	**882,433**	**512,308**

Sundry debtors, net are comprised as follows:

	31 December 2008	31 December 2007
Sundry debtors	187,374	141,252
Provisions for losses from other debtors	(13,739)	(4,611)
Total Sundry debtors, net	**173,635**	**136,641**

Movements in the provisions for sundry debtors are as follows:

	31 December 2008	31 December 2007
Balance at the beginning of the period	4,611	19,135
Provision expense for the period	9,128	-
Provision reversal for the period	-	(14,630)
Foreign exchange effect	-	106
Balance at the end of the period	**13,739**	**4,611**

14. Due to financial institutions

	31 December 2008	31 December 2007
Current accounts		
Resident banks and financial institutions	63,484	35,540
Non-resident banks and financial institutions	1,676,704	1,230,552
	1,740,188	**1,266,092**
Deposits		
Resident banks and financial institutions	1,410,833	1,145,114
Total	**3,151,021**	**2,411,206**

The annual interest rates for borrowed funds from financial institutions varied from 0.44% to 3.05% during the year ended 31 December 2008 (2007: 2.47% to 6.30%).

(amounts in Lek'000, unless otherwise stated)

15. Reverse repurchase agreements

The repurchase agreements totalling Lek 11,395,040 thousand as at 31 December 2008 relate to repurchase agreements with Bank of Albania with maturities from 28 to 91 days. They bear interest, which varies from 6.25% to 7.2% p.a. Treasury bills with a carrying amount of Lek 11,395,040 thousand as of 31 December 2008 were pledged as security for these repurchase agreements (see Note 9.2). No such agreements existed at 31 December 2007.

16. Due to customers

	31 December 2008	**31 December 2007**
Current accounts	35,972,000	38,741,770
Deposits	177,501,787	177,558,041
Other accounts	2,593,419	2,279,227
Total	**216,067,206**	**218,579,038**

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 2008 were as follows:

(in %)	**LEK**	**USD**	**EUR**
Current accounts	0.01-1.50	0.01-0.30	0.01-0.50
Demand deposits	0.20-7.00	0.25-4.20	0.10-4.70
Time deposits – 3 month	4.40-6.00	1.60-3.60	2.70-4.70
Time deposits – 6 month	4.80-7.00	1.70-3.90	3.10-4.40
Time deposits – 9 month	5.20-7.20	1.90-2.70	3.40-4.90
Time deposits – 12 month	5.20-9.00	1.90-4.50	3.60-6.50
Time deposits – 24 month	5.30-9.10	2.10-4.90	3.70-6.00
Time deposits – 36 month	5.60-9.20	2.20-5.00	3.85-6.20
Time deposits – 60 month	6.00-9.30	2.50-4.50	4.05-6.50

(amounts in Lek'000, unless otherwise stated)

16. Due to customers (continued)

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

	31 December 2008			31 December 2007		
	LEK	**Foreign currency**	**Total**	**LEK**	**Foreign currency**	**Total**
Current accounts	**25,354,400**	**10,617,600**	**35,972,000**	**28,260,977**	**10,480,793**	**38,741,770**
Deposits						
On demand	7,942,941	5,656,006	13,598,947	12,032,288	8,884,290	20,916,578
1 month - 3 months	452,164	6,684,801	7,136,965	750,796	5,251,572	6,002,368
3 months - 6 months	8,690,355	5,634,128	14,324,483	8,590,018	7,359,923	15,949,941
6 months - 12 months	16,597,347	7,303,824	23,901,171	20,263,350	9,167,630	29,430,980
12 months - 24 months	65,968,023	29,383,566	95,351,589	60,718,606	21,130,888	81,849,494
24 months - 36 months	13,810,936	2,672,533	16,483,469	15,963,480	3,005,923	18,969,403
36 months	387,696	1,348,075	1,735,771	1,351	1,162,736	1,164,087
60 months	306,965	125,545	432,510	-	-	-
Accrued interest on deposits	3,510,058	1,026,824	4,536,882	2,567,920	707,270	3,275,190
	117,666,485	**59,835,302**	**177,501,787**	**120,887,809**	**56,670,232**	**177,558,041**
Other accounts						
Guarantee deposits	1,026,434	1,101,289	2,127,723	723,167	942,097	1,665,264
Cheques in circulation	502	2	504	1,502	2	1,504
Dormant customer accounts	126,251	7,659	133,910	143,335	7,832	151,167
Other	316,457	14,825	331,282	389,086	72,206	461,292
	1,469,644	**1,123,775**	**2,593,419**	**1,257,090**	**1,022,137**	**2,279,227**
Total	**144,490,529**	**71,576,677**	**216,067,206**	**150,405,876**	**68,173,162**	**218,579,038**

