Intesa SanPaolo Bank Albania Sh.a.
(Previously known as American Bank of Albania Sh.a.)

Consolidated Financial Statements as at
31 December 2008
(with independent auditor's report thereon)

Contents

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF INTESA SANPAOLO BANK ALBANIA SH.A.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The accompanying financial statements do not include all relevant disclosures required by IFRS 7 "Financial instruments: Disclosures" relating to nature and extent of risk arising from financial instruments.

Qualified Opinion

In our opinion, except for the omission of the information included in the preceding paragraph the financial statements give a true and fair view of the financial position of Intesa SanPaolo Bank Albania Sh.a. as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Albania Sh.p.k
25 March 2009

Intesa SanPaolo Bank Albania Sh.a.

Consolidated balance sheet

As at 31 December

(in '000 Lek)

	Notes	2008	2007
Assets			
Cash and cash equivalents	9	4,497,583	4,847,434
Loans and advances to banks	10	8,215,701	5,818,189
Available-for-sale Investment Securities	11	1,963,807	2,594,401
Held-to-maturity Investment Securities	12	46,065,994	32,408,727
Loans and advances to customers	13	43,415,104	30,571,406
Property and equipments	14	2,027,981	924,056
Intangible assets	15	195,921	116,263
Deferred tax assets	20	39,394	39,343
Current tax assets	31	150,866	-
Other assets	16	553,262	577,103
Total Assets		**107,125,613**	**77,896,922**
Liabilities			
Due to banks	17	6,489,442	4,079,996
Due to customers	18	90,399,380	68,815,984
Current accounts		24,216,368	13,931,373
Time deposits		66,183,012	54,884,611
Subordinated debt	19	481,811	428,791
Current tax liabilities	31	249,000	43,965
Deferred tax liabilities	20	14,889	20,303
Other liabilities	21	462,897	201,603
Total Liabilities		**98,097,419**	**73,590,642**
Equity			
Share capital and premiums	22	6,946,398	3,001,851
Legal and regulatory reserves	23	1,258,387	617,281
Fair value reserve		(1,285,725)	(490,502)
Translation reserve		6,389	28,416
Other comprehensive items	24	714,555	416,889
Retained earnings		1,388,190	732,345
Total Equity		**9,028,194**	**4,306,280**
Total Liabilities and Equity		**107,125,613**	**77,896,922**

The notes on pages to page 6 of 69 are an integral part of these consolidated financial statements.

Intesa SanPaolo Bank Albania Sh.a.

Consolidated income statement
For the year ended 31 December
(in '000 Lek)

	Notes	2008	2007
Interest income		7,765,638	5,429,510
Interest expenses		(3,562,523)	(2,733,615)
Net interest income	**25**	**4,203,115**	**2,695,895**
Fee and commission income		744,030	510,574
Fee and commission expenses		(139,136)	(114,863)
Net fee and commission income	**26**	**604,894**	**395,711**
Net trading income	**27**	312,055	39,962
Other operating (expenses)/income, net	**28**	15,926	29,172
Operating income		**5,135,990**	**3,160,740**
Net impairment loss on financial assets	**13**	(437,232)	(55,511)
Personnel expenses	**29**	(924,238)	(704,626)
Operating lease expenses	**34**	(211,678)	(240,462)
Depreciation and amortization	**14,15**	(356,103)	(233,211)
Amortization of leasehold improvements	**16**	(154,034)	(44,655)
Other expenses	**30**	(907,831)	(612,696)
Total expenses		**(2,991,116)**	**(1,891,161)**
Net income before taxes		**2,144,874**	**1,269,579**
Income tax expense	**31**	(369,096)	(369,114)
Profit for the period		**1,775,778**	**900,465**

The notes on pages 6 of 69 are an integral part of these consolidated financial statements.

Intesa SanPaolo Bank Albania Sh.a.

Consolidated statement of changes in equity

For the year ended 31 December 2008

(in '000 Lek)

	Note	**Share capital**	**Share premiums**	**Reserves**		**Valuation Reserves**			**Profit of the year**	**Total**
		-	-	**Retained earnings**	**Statutory, General and Legal reserve**	**Fair Value reserve**	**Translation reserve**	**Comprehensive item**		
Balance at 1 January 2007		**3,418,740**	**-**	**68,634**	**380,527**	**(351,787)**	**15,269**	**-**	**-**	**3,531,383**
Appropriation of retained earnings		-	-	(236,754)	236,754	-	-	-	-	-
Net change in fair value of AFS investment securities						(138,715)				**(138,715)**
Foreign currency translation difference		-	-	-			13,147	-	-	**13,147**
Other comprehensive Items		(416,889)	-	-	-	-	-	416,889	-	-
Profit for the year		-	-		-	-	-	-	900,465	**900,465**
Balance at 31 December 2007		**3,001,851**	**-**	**(168,120)**	**617,281**	**(490,502)**	**28,416**	**416,889**	**900,465**	**4,306,280**

Intesa SanPaolo Bank Albania Sh.a.

Consolidated statement of changes in equity

For the year ended 31 December 2008

(in ‘000 Lek)

	Note	Share capital	Share premiums	Reserves		Valuation Reserves			Profit of the year	Total
				Retained earnings	Statutory, General and Legal reserve	Fair Value reserve	Translation reserve	Comprehensive item		
Balance at 31 December 2007		**3,001,851**	**-**	**(168,120)**	**617,281**	**(490,502)**	**28,416**	**416,889**	**900,465**	**4,306,280**
Effect of the merger		1,307,824	-	(315,485)	614,140	-	-	297,666	-	**1,904,145**
Balance after merge as at 1 January 2008		**4,309,675**	**-**	**(483,605)**	**1,231,421**	**(490,502)**	**28,416**	**714,555**	**900,465**	**6,210,425**
Increase in share capital		446,250	1,383,880	-	-	-	-	-	-	**1,830,130**
Appropriation of retained earnings		806,593	-	(833,559)	26,966	-	-	-	-	-
Net change in fair value of AFS investment securities		-	-	-	-	(795,223)	-	-	-	**(795,223)**
Foreign currency translation difference		-	-	29,111	-	-	(22,027)	-	-	**7,084**
Profit for the year		-	-	-	-	-	-	-	1,775,778	**1,775,778**
Balance at 31 December 2008		**5,562,518**	**1,383,880**	**(1,288,053)**	**1,258,387**	**(1,285,725)**	**6,389**	**714,555**	**2,676,243**	**9,028,194**

The notes on pages 6 of 69 an integral part of these consolidated financial statements

Intesa SanPaolo Bank Albania Sh.a.

Consolidated statement of cash flows

For the year ended 31 December

(in '000 Lek)

	Notes	2008	2007
Cash flows from/(in) operating activities			
Net income		**1,775,778**	**900,465**
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation of property and equipment		253,801	125,366
Amortization of intangible assets		68,729	55,906
Depreciation of leasehold improvements		154,034	44,655
Disposals of Intangible Assets		-	127
Disposals of Property and Equipment		21,564	2,126
Amortization of investments HTM-treasury bills		(336,522)	57,228
Amortization of investments HTM-other than treasury bills		(436,199)	(1,054)
Amortization of AFS investment securities		(9,342)	(7,799)
Impairment on financial assets		437,232	55,511
Decrease (increase) in interest receivable		(7,319)	(51,314)
Increase (decrease) in interest payable		313,198	353,612
Foreign exchange difference		(38,947)	15,856
Changes in operating assets and liabilities			
Change in trading AFS assets		-	2,784,662
Changes in loans and advances in banks		4,282,335	11,248,269
Change in loans and advances to customers		(4,990,732)	(5,578,918)
Change in other assets		(24,727)	10,661
Change in deferred tax assets		(976)	94,573
Change in due to banks		2,212,009	(15,789,707)
Change in due to customers		(3,297,301)	13,050,531
Change in other liabilities		(40,014)	39,574
Change deferred tax liabilities		(6,339)	4,305
Change in current taxes		54,168	(270,237)
Net cash provided by operating activities		**(1,391,348)**	**6,243,933**
Cash flows from investing activities			
Sale(purchase) of intangible assets		(141,257)	(48,008)
Sale(purchase) of property and equipment		(841,262)	(399,426)
Sale of securities available for sale		(155,286)	(199,518)
Sale of held to maturity investments		(4,594,584)	(4,122,682)
Net cash used in investing activities		**(5,732,389)**	**(4,769,634)**

(in '000 Lek)

(the table continues in the next page) the table continued from the previous page)

Cash flows from financing activities		
Increase (decrease) of subordinated debt	(417,310)	(58,314)
Issue of share capital	1,830,130	
Net Cash from financing activities	**1,412,820**	**(58,314)**
Net increase/(decrease) in cash during the year	**(3,935,140)**	**2,316,450**
Cash and cash equivalents at the beginning of the year	4,847,434	2,530,984
Effect of merger (note 8)	3,585,289	
Cash and cash equivalents at end of period	**4,497,583**	**4,847,434**

The notes on pages 6 of 69 are an integral part of these consolidated financial statements

These financial statements have been approved by Board of Directors of the Bank on 5 March 2009. After their issuance, any amendment is the power of Bank's shareholders. On behalf of the Bank, these financial statements are signed by:

Stefano Farabbi
Chief Executive Officer

Adela Xhemali
Chief Financial Officer

1. Reporting entity

Intesa Sanpaolo Bank Albania, (hereinafter called the "Bank"), was incorporated on May 1998 with its principal location in Tirana and registered office at "Ismail Qemali" street, no.27. The Bank was authorized to undertake banking activity in Albania according to the law no 8365, "For the Banking system in Albania", dated July 2, 1998 and substituted by law no 9662 "On the Banks in Albania" dated December 18, 2006 enforced on June 2007. The Bank started operations on September 24, 1998.

On 20-21 December 2006, the Albanian-American Enterprise Fund (hereinafter the "AAEF") in its capacity of sole Bank shareholder signed a Share Purchase Agreement (hereinafter the "Purchase Agreement") with Sanpaolo Imi S.p.a. (the "Purchaser"), an entity incorporated under the laws of Republic of Italy intending to sell 12,000,000 shares of the Bank with a nominal value of USD 2,2266 equal to an equity portion of 80% of the Bank entire issued capital, for a price of USD 125,520 thousand (the "Purchase Price"). As of 1st of January 2007 Sanpaolo Imi S.p.a. and Banca Intesa S.p.a. created Intesa Sanpaolo S.p.a through the merger of these two banks. On 29 June 2007, the Closing Date as defined in the Purchase Agreement, after the fulfillment of all conditions, the representatives of AAEF and Intesa Sanpaolo S.p.a signed the transfer of shares.

The Bank and Banca Italo Albanese Sh.a. (also known as Banka Italo Shqiptare Sh.a. or BIA) merged by incorporating BIA assets and liabilities with and into the activities of Intesa Sanpaolo Bank Albania. Prior to the merger, Intesa Sanpaolo Bank Albania's shareholders were Intesa Sanpaolo S.p.a and AAEF holding respectively 80% and 20% of the share capital. BIA's shareholders were Intesa Sanpaolo S.p.a, the European Bank for Reconstruction and Development (hereafter the "EBRD") and the Societa Italiana per le Imprese all' Estero S.p.A (hereafter the "SIMEST") holding respectively 76.129%, 20% and 3.871% of BIA share capital. The share exchange ratio was established by using the adjusted net book value (adjusted net asset value) methodology. The share exchange ratio was established based on the holding of each shareholder based on the respective valuation of each Bank's financial position as at 30 June 2007 as a percentage of the combined valuation of the two banks as at the same date, regardless of the number of shares that will be registered. The Bank and BIA shareholders approved the terms and conditions of the merger, as previously established in the Merger plan and in the Merger Agreement on 6 November 2007 and its addendum dated 4 December 2007.

Following both, event of the merger and further expansion of banking activities , the Bank's network increased, to 37 branches and agencies, located in different cities of Albania: Tirana, Durres, Vlora, Elbasan, Fier, Gjirokastra, Korca, Lushnja, etc, as well as in Greece with four branches in Athens, Thessalonika, Peristeri and Piraeus. (2007: the Bank 27, former BIA 7 branches).

The Bank had 511 employees as at 31 December 2008 (2007: 400). The increase is mainly due the merger with BIA that had 101 personnel as at 31 December 2007.

Upon the final approval from the Bank of Albania, effective 13 October 2008, the Bank's name was changed from American Bank of Albania to Intesa Sanpaolo Bank Albania.

The consolidated financial statements of the Bank as of 31 December 2008 and for the period then ended, comprise also its subsidiary in Greece (i.e. Greek branches) which operates as a separate legal entity.

2. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Starting from 1 January 2008 the application of International Financial Reporting Standards becomes a statutory requirement for any financial institution operating in Albania. The Bank is an IFRS first time adopter. An explanation of how the transition to IFRS has effected the reported financial position as at the opening balance sheet on 1 January 2007, and the financial performance of the Bank for the year ended 31 December 2007 is provided in Note 35.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial instruments, which are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Lek, which is the Bank'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 accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

(iii) Merger with entities under common control
Merger with entities that are under control of shareholder that control the group are accounted at the date that common control was established and no comparatives are restated. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the group controlling shareholders' consolidated financial statements. Any cash paid for the acquisition, if any is directly recognized in the equity.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of Bank entities at exchange rates at the dates of 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.

3. Significant accounting policies (continued)

(b) Foreign currency

(ii) Foreign operations

The assets and liabilities of foreign operations, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of the foreign operations, are translated to the functional currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity. Since 1 January 2007, the Bank's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transfered to profit or loss.

(c) Interest

Interest income and expense are recognized 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.

Calculation of 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.

(d) Fees and commissions

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, investment management fees, sales commission and placement fees are recognized 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 fair value changes, and foreign exchange differences.

3. Significant accounting policies (continued)

(f) Dividends

Dividend income is recognized when the right to receive income is to be established. Usually, this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income on other financial instruments at fair value or other operating income based on the underlying classification of the equity instrument.

(g) Lease and Leasehold improvements

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank has only operating lease agreements, payments of which are recognized in profit or loss on a straight-line basis over the term of the lease. Restructuring costs made in the premises used under these agreements are accounted for other assets and amortized over the term of the lease on a straight-line basis.

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

(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 not recognized for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extend that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.
A deferred tax asset is recognized in 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 Bank initially recognizes loans and advances, deposits and borrowings on the date that they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Classification
See accounting policies 3(j),(k),(l),and (m)

(iii) De-recognition
The Bank 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 Bank is recognized as a separate asset or liability.

The Bank derecognizes a financial liability when its contractual obligations are discharged, canceled or expired.

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

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

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

(iv) Off-setting
Financial assets and liabilities are set off and the net amount is presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(iv) Off-setting (continued)

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

(v) Amortized cost measurement

The amortized 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 recognized and the maturity amount, minus any reduction of impairment.

(vi) 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 Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

(vii) Identification and measurement of impairment

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

The Bank 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 amortized cost) with similar risk characteristics.

Objective evidence of impairment can include default or delinquency by borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for 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. The loans and advances to customers are classified as substandard; doubtful; loss; restructured according to the definition of Central Bank of Albania, and past due more than 30 days, are subject to individual assessment for specific impairment.

3. Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

All the loans for which "no objective evidence of impairment is identified", are subject to collective assessment. Collective assessment is based on groups of loans with similar credit risk characteristics, and is estimated considering past historical default rates and relative percentages for loans losses incurred, founded on observable elements at balance sheet date. The valuation also considers the risk of the borrower's country.

Impairment losses on assets are measured at 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 recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized 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.

(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 Bank in the management of its short-term commitments.

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

(k) Trading assets and liabilities

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

Trading assets and liabilities are initially recognized 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 recognized as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(l) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances are initially measured at amortized cost plus incremental direct transaction costs, using the effective interest method.

3. Significant accounting policies (continued)

(m) Investment securities

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

Held-to-maturity investments are carried at amortized 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 Bank from classifying investment securities as held-to-maturity for the current and following two financial years.

(ii) Available-for-sale
Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

Other fair value changes are recognized directly in equity until the investment is sold or impaired and the balance in equity is recognized in profit or loss.

(n) Property and equipments

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

(ii) Subsequent costs
The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably.

3. Significant accounting policies (continued)

Property and equipment (continued)

Depreciation is recognized in profit or loss using straight-line method over the estimated useful life of each part of an item of property and equipment. Land and Fine Arts are not depreciated. The estimated useful lives for the current and comparative periods are as follows:

• Buildings	20 years
• Furniture, fixture and equipments	5 years
• Computer and other IT equipments	4 years

(o) Intangible assets

Software, licenses and trademarks compose intangible assets. Software acquired by the Bank is stated at cost less accumulated amortization.

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

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use. The estimated useful lives for the current and comparative periods are as follows:

• Software	4 years
• Licenses and trademarks	10 years

(p) Impairment of non-financial assets

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

An impairment loss is recognized 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 recognized in profit or loss. Impairment losses in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Significant accounting policies (continued)

Impairment of non-financial assets (continued)

Impairment losses recognized 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 amortization, if no impairment loss had been recognized.

(p) Deposits and subordinated liabilities

Deposits and subordinated liabilities are the Bank's sources of debt funding.

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

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

(q) Repurchase agreements and reverse repurchase agreements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are generally treated as collaterized financing transactions and are carried at the amounts of cash advanced or received, plus accrued interest.

Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized in the balance sheet or derecognized from the balance sheet, unless control of the contractual rights that comprise these securities is relinquished.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense, over the life of each agreement. All the repurchase agreements and reverse agreements are with the Central Bank of Albania.

3. Significant accounting policies (continued)

(r) Provisions

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

(s) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

(t) Employee benefits

(i) Defined contribution plans
The Bank makes only 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. The Bank's contributions to the benefit pension plan are charged to the income statement as incurred.

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

3. Significant accounting policies (continued)

(u) 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* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Bank's 2009 consolidated financial statements, with retrospective application. IFRS 2 is not relevant to the Bank's operations as the Bank has not put in place any share based payments plan for its personnel or directors.

- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes:

  - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Bank's 2010 financial statements, is not relevant to the Bank's operations.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Bank'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 Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Bank presents segment information in respect of its business and geographical segments (see note 6). This standard will have no effect on the Bank's reported total profit or loss or equity. The Bank is currently in the process of determining the potential effect of this standard on the Bank's segment reporting.

- Revised IAS 1 *Presentation of Financial Statements* (2007) 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. Revised IAS 1, which becomes mandatory for the Bank's 2009 financial statements, is expected to have an impact on the presentation of the financial statements as the Bank plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements.

3. Significant accounting policies (continued)

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

- Revised IAS 23 *Borrowing Costs* 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 as part of the cost of that asset. Revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional requirements, the Bank will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Bank's 2009 financial statements.

- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Bank's 2010 financial statements, are not expected to have any impact on the financial statements.

- Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 is not relevant to the Company's operations as the Company does not have any interests in non fully controlled subsidiaries.

- Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Bank's 2009 financial statements with retrospective application required, are not expected to have any impact on the financial statements.
  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 Bank's 2009 financial statements. The Bank does not expect these amendments to have any significant impact on the financial statements.

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in hedging relationship. Amendments will become mandatory for Bank's 2010 financial statements, with retrospective application required. The Bank is currently in process of evaluating the potential effect of this amendment.