(amounts in Lek'000, unless otherwise stated)

17. Deferred tax assets /(liabilities)

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

	31 December 2008	31 December 2007
Balance at the beginning of the year	(19,477)	28,137
Deferred tax benefit relating to the origination and reversal of temporary differences	(148,446)	(47,614)
Balance at the end of the year	**(167,923)**	**(19,477)**

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 2009 of 10% (2008: 10%). As at 31 December 2008 and 31 December 2007 deferred tax assets and liabilities have been recognized for the following items:

	31 December 2008	31 December 2007
Deferred tax asset		
Accelerated depreciation	44,560	28,879
Deferred lease disbursement fees	180	1,069
Other assets recognized as expenses	-	315
	44,740	30,263
Deferred tax liability		
Allowance for impairment losses	(212,663)	(49,740)
	(212,663)	(49,740)
Net deferred tax assets / (liabilities)	**(167,923)**	**(19,477)**

Based on the local accounting law, starting from 1 January 2008 the Group must report in accordance with IFRS. A new tax law has been drafted; however the impact of this law on the financial statements of the Group is still uncertain and guidelines on the tax impact for IFRS reporting not yet clear.

18. Other liabilities

	31 December 2008	31 December 2007
Accrued expenses	220,497	231,480
Provision for litigation	194,206	48,244
Other creditors	191,984	238,872
Withholding Tax payable	109,646	69,313
VAT payable	230	166
Deferred income	1,010,910	328,700
Due to employees	270,009	263,914
Due to Social Insurance	27,657	24,954
Other liabilities	978,103	-
Total	**3,003,242**	**1,205,643**

Included in "Accrued expenses" is an amount of Lek 103,717 thousand (2007: Lek 105,714 thousand) of accrued deposit insurance premium payable for customers' deposits.

(amounts in Lek'000, unless otherwise stated)

18. Other liabilities (continued)

The movements in the provision for litigation are as follows:

	31 December 2008	31 December 2007
Balance at the beginning of the year	48,244	51,762
Provision expense for the year	148,560	-
Reversal of provision for the year	(2,598)	(3,518)
Balance at the end of the year	**194,206**	**48,244**

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.

19. Share capital

As at 31 December 2008 the subscribed capital of the Group is Lek 4,348,233 thousand made up of 7,000 shares with a nominal value of Lek 621,176 each.

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.

In September 2007 the Group converted EUR 14,592,965 of the subscribed capital into Lek 1,834,336 thousand. In February 2008 the Group converted the remaining EUR 20,000,000 of the subscribed capital into Lek 2,513,897 thousand.

20. 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 17 May 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 19 November 1992, "On commercial companies" and the decision of the Supervisory Council of the Bank of Albania No. 51, dated 22 April 1999.