3. Significant accounting policies (continued)

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

- IAS 40, Investment Property (effective for annual periods beginning on or after 1 January 2009). IAS 40 is amended to include property under construction or development for future use as investment property in its definition of "investment property". This results in such property being within the scope of IAS 40; previously it was within the scope of IAS 16. As the Company does not deal with any investment property under construction it is not relevant to the Company's operation.

- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Bank's 2009 consolidated financial statements and will be applicable retrospectively. The Bank is currently in the process of evaluating the potential effect of this interpretation.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that:

  - net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
  - the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
  - on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

  The interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Bank's 2009 consolidated financial statements, applies prospectively to the Bank's existing hedge relationships and net investments. This Interpretation is not expected to have any effect to the financiual statements.

- IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). IFRIC 15 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:

  - the agreement meets the definition of a construction contract in accordance with IAS 11.3;
  - 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
  - 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 Company's operations as the Company does not provide real estate construction services or develop real estate for sale.

3. Significant accounting policies (continued)

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

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The Interpretation 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 Company's operations as the Company 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). The Interpretation 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 re measured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, it relates to future dividends that will be at the discretion of the board of directors/shareholders and it is not possible to determine the effects of application in advance.

4. Financial Risk Management

The Bank 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 Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank's Asset and Liability Committee (ALCO) and a local Credit Risk Committee which are responsible for decision making on their specified areas and they are supported by Treasury Department and Risk Management Division, which are responsible for developing and monitoring the Bank's risk management policies in these areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

4. Financial Risk Management (continued)

Credit Risk

In the normal course of its business, the Bank is exposed to credit risk on its loans and advances to customers and financial institutions, investment securities and other off-balance sheet items.

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and on funds with other financial institutions and other off-balance sheet items. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).
The Bank manages its exposure to credit risk on a regular basis by closely monitoring credit limits, its loan portfolio and concentration of exposure.

Management of credit risk

The Board of Directors of the Bank has delegated responsibility of decision-making on the credit risk area to the local Credit Committee. The Risk Management Division, reporting to the local Credit Committee, is responsible for the oversight and management of the Bank'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 authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit credit officers. Larger facilities require approval by the Head of Credit Risk Management, Local Credit Committee or the Board of Directors as appropriate.

Reviewing and assessing credit risk. Bank Credit Department 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 Bank's risk classifications in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk classification is used in determining where impairment provisions may be required against specific credit exposures. The current risk- classification framework, adopted in accordance with Bank of Albania regulations, consists of five 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 of the Local Credit Committee. Risk grades are subject to monthly reviews by Credit Risk Management.

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

Credit Risk (continued)

Management of credit risk (continued)

Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Monthly reports are provided to the Local Credit Committee on the credit quality of local portfolios and their trend and appropriate corrective action is proposed.

Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement credit policies and procedures, with credit approval authorities delegated from the Local Credit Committee. The assigned officer for each business unit reports appropriately on all credit related matters to local management, Credit Risk or Local Credit Committee. Each business unit and the Credit Risk Committee are responsible for the quality and performance of credit portfolios and for monitoring and controlling all credit risks in them, including those subject to central approval.

Exposure to Credit Risk

	Loans and advances to customers	
	31 December 2008	**31 December 2007**
Individually impaired		
Standard & Special Mention	3,366,341	1,318,441
Substandard	606,672	13,828
Doubtful	297,237	43,534
Lost	370,584	54,159
Gross amount	4,640,834	1,429,962
Allowance for impairment	(1,077,151)	(202,216)
Carrying amount	**3,563,683**	**1,227,746**
Collectively impaired		
Standard & Special Mention	40,004,634	29,413,000
Gross amount	40,004,634	29,413,000
Allowance for impairment	(153,213)	(69,340)
Carrying amount	**39,851,421**	**29,343,660**
Total carrying amount	**43,415,104**	**30,571,406**

Impaired loans and securities

Impaired loans are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). The Bank classifies loans and advances to customers in the groups of Standard, Special mention, Substandard, Doubtful and Lost in accordance with Bank of Albania credit risk regulations; meanwhile it performs impairment tests for all loans that show objective evidence for impairment, estimating their discounted future cash flows and comparing them with the respective loans' carrying amount. Loans that do not show objective evidence for individual impairment are assessed collectively for impairment using the Bank's historical default rates and recovery for the groups of loans with similar risk characteristics.

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

Credit Risk (continued)

Allowances for impairment

The Bank 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 groups 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 Bank writes off a loan (and any related allowances for impairment losses) when the Bank's Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position, such that the borrower 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 loans by risk classification:

	Loans and advances to customers	
	Gross	**Net**
31 December 2008		
Standard & Special mention	3,366,341	2,818,512
Substandard	606,672	473,120
Doubtful	297,237	74,675
Lost	370,584	197,376
Total	**4,640,834**	**3,563,683**
31 December 2007		
Standard & Special mention	1,318,441	1,199,817
Substandard	13,828	246
Doubtful	43,534	26,965
Lost	54,159	718
Total	**1,429,962**	**1,227,746**

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

Credit Risk (continued)

The Bank 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 are also updated for some of the loans which are individually assessed as impaired. Collateral generally is not held over loans and advances to financial institutions, except when securities are held as part of reverse repurchase and securities borrowing activity. Usually, collateral is not held against investment securities, and no such collateral was held at 31 December 2008 or 2007.

An estimate of the fair value of collaterals and other security enhancements held against financial assets is shown below:

	Collaterals of Loans and advances to customers 31 December 2008		Collaterals of Loans and advances to customers 31 December 2007	
	Gross	**Net**	**Gross**	**Net**
Against individually impaired				
Property	5,886,366	3,212,771	1,800,192	1,055,316
Cash	84,145	81,828	4,365	4,271
Pledge & Guarantees	676,810	269,084	340,938	168,159
Total	**6,647,321**	**3,563,683**	**2,145,495**	**1,227,746**

The gross amount of collaterals includes the value of collaterals before testing the individually impaired loans. The net amount shows the actualized value of the same collaterals under this test.

The table below shows the total amount of collaterals for the loans assessed under the category of collectively impaired. These collaterals do no undergo the same testing procedures as for the above group, hence only their gross value is presented.

	Collaterals of Loans and advances to customers (Gross)	
Against Collectively Impaired	**31 December 2008**	**31 December 2007**
Property	60,276,953	58,257,116
Debt Securities	9,962	15,661
Equity	815,842	916,120
Cash	812,230	2,600,575
Pledge and Guarantees	4,004,679	16,981,357
Total	**65,919,666**	**78,770,829**

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

Credit Risk (continued)

The Bank monitors concentrations of credit risk by sector and location. An analysis of credit risk at the reporting date is shown below:

	Loans and advances to customers	
Concentration by sector	**31 December 2008**	**31 December 2007**
Real Estate	7,740,908	6,126,878
Manufacturing	7,213,777	4,810,109
Wholesale	7,117,692	5,023,973
Construction	4,559,806	2,101,298
Services	3,775,457	2,453,617
Other	2,872,792	1,604,215
Corporate	**33,280,432**	**22,120,090**
Mortgage	2,357,288	2,340,867
Manufacturing	2,196,764	1,837,775
Wholesale	2,167,504	1,919,485
Construction	1,388,568	802,833
Services	1,149,715	937,441
Other	874,833	612,915
Retail	**10,134,672**	**8,451,316**
Carrying amount	**43,415,104**	**30,571,406**
Concentration by location		
Albania	42,444,956	29,560,875
Greece	970,148	1,010,531
Carrying amount	**43,415,104**	**30,571,406**

	Loans and advances to banks	
Concentration by sector	**31 December 2008**	**31 December 2007**
Bank	8,215,701	5,818,189
Carrying amount	**8,215,701**	**5,818,189**
Concentration by location		
Albania	8,215,701	5,818,189
Greece	-	-
Carrying amount	**8,215,701**	**5,818,189**

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

Credit Risk (continued)

	Investment securities	
Concentration by sector	**31 December 2008**	**31 December 2007**
Sovereign	39,339,225	28,363,860
Bank	8,675,834	6,639,268
Equity	14,742	-
Carrying amount	**48,029,801**	**35,003,128**
Concentration by location		
Albania	42,188,780	29,381,806
Greece	5,841,021	5,621,322
Carrying amount	**48,029,801**	**35,003,128**

Concentration by location for loans and advances is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. An analysis of investment securities based on agency Moody's ratings, where applicable, is as follows:

	Investment securities	
Sovereign	**31 December 2008**	**31 December 2007**
Rate A3	36,725,909	22,901,529
Rate Aa2	1,589,789	1,492,544
Rates non available	457,751	427,343
Rated Aaa	367,893	2,925,073
Rate Aa3	197,883	270,741
Rate A2	-	346,630
	39,339,225	**28,363,860**
Bank		
Rated Aaa	2,978,810	1,239,987
Rate A2	1,030,093	1,298,402
Rate A1	981,011	480,726
Rate Aa2/*-	879,229	-
Rate Aa3	765,956	1,338,453
Rate Aa1 /*	540,577	-
Rate Baa2	508,633	-
Rate Aaa /*	448,037	-
Rate Aa2	347,380	1,773,997
Rate A3	196,108	-
Rate Baa1 /*+	-	507,703
Rates non available	-	-
	8,675,834	**6,639,268**
Equities		
Rate A1	**14,742**	-
Total carrying amount	**48,029,801**	**35,003,128**

4. Financial Risk Management (continued)

Credit Risk (continued)
Settlement risk

The Bank'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 honor its obligations to deliver cash, securities or other assets as contractually agreed. The settlement risk with banking counterparties is included within a system of limits for all the transactions with such counterparties and is subject to daily monitoring.

Liquidity risk

Liquidity risk is defined as the possibility that an institution is unable to meet its payment obligations due to its incapacity to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of easily unwinding positions in financial assets without negatively and significantly affecting their price due to the inadequate market depth or temporary market disruptions.

Management of liquidity risk

The Bank'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 stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank defines the guidelines for liquidity risk management and the contingency liquidity plan which are subject to review and approval by ALCO. There are departments ensuring the appropriate application of liquidity policy being the Treasury Department, responsible for liquidity management, and the Risk Management Division, responsible for monitoring indicators and verifying the adherence of the limits.

The Bank monitors liquidity on a daily basis in order to manage its obligations when they fall due and activate emergency procedures in case of escalation.

For liquidity ratio purposes required by the Group, net liquid assets are considered as including cash and cash equivalents, investment grade debt securities, for which there is an active and liquid market, and eligible securities less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. The table enclosed shows the liquidity situation of the bank as monitored by the bank's management, considering the cash flow in and out of the bank for all financial assets and liabilities. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Central Bank of Albania.

The Bank's internal policy provides that the bank shall keep not less than 7% of total customer deposit liabilities in any one foreign currency in cash and immediately available balances with approved correspondent banks. The bank can invest a maximum of 75% of its customer deposits and free funds in any one currency in "Investment Grade Bonds".

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

Liquidity risk (continued)

A liquidity analysis of financial assets and liabilities as per management reports at 31 December 2008 and 31 December 2007 is disclosed below.

	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
ASSETS (CASH FLOW IN)	**41,485,024**	**5,478,253**	**17,444,083**	**34,192,514**	**13,472,042**	**112,071,916**
Cash and cash equivalents	1,632,718	-	-	-	-	**1,632,718**
Loans and advances to banks- Minimum reserve requirements	8,221,991	-	-	-	-	**8,221,991**
Loans and advances to banks	960,184	-	-	-	-	**960,184**
Held-to-maturity Investment Securities – Treasury Bills	12,318,603	-	-	-	-	**12,318,603**
Held-to-maturity and Available-for-sale Investment Securities – Active Market	11,280,358	-				**11,280,358**
Held-to-maturity and Available-for-sale Investment Securities – Non Active market	-	-	3,294,619	18,410,756	2,711,240	**24,416,615**
Loans and advances to banks	1,153,033	762,781	-	-	-	**1,915,814**
Loans and advances to customers (gross performing loans)	5,918,137	4,715,472	14,149,464	15,781,758	10,760,802	**51,325,633**
LIABILITIES (CASH FLOW OUT)	**(51,319,841)**	**(15,300,078)**	**(29,426,371)**	**(1,597,797)**	**(968,096)**	**(98,612,183)**
Deposits from banks and customers- Current accounts	(30,861,125)					(30,861,125)
Current accounts with banks	(559,140)					(559,140)
Current accounts with customers	(30,301,985)					(30,301,985)
Deposits from banks	(5,805,469)	(15,454)	(16,134)	(47,382)	-	(5,884,439)
of which: cash on repo and on securities lent	*(5,094,531)*					*(5,094,531)*
Deposits from customers- Time deposits	(14,653,247)	(15,267,894)	(29,393,779)	(1,417,573)	(397,911)	(61,130,404)
Subordinated debt	-	(16,730)	(16,458)	(132,842)	(570,185)	(736,215)
Total GAP as at 31 December 2008 (1)+(2)	**(9,834,817)**	**(9,821,825)**	**(11,982,288)**	**32,594,717**	**12,503,946**	**13,459,733**
ASSETS (CASH FLOW IN) DEC 2007	34,911,547	4,900,851	16,707,594	35,366,794	12,913,290	**104,800,077**
LIABILITIES (CASH FLOW OUT) DEC 2007	(38,850,683)	(13,129,402)	(24,664,493)	(2,873,725)	(583,648)	**(80,101,951)**

4. Financial Risk Management (continued)

The information provided relates to cash flows deriving from financial assets and liabilities, therefore it considerably differs from face of balance sheet. The analysis does not include non financial assets, liabilities, non performing receivables and equity and comprises cash flows of contractual interest.

Market Risk

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 Bank'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 optimizing the return on risk.

Management of market risks

The Bank has not separated its exposure to market risk between trading and non-trading portfolios until 1 January 2007. Upon application of IFRS as the accounting framework, the Bank separated its bond portfolio in accordance with IAS 39 as either Trading, Held to Maturity or Available for Sale portfolio. Therefore, the positions arising from the different portfolios have been jointly monitored.

Exposure to foreign exchange rate risk

"Foreign exchange risk" is defined as the possibility that foreign exchange rate fluctuations produce significant changes, both positive and negative, in the Bank's aggregated balance sheet. The key sources of exchange rate risk lie in:

- Foreign currency loans and deposits held by corporate and retail customers;
- Investment securities in foreign currencies;
- Conversion into domestic currency of assets, liabilities and income of the foreign subsidiary;
- Trading of foreign banknotes;
- Collection and/or payment of interest, commissions, dividends, administrative costs, etc in foreign currencies.

The Bank's exposure to exchange rate risk is monitored on a daily basis by Risk Management Division ensuring compliance with internal and regulatory limits. Banking system regulations limits refer to a maximum of 20% of open position in each currency and 30% of overall open currency position on consolidated basis.

Financial assets dominated in foreign currencies are disclosed in each relevant note to the financial statements.

(amounts in '000 Lek, unless otherwise stated)

4. Financial Risk Management (continued)

ASSETS	**LEK**	**USD**	**EUR**	**OTHER**	**TOTAL**
Cash and cash equivalents	1,494,986	1,822,546	695,198	484,853	**4,497,583**
Loans and advances to banks	2,904,781	1,853,977	3,456,943	-	**8,215,701**
Loans and advances to customers	4,088,680	6,147,459	33,178,685	280	**43,415,104**
Available for Sale Investment Securities	435,395	1,528,412	-	-	**1,963,807**
Held to Maturity Investment Securities	36,508,459	6,415,892	2,747,634	394,009	**46,065,994**
Fixed Assets, net	2,056,095	380	167,427	-	**2,223,902**
Deferred tax	39,394	-	-	-	**39,394**
Other assets	371,480	70,860	238,478	23,310	**704,128**
Total Assets (1)	**47,899,270**	**17,839,526**	**40,484,365**	**902,452**	**107,125,613**
LIABILITIES					
Due to Banks	5,158,292	51,745	1,279,405	-	**6,489,442**
Due to customers	32,038,254	19,504,776	37,604,153	1,252,197	**90,399,380**
Other liabilities	400,151	215,181	92,862	3,703	**711,897**
Deferred tax liabilities	14,889	-	-	-	**14,889**
Subordinated debt	-	-	481,811	-	**481,811**
Net Equity	9,028,194	-	-	-	**9,0028,194**
Total Liabilities (2)	**46,639,780**	**19,771,702**	**39,458,231**	**1,255,900**	**107,125,613**
Net FX Position at 31 December 2008 (1)-(2)	**1,259,490**	**(1,932,176)**	**1,026,134**	**(353,448)**	**-**
Off balance sheet Assets	2,704,149	13,804,302	91,074,518	300,963	107,883,932
Off balance sheet Liabilities	2,591,208	11,846,182	93,325,580	120,962	107,883,932
Net Off BSH FX Position at 31 December 2008	**112,941**	**1,958,120**	**(2,251,062)**	**180,001**	**-**
TOTAL NET FX POSITION AT 31 Dec 2008	**1,372,431**	**25,944**	**(1,224,928)**	**(173,447)**	**-**
Balance sheet Assets as at 31 December 2007	29,003,508	19,266,882	27,896,291	1,730,241	77,896,922
Balance sheet Liabilities as at 31 December 2007	28,836,327	19,506,359	27,819,106	1,735,130	77,896,922
Net Off BSH FX Position at 31 Dec 2007	**109,770**	**238,956**	**(334,784)**	**(13,942)**	**-**
TOTAL NET FX POSITION AT 31 Dec 2007	**276,951**	**(521)**	**(257,599)**	**(18,831)**	**-**

4. Financial Risk Management (continued)

Exposure to interest rate risk

The principal Interest Rate risk to which Bank's portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. This risk arises primarily from securities portfolios, retail and corporate banking. Interest rate risk is managed principally through periodic monitoring of interest rate spreads between bank's assets and liabilities and also preparing related scenario analysis on interest rates for decision making purposes.

The method used to measure Interest Rate risk of the Bank's balance sheet is the sensitivity analysis. Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the interest rates. In respect of interest rate risk, an adverse movement is defined as a parallel and uniform shift of ±25 basis points of the interest rate curve. This measure highlights the effect of variations in market interest rates on the portfolio being measured without assuming future changes in the mix of assets and liabilities. The Bank's financial assets and liabilities have variable interest rate or have a re-pricing date of less than one year except for certain non Albanian investment securities which have coupon rate between 0-7% for USD denominated securities, between 3.72-6.00% for EURO denominated securities and between 3.72-6.00% for GBP denominated securities.

Interest rate risk generated by the the Bank's balance sheet, measured through shift sensitivity analysis, registered in 2008 a value of Lek 274 million at year end.

Operational risks

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events and it includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract responsibilities or other disputes; strategic and reputation risks are not included.

The Bank's Management Board approved the guidelines on the overall operational risk management framework adopting a policy and an organizational process for measuring, managing and controlling operational risk.

The Bank's Risk Management Division is responsible for the identification, assessment, management and mitigation of its operational risks, the verification of mitigation effectiveness and reporting to the Bank Senior Management and Group Risk Management with the aim of assessing the potential economic impact of particularly serious operational events.

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

Capital management policy of the Bank aims to maintain a strong capital base in order to ensure future business development.

4. Financial Risk Management (continued)

Regulatory Capital

The Bank's lead regulator, Central Bank of Albania, sets and monitors capital requirements for the Bank. The Greek subsidiary is directly supervised by its local regulators.