(amounts in Lek'000, unless otherwise stated)

21. 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 provide leasing in accordance with 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 profit	Accumulated loss	Net value
Raiffeisen Bank Sh.a	75%	92,250	35,970	(12,214)	116,006
Raiffeisen -Leasing International Gesellschaft m.b.H.	25%	30,750	11,989	(4,071)	38,668

22. Interest income

Interest income by category is as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Bank deposits	1,656,385	1,834,588
Loans and advances to customers	7,471,121	4,835,551
Investment securities	9,854,020	9,338,248
Repurchase agreement	15,018	77,679
Total	**18,996,544**	**16,086,066**

23. Interest expense

Interest expense by category is as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Banks	162,060	61,337
Customers	8,562,735	6,580,624
Reverse repurchase agreement	229,316	214,736
Total	**8,954,111**	**6,856,697**

24. Fee and commission income

Fees and commissions received were comprised as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Funds transfers	981,531	927,424
Lending activities	644,597	245,115
Other banking services	35,981	257,104
Total	**1,662,109**	**1,429,643**

(amounts in Lek'000, unless otherwise stated)

25. Net other operating income (expense)

	Year ended 31 December 2008	Year ended 31 December 2007
Other revenue	17,900	306,151
Other expenses	(293,284)	(126,954)
Total	**(275,384)**	**179,197**

In "Other revenue" is included income from sale of fixed assets amounting to Lek 10,816 thousand (2007: Lek 197,627 thousand). In "Other expenses" is included increase in legal provision of Lek 148,560 thousand (2007: nil), the write off of fixed assets amounting to Lek 14,641 thousand (2007: Lek 14,429 thousand), and taxes other than income tax amounting to Lek 12,995 thousand (2007: Lek 10,315 thousand).

26. Deposit insurance premium

Legislation from 18 October 2002, determined that 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.

27. Personnel expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Salaries	1,562,102	1,428,527
Social insurance	210,647	175,599
Personnel training	65,905	73,734
Other personnel costs	108,010	82,644
Total	**1,946,664**	**1,760,504**

As at 31 December 2008, the Group had 1,471 employees (2007: 1,385 employees).

28. General and administrative expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Consultancy and legal fee	672,398	576,305
Utilities	351,920	305,931
Marketing expenses	298,305	270,138
Communication expenses	197,938	206,006
Repair and maintenance	232,619	214,323
Stationery expenses	68,071	75,578
Travel expenses	38,061	35,749
Other	17,406	6,116
Total	**1,876,718**	**1,690,146**

Consultancy and legal fees include head office management charge totalling Lek 626,017 thousand in 2008 (2007: Lek 539,717 thousand).

(amounts in Lek'000, unless otherwise stated)

29. Income tax

Income tax in Albania is assessed at the rate of 10% (2007: 20%) of taxable income:

	Year ended 31 December 2008	Year ended 31 December 2007
Current tax	452,412	1,163,190
Deferred taxes	148,138	47,614
Total	**600,550**	**1,210,804**

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

	Year ended 31 December			
	Tax rate	2008	Tax rate	2007
Profit before taxes		5,695,410		6,094,258
Prima facie tax calculated at 10% (2007: 20%)	10.0%	569,541	20.0%	1,218,852
Non tax deductible expenses	0.5%	29,368	0.2%	13,374
Not recognised temporary differences	0.0%	1,641	-	-
Reduction in tax rate	-	-	(0.4%)	(21,422)
Income tax expense	10.5%	**600,550**	19.9%	**1,210,804**

30. Contingencies and commitments

	31 December 2008			31 December 2007
	Lek	Foreign currency	Total	Total
Contingent liabilities				
Bank Guarantees issued	364,667	2,974,167	3,338,834	7,499,261
Letters of Credit	141,509	857,331	998,840	993,750
Unused credit lines	4,810,364	2,394,752	7,205,116	7,298,350
Finance lease commitments	-	21,219	21,219	65,396
Litigation	194,206	-	194,206	48,244
Total	**5,510,746**	**6,247,469**	**11,758,215**	**15,905,001**
Contingent assets				
Bank Guarantees received	211,545	3,471,938	3,683,483	2,919,499
Operating lease commitments	18,294	461,313	479,607	295,847
Total	**229,839**	**3,933,251**	**4,163,090**	**3,215,346**

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 2008 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 2008 and at 31 December 2007.