The Bank's policy is to maintain the capital base within limits, capitalizing all activity earnings so as to sustain future development of the business recognizing contemporary the impact of the level of capital on shareholders' return. The Bank recognizes 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.

Capital Adequacy Ratio

In implementing current capital requirements Bank of Albania requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets and off balance sheet items, at a minimum level of 12%. During financial year 2008 the Bank has achieved an adequacy ratio well above the minimum required and as of 31 December 2008 it amounted to 16.19%.

The modified capital adequacy ratio, which represents the ratio of base capital to risk-weighted assets and off balance sheet items, is another limit set by Banks' supervisory authority at a percentage of 6%.

Throughout the period, there were no material changes in the Bank's management of capital and a compliance with all externally imposed capital requirements was achieved .

5. Use of Estimates and Judgements

Management discussed with the Board of Directors the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Allowance for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.(i)(vii) The specific counterparty component of the total allowances for impairment applied 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 a 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 approved 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 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).(v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgments in applying the Bank's accounting policies

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

5. Use of Estimates and Judgements (continued)

Financial asset and liability classification

The Bank’s accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in 3.(m). In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3.(m).

(amounts in '000 Lek, unless otherwise stated)

6. Segmental reporting

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

	Albania	Greece	Intra-group transactions	Consolidated
Assets				
Cash and cash equivalents	8,240,743	2,115,795	(5,858,955)	4,497,583
Loans and advances to banks	8,215,701	-	-	8,215,701
Loans and advances to customers	42,444,956	970,148	-	43,415,104
AFS Investment Securities	1,765,915	197,892		1,963,807
HTM Investment Securities	40,422,865	5,643,129	-	46,065,994
Property and equipments	1,927,796	100,185		2,027,981
Intangible assets	183,347	12,574		195,921
Deferred tax assets	39,394	-		39,394
Current tax assets	150,866	-		150,866
Other assets	359,398	193,864		553,262
Total assets	**103,750,981**	**9,233,587**	**(5,858,955)**	**107,125,613**
Liabilities				
Deposits from banks	8,369,835	3,978,562	(5,858,955)	6,489,442
Deposits from customers	86,362,882	4,036,498		90,399,380
Current accounts	23,690,989	525,379		24,216,368
Time deposits	62,671,893	3,511,119		66,183,012
Subordinated debt	481,811	-		481,811
Current tax liabilities	245,985	3,015		249,000
Deferred tax liabilities	14,889	-		14,889
Other liabilities	403,966	58,931		462,897
Total Liabilities	**95,879,368**	**8,077,006**	**(5,858,955)**	**98,097,419**
Equity				
Share capital				6,946,398
Other comprehensive item				714,555
Retained earnings				1,388,190
Fair Value Reserves				(1,285,725)
Legal and Regulatory Reserves				1,258,387
Translation Reserve				6,389
Total Equity				**9,028,194**

The amount of Lek 5,858,955 thousand represents intra-group placements between Head Office in Albania and Branches in Greece as of 31 December 2008.

(amounts in '000 Lek, unless otherwise stated)

6. Segmental reporting (continued)

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

	Albania	Greece	Intra-group transactions	Consolidated
Assets				
Cash and cash equivalents	8,664,206	1,784,739	(5,601,511)	4,847,434
Loans and advances to banks	5,818,189	-		5,818,189
Loans and advances to customers	29,560,875	1,010,531		30,571,406
AFS Investment Securities	2,594,401	-		2,594,401
HTM Investment securities	26,787,405	5,621,322		32,408,727
Property and equipments	829,880	94,176		924,056
Intangible assets	98,235	18,028		116,263
Deferred tax assets	39,343	-		39,343
Other assets	196,465	380,638		577,103
Total assets	**74,588,999**	**8,909,434**	(5,601,511)	**77,896,922**
Liabilities				
Deposits from banks	5,395,671	4,285,836	(5,601,511)	4,079,996
Deposits from customers	65,389,146	3,426,838		68,815,984
Current accounts	13,348,727	582,646		13,931,373
Time deposits	52,040,419	2,844,192		54,884,611
Subordinated debt	428,791			428,791
Current tax liabilities	40,698	3,267		43,965
Deferred tax liabilities	20,303			20,303
Other liabilities	146,566	55,037		201,603
Total Liabilities	**71,421,175**	**7,770,978**	(5,601,511)	**73,590,642**
Equity				
Share capital				3,001,851
Other comprehensive item				416,889
Retained earnings				732,345
Fair Value Reserves				(490,502)
Legal and Regulatory Reserves				617,281
Translation Reserve				28,416
Total Equity				**4,306,280**

The amount of Lek 5,601,511 thousand represents intra-group placements between Head Office in Albania and Branches in Greece as of 31 December 2007.

(amounts in '000 Lek, unless otherwise stated)

6. Segmental reporting (continued)

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

	Albania	**Greece**	**Intra-group transactions**	**Consolidated**
Total interest income	7,427,847	457,249	(119,458)	**7,765,638**
Total interest expenses	(3,386,004)	(295,977)	119,458	**(3,562,523)**
Net interest income	**4,041,843**	**161,272**	**-**	**4,203,115**
Fee and commission income	728,900	15,130		**744,030**
Fee and commission expense	(134,506)	(4,630)		**(139,136)**
Net fee and commission income	**594,394**	**10,500**		**604,894**
Net trading income	416,330	(104,275)		312,055
Other operating income, net	22,684	(6,758)		15,926
Operating income	**5,075,251**	**60,739**		**5,135,990**
Net impairment loss on financial assets	(436,400)	(832)		(437,232)
Personnel costs	(797,816)	(126,422)		(924,238)
Operating lease expenses	(153,536)	(58,142)		(211,678)
Depreciation and amortization	(336,153)	(19,950)		(356,103)
Amortization for leasehold improvement	(59,716)	(94,318)		(154,034)
Other expenses	(795,178)	(112,653)		(907,831)
Total expenses	**(2,578,799)**	**(412,317)**		**(2,991,116)**
Net income before taxes	**2,496,452**	**(351,578)**		**2,144,874**
Income tax expense	(369,096)	-		(369,096)
Profit for the period	**2,127,356**	**(351,578)**		**1,775,778**

The balance of Lek 119,458 thousand represents intra-group interest income and expenses on the placements between Head Office Albania and Branches in Greece for the period ended 31 December 2008.

(amounts in '000 Lek, unless otherwise stated)

6. Segmental reporting (continued)

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

	Albania	Greece	Intra-group transactions	Consolidated
Interest income	5,280,257	472,549	(323,296)	**5,429,510**
Interest expenses	(2,714,545)	(342,366)	323,296	**(2,733,615)**
Net interest income	**2,565,712**	**130,183**		**2,695,895**
Fee and commission income	497,367	13,207		510,574
Fee and commission expense	(110,918)	(3,945)		(114,863)
Net fee and commission income	**386,449**	**9,262**		**395,711**
Net trading income	38,644	1,318		39,962
Other operating income, net	30,147	(975)		29,172
Operating income	**3,020,952**	**139,788**		**3,160,740**
Net impairment loss on financial assets	(73,451)	17,940		(55,511)
Personnel costs	(578,703)	(125,923)		(704,626)
Operating lease expenses	(177,137)	(63,325)		(240,462)
Amortization for intangible assets	(45,521)	(10,385)		(55,906)
Depreciation of property and equipments	(174,033)	(3,272)		(177,305)
Amortization of leasehold improvement	(31,465)	(13,190)		(44,655)
Other expenses	(530,409)	(82,287)		(612,696)
Total expenses	**(1,610,719)**	**(280,442)**		**(1,891,161)**
Net income before taxes	**1,410,233**	**(140,654)**		**1,269,579**
Income tax expense	(369,114)	-		(369,114)
Profit for the period	**1,041,119**	**(140,654)**		**900,465**

The balance of Lek 323,296 thousand represents intra-group interest income and expenses on the placements between Head Office Albania and Branches in Greece for the period ended 31 December 2007.

(amounts in '000 Lek, unless otherwise stated)

7. Financial Assets and Liabilities

Accounting classification and fair values

The table below sets our the carrying amounts and fair values of the Bank's financial assets and financial liabilities

31 December 2008	***Note***	**Trading**	**Held-to-maturity**	**Loans and Receivables**	**Available-for-sale**	**Other amortized cost**	**Total carrying amount**	**Fair Value**
Cash and cash equivalents	*9*	-	-	4,497,583	-	-	4,497,583	4,497,583
Loans and advances to banks	*10*	-	-	8,215,701	-	-	8,215,701	8,215,701
Loans and advances to customers:	*13*	-	-	43,415,104	-	-	43,415,104	43,415,104
Investment securities								
Measured at fair value	*11*	-	-	-	1,963,807	-	1,963,807	1,916,179
Measured at amortised cost	***12***	**-**	46,065,994	-	**-**	**-**	46,065,994	31,603,807
TOTAL			**46,065,994**	**56,128,388**	**1,963,807**	**-**	**104,158,189**	**89,648,374**
Deposits from banks	*17*					6,489,442	6,489,442	6,489,442
Deposits from customers	*18*					90,399,380	90,399,380	77,115,379
Subordinated liabilities	*19*					481,811	481,811	481,811
TOTAL						**97,370,633**	**97,370,633**	**84,086,632**

Available-for-sale Albanian Government securities are floating rate bonds with coupon of 1Year Treasury Bills plus spread and their fair value is considered to approximate their carrying amount. The rest of the available-for-sale securities denominated in foreign currencies represent Banks and Financial Institutions bonds. Their fair value is provided from an International Rating Agency. Held-to-maturity securities, referring to Albanian bonds, are mainly floating rate bonds and their fair value approximates their carrying amount. The held-to-maturity foreign bonds are measured at fair value and the latter is provided from the same International Rating Agency as mentioned above (Bloomberg).

Loans and advances to customers have a book value, which is also their fair value as the whole portfolio is based on floating interest rates and they are re-priced on quarterly, semiannually and yearly basis.

The fair value of Deposits from customers are re-priced using the net present value. The interest rates applied are the market interest rates for the financial period ended, which are published from Central Bank of Albania. These rates are an estimate of the market rates (refer also to Note 3 on Accounting Policies on fair value measurement).

(amounts in '000 Lek, unless otherwise stated)

7. Financial Assets and Liabilities (continued)

Accounting classification and fair values (continued)

31 December 2007	*Note*	Trading	Held-to-maturity	Loans and Receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair Value
Cash and cash equivalents	*9*	-	-	4,847,434	-	-	4,847,434	4,847,434
Loans and advances to banks	*10*	-	-	5,818,189	-	-	5,818,189	5,818,189
Loans and advances to customers	*13*	-	-	30,571,406	-	-	30,571,406	30,571,406
Investment securities								
Measured at fair value	*11*	-	-	-	2,594,401	-	2,594,401	226,445
Measured at amortised cost	***12***	-	32,408,727	-	-	-	32,408,727	30,473,591
TOTAL		**-**	**32,408,727**	**41,237,029**	**2,594,401**	**-**	**76,240,157**	**71,937,065**
Deposits from banks	*17*	-	-	-	-	4,079,996	4,079,996	4,079,996
Deposits from customers	*18*	-	-	-	-	68,815,984	68,815,984	66,904,766
Subordinated liabilities	*19*	-	-	-	-	428,791	428,791	428,791
TOTAL		-	-	-	-	**73,324,771**	**73,324,771**	**71,413,553**

(amounts in '000 Lek, unless otherwise stated)

8. Comparatives and Merge by incorporation with Banca Italo-Albanese

The comparative information has been presented consistently applying the Bank's accounting policies. When necessary, comparative figures are reclassified for the purposes of comparability. As previously discussed in note 1, the Bank merged with Banca Italo-Albanese where both entities were under joint control of Intesa Sanpaolo since 29 June 2007 (refer also to note 1). BIA carrying amounts as 1 January 2008 were merged with those of the Bank at the same date, as such merger took place between two entities under the same joint control IFRS 3 was not applied. The deed for the merger by incorporation of BIA with and into previously known ABA was signed on 6 November 2007 and its addendum dated 4 December 2007 and came into legal, accounting and tax effect as of 1 January 2008. The acquisitions had the following effect on the Bank's assets and liabilities on acquisition date:

	Pre-merge carrying amounts	**BIA Carrying amount**	**Post-merge carrying amounts**
Assets			
Cash and cash equivalents	4,847,434	3,585,289	8,432,723
Loans and advances to banks	5,818,189	6,679,654	12,497,843
Loans and advances to customers	30,571,406	8,278,447	38,849,853
AFS Investment Securities	2,594,401	-	2,594,401
HTM Investment Securities	32,408,727	8,289,962	40,698,689
Property and equipments	924,056	426,829	1,350,885
Intangible assets	116,263	12,231	128,494
Deferred tax assets	39,343	-	39,343
Current tax assets	-	43,534	43,534
Other assets	577,103	147,552	724,655
Total assets	**77,896,922**	**27,463,498**	**105,360,420**
Liabilities			
Deposits from banks	4,079,996	164,676	4,244,672
Deposits from customers	68,815,984	24,597,291	93,413,275
Current accounts	13,931,373	11,874,903	25,806,276
Time deposits	54,884,611	12,722,388	67,606,999
Subordinated debt	428,791	473,300	902,091
Current tax liabilities	43,965	-	43,965
Deferred tax liabilities	20,303	925	21,228
Other liabilities	201,603	301,308	502,911
Total Liabilities	**73,590,642**	**25,537,500**	**99,128,142**
Equity			
Share capital	3,001,851	1,307,824	4,309,675
Other comprehensive item	416,889	297,666	714,555
Retained earnings	732,345	(293,632)	438,713
Other Reserves	126,779	614,140	740,919
Translation reserve	28,416	-	28,416
Total Equity	**4,306, 280**	**1,925,998**	**6,232,278**
Total Liabilities and Equity	**77,896,922**	**27,463,498**	**105,360,420**

(amounts in '000 Lek, unless otherwise stated)

9. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2008 and 31 December 2007 can be detailed as follows:

	31 December 2008	31 December 2007
Cash and balances with banks	1,953,212	1,358,379
Unrestricted balances with central bank	642,841	17,250
Money market placements	1,901,530	3,471,805
	4,497,583	**4,847,434**

10. Loans and advances to banks

Loans and advances to banks as of 31 December 2008 and 31 December 2007 are composed as follows:

	31 December 2008	31 December 2007
Compulsory reserve	8,206,928	5,806,584
Correspondent banks		
-Current Accounts	-	11,605
-Deposits	8,773	-
	8,215,701	**5,818,189**

11. Available-for-sale investment securities

Available-for-sale investment securities as of 31 December 2008 and 31 December 2007 can be detailed as follows:

	31 December 2008	31 December 2007
Albanian Government	274,342	199,518
Listed Companies:		
Banks & Financial Institutions	1,476,839	2,124,141
EU Government	197,884	270,742
Other International Institutions	14,742	-
Total	**1,963,807**	**2,594,401**

(amounts in '000 Lek, unless otherwise stated)

12. Held-to-maturity Investment Securities

Held-to-maturity investment securities as of 31 December 2008 and 31 December 2007 can be detailed as follows:

	31 December 2008	31 December 2007
Government and others		
International Institution	748,844	736,626
US and EU government	2,681,581	3,046,984
Listed companies:		
Banks	6,175,809	5,923,106
Subtotal – non-Albanian bonds	**9,606,234**	**9,706,716**
Albanian Government	36,459,760	22,702,011
Subtotal – Albanian bonds	**36,459,760**	**22,702,011**
Total	**46,065,994**	**32,408,727**

As at 31 December 2008, Albanian Held-to-Maturity investments securities of Lek 5,280,000 thousand (2007: Lek 1,800,000 thousand) have been pledged as collateral for Reverse REPO Agreements. These transactions are conducted under terms that are usual to the customary to standard lending, and securities borrowing and lending activities as well as requirements determined by Central Bank of Albania.

(amounts in '000 Lek, unless otherwise stated)

13. Loans and advances to customers

Loans and advances to customers are composed as follows:

	31 December 2008	31 December 2007
Loans to customers	24,708,586	19,131,108
Overdrafts to customers	19,977,673	11,747,552
	44,686,259	**30,878,660**
Deferred disbursement fee	(40,791)	(35,698)
Allowance for impairment	(1,230,364)	(271,556)
Total	**43,415,104**	**30,571,406**

Movement in the allowance for impairment losses on loans and advances to customers is as follows:

	31 December 2008	31 December 2007
Specific Allowance for impairment		
Balance at 1 January	**202,216**	**168,674**
Impairment loss for the year		
Charge for the year	1,125,907	171,125
Recoveries	(219,835)	(108,525)
Effect of movements in foreign exchange	(64,825)	(55,368)
Write-offs	33,688	26,310
Balance at 31 December	**1,077,151**	**202,216**
Collective Allowance for impairment		
Balance at 1 January	**69,340**	**89,215**
Impairment loss for the year		
Charge for the year	183,570	17,801
Recoveries	(109,716)	(24,890)
Effect of movements in foreign exchange	10,019	(12,786)
Write-offs	-	-
Balance at 31 December	**153,213**	**69,340**
Total Allowance for Impairment	**1,230,364**	**271,556**

Charge for the year ending 31 December 2008, for both individual and collective impairment allowances, includes respectively amounts of Lek 423,391 thousand and Lek 119,303 thousand, received on merger, from former BIA balances as at 1 January 2008.

(amounts in '000 Lek, unless otherwise stated)

14. Property and equipments

Property and equipments as of 31 December 2008 and 31 December 2007 are as follows:

	Land and Building	IT and Electrical Equipments	Furniture and Fine Art Works	Other non Electrical Assets	Advances for equipments	Total
Cost						
Balance as at 1 January 2007	207,935	652,790	139,683	182,273	36,884	**1,219,565**
Additions during period	254,406	125,189	8,930	29,654	34,700	**452,879**
Disposals	-	(28,891)	(2,075)	(7,866)	-	**(38,832)**
Effect of movements in foreign exchange	-	(1,418)	(398)	(354)	-	**(2,170)**
Balance as at 31 December 2007	**462,341**	**747,670**	**146,140**	**203,707**	**71,584**	**1,631,442**
Additions during period	1,164,479	323,666	59,303	101,551	30,181	**1,679,180**
Disposals	-	(28,320)	(14,267)	(27,581)	-	**(70,168)**
Effect of movements in foreign exchange	-	1,407	389	337	-	**2,133**
Balance as at 31 December 2008	**1,626,820**	**1,044,423**	**191,565**	**278,014**	**101,765**	**3,242,587**

Apart from new investments, additions during period ending 31 December 2008, include an amount of Lek 680,073 thousand, received on merger, from former BIA balances as at 1 January 2008. Please refer also to the note 8 of this report.

Disposals for period ending 31 December 2008 include an amount of Lek 13,334 thousand, due to write offs of some assets items of former BIA as per application of Bank's accounting policies.

There is no pledge on Property and equipments.

As of 31 December 2008, the Bank had contractual commitments on Property and equipments, which amounted to Lek 26,947 thousand. The main one relates to sale contract on the premises of one of its offices in Tirana.(LEK 17,208 thousand).