(amounts in Lek'000, unless otherwise stated)

30. 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 2008 and 31 December 2007 are as follows:

	31 December 2008	31 December 2007
Not later than 1 year	221,109	118,097
Later than 1 year and not later than 5 years	258,498	177,750
Total	**479,607**	**295,847**

31. Related parties

Parent and ultimate controlling party and fellow subsidiaries

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

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

	31 December 2008	31 December 2007
Amounts due from:		
RZB AG	988,757	10,867,216
Raiffeisen Group It	-	5,086
Raiffeisen Bank Bulgaria Ead	691	2,759
Raiffeisen Bank Kosovo	-	19,543
Raiffeisen Leasing Bulgaria Ood	134,211	396,106
Raiffeisen-Leasing D.O.O.	-	1,220,343
Tatra Banka	11,555	11,070
Raiffeisen International AG	8,806	-
Raiffeisen Factoring Ltd., Sofia (BG)	1,238,274	-
Raiffeisen Bank Budapest	13,059	-
Assets total	**2,395,353**	**12,522,123**
Amounts due to:		
RZB AG	(42,284)	(681,300)
Raiffeisen International AG	(8,211)	(26,541)
Raiffeisen Group It	-	(2,113)
Raiffeisen Leasing Bulgaria Ood	-	(87)
Tatra Banka	(5,799)	(14,815)
Rieef Portfolio Bulgaria	-	(185)
Ukrainian Processing Center	(4,235)	(258)
Raiffeisen Bank Kosovo	(1,557,409)	-
Liabilities total	**(1,617,938)**	**(725,299)**

The aggregate value of the contingent liabilities of the Group to these entities as at 31 December 2008 was Lek 1,501,264 thousand (31 December 2007: Lek 2,252,358 thousand) and represents Bank Guarantees and Letters of Credit.

(amounts in Lek'000, unless otherwise stated)

31. Related parties (continued)

	2008	2007
Net interest income		
RZB AG	355,004	240,338
Raiffeisen Bank Bulgaria Ead	24	63
Raiffeisen Leasing Bulgaria Ood	15,897	28,582
Raiffeisen-Leasing D.O.O.	10,584	23,652
Rieef Portfolio Bulgaria	-	35,331
Raiffeisen Bank Kosovo	(42,446)	-
Raiffeisen Factoring Ltd., Sofia (BG)	18,495	-
Net fee and commission expense		
RZB AG	(7,805)	(3,158)
Raiffeisen Bank Bulgaria Ead	(17)	(7)
Tatra Banka	(92,166)	(94,068)
Ukrainian Processing Center	(25,072)	(2,821)
Raiffeisenbank Austria d.d., Zagreb (HR)	-	(10)
Net trading profit		
Raiffeisenbank Austria d.d., Zagreb (HR)	-	6,674
Raiffeisen Bank Zrt., 1054 Budapest (H)	23,493	-
Purchase of assets and operating expenses		
RZB AG	(6,927)	(2,507)
Raiffeisen International AG	(666,352)	(599,219)
Raiffeisen Group It	(31,777)	(64,304)
Tatra Banka	(8,966)	(1,638)
RSC Raiffeisen Daten Service Center GmbH	(221)	-
Raiffeisen Leasing International G. m.b.H	(615)	-
Transactions, net	**(458,867)**	**(433,092)**

Administrators

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

	2008	2007
Balance sheet		
Amounts due from Administrators	64,943	38,357
Amounts due to Administrators	(18,238)	(11,621)
Net balances due from Administrators	**46,705**	**26,736**
Income statement		
Wages, salaries and bonuses	(282,806)	(191,607)
Total	**(282,806)**	**(191,607)**

Subsidiary

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

32. Subsequent events

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