(amounts in '000 Lek, unless otherwise stated)

14. Property and equipments (continued)

	Land and Building	IT and Electrical Equipment	Furniture and Fine Art Works	Other non Electrical Assets	Advances for equipment	Total
Accumulated Depreciation						
Balance as at 1 January 2007	**43,326**	**351,894**	**83,591**	**86,584**		**565,395**
Depreciation charge for the year	14,525	109,010	17,933	35,838		**177,306**
Disposals	-	(27,601)	(1,559)	(4,417)		**(33,577)**
Effect of movements in foreign exchange	-	(1,156)	(343)	(239)		**(1,738)**
Balance as at 31 December 2007	**57,851**	**432,147**	**99,622**	**117,766**		**707,386**
Depreciation charge for the year	197,457	218,389	51,216	73,560		**540,622**
Disposals	-	(19,292)	(933)	(15,044)		**(35,269)**
Effect of movements in foreign exchange	-	1,218	384	265		**1,867**
Balance as at 31 December 2008	**255,308**	**632,462**	**150,289**	**176,547**	**-**	**1,214,606**
Carrying amount						
At 1 January 2007	**164,609**	**300,896**	**56,092**	**95,689**	**36,884**	**654,170**
At 31 December 2007	**404,490**	**315,523**	**46,518**	**85,941**	**71,584**	**924,056**
At 31 December 2008	**1,371,512**	**411,961**	**41,276**	**101,467**	**101,765**	**2,027,981**

Depreciation charge for period ending 31 December 2008 includes an amount of Lek 253,244 thousand, received on merger, from former BIA balances as at 1 January 2008. Please refer also to the note 8 of this report.

Depreciation charge for period ending 31 December 2008 includes also an adjustment done in the financial result of the year 2008 for the amount of 35,516 thousand , due to the change of accounting policies regarding classification of some assets received from former BIA and recalculation of depreciation with Bank's rates.

(amounts in '000 Lek, unless otherwise stated)

15. Intangible Assets

Intangible assets as of 31 December 2008 and 31 December 2007 are as follows:

	Software and Licenses	Advances for Software	Total
Cost			
Balance as at 1 January 2007	**262,781**	**2,213**	**264,994**
Additions during period	49,765		**49,765**
Disposals	(526)	(2,213)	**(2,739)**
Effect of movements in foreign exchange	(789)	**-**	**(789)**
Balance as at 31 December 2007	**311,231**	**-**	**311,231**
Additions during period	152,154	7,128	**159,282**
Disposals	**-**	**-**	**-**
Effect of movements in foreign exchange	783		**783**
Balance as at 31 December 2008	**464,168**	**7,128**	**471,296**
Depreciation and Imairment Losses			
Balance as at 1 Janar 2007	140,044	**-**	**140,044**
Depreciation charge for the year	55,905	**-**	**55,905**
Disposals	(363)	**-**	**(363)**
Effect of movements in foreign exchange	(618)	**-**	**(618)**
Balance as at 31 December 2007	**194,968**	**-**	**194,968**
Depreciation charge for the year	79,516	**-**	79,516
Disposals	**-**	**-**	**-**
Effect of movements in foreign exchange	891	**-**	**891**
Balance as at 31 December 2008	**275,375**	**-**	**275,375**
Carrying amount			
At 1 January 2007	**122,737**	**2,213**	**124,950**
At 31 December 2007	**116,263**	**0**	**116,263**
At 31 December 2008	**188,793**	**7,128**	**195,921**

Additions and Depreciation charge during period ending 31 December 2008, include respectively the amounts of Lek 22,770 thousand and Lek 10,539 thousand, received on merger, from former BIA balances as at 1 January 2008. Please refer also to the note 8 of this report.

Depreciation charge for period ending 31 December 2008 includes also an adjustment done in the financial result of the year 2008 for the amount of Lek 247 thousand , due to the change of accounting policies regarding recalculation of depreciation with Bank's rates for software assets received from former BIA.

As of 31 December 2008, the Bank had contractual commitments on Software assets, which amounted to Lek 138,697 thousand. The bigger commitment relates to additional licences for the core banking system (Lek 113,305 thousand).

(amounts in '000 Lek, unless otherwise stated)

16. Other Assets

Other assets as of 31 December 2008 and 31 December 2007 are as follows:

	31 December 2008	31 December 2007
Leasehold improvements	258,676	225,556
Cheques for collection	88,029	221,487
Non current assets, held for sale	52,985	-
Prepayments	51,358	57,636
Unrealized Loss on Foreign Exchange contracts	40,780	30,894
ATM & POS transactions	31,656	27,248
Sundry debtors	29,294	14,269
Others	484	13
Total	**553,262**	**577,103**

Non current assets held for sale include collateral values of some unrecoverable loans received from former BIA. The Bank has the ownership on these assets and its intention is to sale them.

The movement of leasehold improvements item during the reporting period is presented as follows:

	31 December 2008	31 December 2007
At beginning of the year	**225,556**	**215,552**
Addition of the year	200,342	63,073
Decrease:	**(169,323)**	**(44,655)**
Amortization of the period	(154,034)	(44,655)
Transfers	(15,289)	-
Effect of movements in foreign exchange	**2,101**	**(8,414)**
Total	**258,676**	**225,556**

Additions during period ending 31 December 2008, include an amount of Lek 87,381 thousand, received on merger, from former BIA balances as at 1 January 2008.

Regarding the increase of the amortization for the year 2008, the main explanation is the closure of an operating lease agreement that the Bank had for one of its premises in Greece, for an extra charge of Lek 40,032 thousand, written off during the year.

(amounts in '000 Lek, unless otherwise stated)

17. Due to banks

Due to banks as of 31 December 2008 and 31 December 2007 are as follows:

	31 December 2008	31 December 2007
Due to Central Bank	**70,683**	**66,358**
Correspondent banks		
Current account		
Resident	53,434	195,647
Non-resident	504,848	423,985
	558,282	**619,632**
Deposits		
Resident	433,329	380,244
Non-resident	272,379	1,510,284
Foreign exchange differences	46,780	(5,585)
	752,488	**1,884,943**
Repurchase Agreements	**5,107,989**	**1,509,063**
Total	**6,489,442**	**4,079,996**

The amount of Lek 46,780 thousand (December 2007: Lek 5,585 thousand) represents the difference between the placements placed in Greece from Head Office and the balance of borrowings of Greece branches from Head Office as of 31 December 2008. Foreign exchange differences are related to the Intra-Group transactions.

Repurchase agreements as of 31 December 2008 and as of 31 December 2007 are comprised as follows:

		31 December 2008		
Maturity	**Interest Rate**	**Nominal value**	**Accrued interest**	**Book value**
5 Jan 2009	6.25%	2,508,995	2,578	2,511,573
5 Jan 2009	6.25%	957,629	984	958,613
5 Jan 2009	6.25%	1,234,341	1,268	1,235,609
12 Feb 2009	6.60%	398,662	3,532	402,194
Total	6.25	5,099,627	8,362	5,107,989

		31 December 2007		
Maturity	**Interest Rate**	**Nominal value**	**Accrued interest**	**Book value**
3 Jan 2008	6.25	1,507,771	1,291	1,509,063

The Bank has placed as collateral Treasury Bills for an amount of Lek 5,280,000 thousand (2007: Lek 1,800,000 thousand) as previously described in note 12.

(amounts in '000 Lek, unless otherwise stated)

18. Due to customers

Due to customers as of 31 December 2008 and 31 December 2007 are composed as follows:

	31 December 2008			31 December 2007		
Current accounts	**Local Currency**	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Retail	2,430,880	4,636,917	7,067,797	1,763,604	3,315,452	5,079,056
Corporate	7,643,454	9,505,117	17,148,571	2,808,866	6,043,451	8,852,317
	10,074,334	**14,142,034**	**24,216,368**	**4,572,470**	**9,358,903**	**13,931,373**
Time deposits						
Retail	20,652,759	37,983,029	58,635,788	16,869,272	34,171,902	51,041,174
Corporate	1,304,834	6,242,390	7,547,224	712,660	3,130,777	3,843,437
	21,957,593	**44,225,419**	**66,183,012**	**17,581,932**	**37,302,679**	**54,884,611**
Total	**32,031,927**	**58,367,453**	**90,399,380**	**22,154,402**	**46,661,582**	**68,815,984**

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

	31 December 2008			31 December 2007		
	Local Currency	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Current Accounts	**10,074,334**	**14,142,034**	**24,216,368**	**4,572,470**	**9,358,903**	**13,931,373**
Deposits						
On demand	1,284,984	4,790,732	6,075,716	**1,181,133**	**5,413,950**	**6,595,083**
One month	4,846,768	11,860,841	16,707,609	2,897,908	8,703,508	11,601,416
Three months	4,778,889	10,036,030	14,814,919	3,169,238	8,582,780	11,752,018
Six months	3,564,046	6,091,875	9,655,921	3,178,528	4,860,978	8,039,506
Nine months	4,224,346	6,865,253	11,089,599	3,190,752	4,854,873	8,045,625
Twelve months	2,305,673	3,771,096	6,076,769	2,523,700	3,944,895	6,468,595
Twenty four months	765,078	522,004	1,287,082	1,304,058	740,228	2,044,286
Other	187,809	287,588	475,397	136,615	201,467	338,082
	21,957,593	**44,225,419**	**66,183,012**	**17,581,932**	**37,302,679**	**54,884,611**
Total	**32,031,927**	**58,367,453**	**90,399,380**	**22,154,402**	**46,661,582**	**68,815,984**

(amounts in '000 Lek, unless otherwise stated)

18. Due to customers (continued)

For current accounts and time deposits the annual interest rates applicable for the various fixed terms were:

2008	**LEK (%)**	**USD (%)**	**EUR (%)**
Current accounts and demand deposits	1.00 – 4.50	0.10 – 4.35	0.10 – 4.77
Time deposits – 1 month	3.00 – 6.70	0.60 – 4.75	1.80 – 7.50
Time deposits – 3 months	3.70 – 11.00	1.10 – 4.80	2.70 – 8.10
Time deposits – 6 months	5.05 – 7.80	1.30 – 4.65	3.10 – 7.25
Time deposits – 12 months	6.10 – 11.00	1.50 – 5.50	2.90 – 7.00
Time deposits – 24 months	7.20 – 9.00	3.90 – 2.15	2.50 – 6.50
2007	**LEK (%)**	**USD (%)**	**EUR (%)**
Current accounts and demand deposits	0.25 – 4.25	0.55 – 5.30	0.90 – 4.85
Time deposits – 1 month	3.00 – 3.50	2.55 - 3.50	2.20 – 3.50
Time deposits – 3 months	3.50 – 4.50	3.05 – 4.00	2.80 – 4.15
Time deposits – 6 months	4.60 – 5.40	3.30 – 4.50	3.10 – 4.35
Time deposits – 12 months	5.60 – 6.50	3.85 – 4.80	3.50 – 4.65
Time deposits – 24 months	6.20 – 7.20	3.90 – 5.00	3.90 – 4.70

19. Subordinated debt

The balance of subordinated debt as of 31 December 2008 and 31 December 2007 is as follows:

	31 December 2008	**31 December 2007**
Subordinated Debt	470,440	414,450
Accrued Interest	11,371	14,341
Total	**481,811**	**428,791**

On 10 March 2005, the Board of Directors of the Bank approved the issuance of a subordinated debt of USD 5 million extended to the Bank by the sole shareholder, the Albanian-American Enterprise Fund. The debt was issued on 16 March 2005 and its bearing interest rate was LIBOR + 6.5% with semi-annual installments, all paid on 16 March and 16 September of each year. In accordance with contractual terms, the principal and the accrued interest were liquidated at 18 March 2008.

Upon the merger with BIA, all the benefits and obligations related to its subordinated debt of EUR 3,800,000 were transferred to the Bank (as disclosed in the note 8). The debt agreement was signed on 23 February 2007 between San Paolo IMI BANK IRELAND and BIA with a final maturity on 28 February 2017 and with semi-annual installments payable on 28 February and 28 August. The debt bears an interest of EURIBOR 6M +180 b.p per annum until 28 February 2012. After that date the margin will be increased by 0.60 cent per annum.

(amounts in '000 Lek, unless otherwise stated)

20. Deferred Tax

Recognized deferred tax assets and liabilities are attributable to the following:

	31 December 2008			31 December 2007		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Deferred tax asset	**39,394**	**-**	**39,394**	**39,343**	**-**	**39,343**
Tangible and intangible assets	37,314	-	37,314	31,475	-	31,475
Other assets	2,080	-	2,080	3,934	-	3,934
Loans and advances to customer	-	-	-	3,570	-	3,570
Translation effect	-	-	-	364	-	364
Deferred tax liability	**-**	**(14,889)**	**(14,889)**	**-**	**(20,303)**	**(20,303)**
Allowance for impairment	-	(14,889)	(14,889)	-	(20,303)	(20,303)
Net deferred tax assets/(liabilities)	**39,394**	**(14,889)**	**24,505**	**39,343**	**(20,303)**	**19,040**

Movements in temporary differencies during the year are as follows:

2008	**Opening balance**	**Effect of merger**	**Recognized in profit or loss**	**Closing balance**
Tangible and intangible assets	31,475	-	5,838	37,313
Other assets	3,934	-	(1,853)	2,081
Loans and advances to customer	(16,733)	(925)	2,769	(14,889)
Translation effect	364	-	(364)	-
	19,040	**(925)**	**6,390**	**24,505**
2007				
Tangible and intangible assets	62,973	-	(31,498)	31,475
Other assets	6,688	-	(2,754)	3,934
Loans and advances to customer	(10,343)	-	(6,390)	(16,733)
Translation effect	58,599	-	(58,235)	364
	117,917	**-**	**(98,877)**	**19,040**

There are no impacts in the equity for deferred tax in both financial years ended.

21. Other liabilities

Other liabilities as of 31 December 2008 and 31 December 2007 are composed as follows:

	31 December 2008	**31 December 2007**
Sundry Creditors	192,587	32,910
Invoices to be received	107,704	29,876
Provisions for commitments	27,505	-
Provisions for litigations	26,141	-
Bank cheques issued	9,508	24,417
Other	99,452	114,400
Total	**462,897**	**201,603**

Both above provisions for commitments and litigations represent balances received from former BIA.

(amounts in '000 Lek, unless otherwise stated)

22. Share capital and premiums

The Bank initially started its activity with a share capital of USD 3,000,000. As of 31 December 2006, it amounted to USD 33,400,000 and as allowed by the Bank of Albania, was registered in USD. All shares, with a par value of 2.2266 USD, were fully paid by former sole shareholder, Albanian-American Enterprise Fund.

At the Extraordinary Shareholders' Assembly dated June 29, 2007, it was resolved that 80% of the shares of the Bank be owned by Intesa Sanpaolo S.p.a., and the remaining 20% of the shares by Albanian-American Enterprise Fund.

During August 2007, the share capital of the Bank was converted into Albanian Lek, at an equivalent of Lek 3,001,851 thousand, comprising 15,000,000 shares at Lek 200.12 each.

On 29 April 2008, at the Extraordinary Shareholders' Assembly, it was decided to increase the capital of the Bank through the capitalization of the undistributed retaining earnings of year 2007, including the ones of former BIA.

On 16 May 2008, at the Extraordinary Shareholders' Assembly, it was decided to increase the capital through issuance of 1,250,000 new shares amounting to EUR 15,000,000 (Lek equivalent 1,830,130 thousand). The new shares were issued at a nominal value of Lek 357 per share amounting to Lek 446,250 thousand. In addition, a share premium was issued for the amount of Lek 1,383,880 thousand at a value per share of Lek 1,107 thousand.
Following there is presented a detailed information with regard to Bank's capital structure as of 31 December 2008 and the movements in capital during the period:

(amounts in original units)	Number of Shares	Nominal Value	Premium Paid	Total Shares Value	Capital Participation in %
Share Capital at 1 January 2008	**15,000,000**	**200.12**	**-**	**3,001,851,000**	
After merger	14,331,282	300.72	-	4,309,675,110	
Capital increase from retained earnings	14,331,282	357.00	-	5,116,267,674	
Issuance of new shares	1,250,000	357.00	-	446,250,000	
Share Capital at 31 December 2008	**15,581,282**	**357.00**	**-**	**5,562,517,674**	**100.00%**
Intesa Sanpaolo Group S.p.A.	12,401,373	357.00	-	4,427,290,161	79.59%
Albanian-American Enterprise Fund	1,751,283	357.00	-	625,208,031	11.24%
European Bank for Reconstruction and Development	1,212,224	357.00	-	432,763,968	7.78%
Società Italiana per le Imprese all'Estero S.p.A.	216,402	357.00	-	77,255,514	1.39%
Premiums paid on new shares	**1,250,000**	**-**	**1,107.10**	**1,383,880,000**	
Intesa Sanpaolo Group S.p.A.	1,152,750	-	1,107.10	1,276,214,136	
European Bank for Reconstruction and Development	97,250	-	1,107.10	107,665,864	
Share Capital, Premiums at 31 December 2008	**15,581,282**	**357.00**	**1,107.10**	**6,946,397,674**	

All the Bank's shares have same rights; there are no preferences, restrictions or other differences, despite the fact of premiums paid by major shareholders.

(amounts in '000 Lek, unless otherwise stated)

23. Legal and regulatory reserves

At the end of 2001 the Bank created two reserves through an appropriation from earnings being the general reserve, which represents the risk weighted assets reserve, as required by the Bank of Albania, and the legal reserve, as required by the Law "On Commercial Companies". The general reserve is calculated as 20% of annual profit after tax, whereas the legal reserve is calculated as 5% of annual profit after tax. Upon the merge with BIA the general and legal reserve increased respectively by Lek 562,883 thousand and Lek 51,257 thousand.

	31 December 2008	31 December 2007
Regulatory reserve	1,125,837	562,954
Legal reserve	132,550	54,327
Total	**1,258,387**	**617,281**

24. Other comprehensive items

The Bank converted the share capital previously USD denominated into LEK during the month of August 2007. The resulting accumulated difference between the historical value and the exchange rate at the date of conversion was classified within equity as other comprehensive item. Upon the merge with BIA, a similar difference related to the conversion of BIA share capital from USD into Lek amounting Lek 297,666 thousand was included in the Bank carrying amounts as at 1 January 2008 (refer also to note 8).

25. Net Interest income

	31 December 2008	31 December 2007
Interest income		
Loans and advances to customers	3,621,318	2,549,811
Investments held to maturity	3,383,007	2,014,300
Loans and advances to banks	652,571	775,233
Financial Assets Available for Sale	107,938	87,089
Cash and cash equivalents	804	3,077
Total interest income	**7,765,638**	**5,429,510**
Interest expenses		
Time deposits	3,068,732	2,022,274
Deposits from banks	295,921	583,544
Current accounts	152,690	74,373
Subordinated loan	45,180	53,424
Total interest expenses	**3,562,523**	**2,733,615**
Net interest income	**4,203,115**	**2,695,895**

(amounts in '000 Lek, unless otherwise stated)

26. Net fee and commission income

	31 December 2008	31 December 2007
Collection and payment services	287,149	228,163
Active current accounts	186,025	103,953
Deposits and overdrawn current accounts	123,430	18,584
Active ATM's and POS	116,456	89,614
Guarantees given	19,871	59,650
Management, dealing and advisory services	11,099	10,610
Fee and commission income	**744,030**	**510,574**
Active ATM's and POS	122,087	83,894
Banking services-foreign branches	15,098	25,483
Collection and payment services	1,375	4,887
Guarantees received	576	517
Credit cards	-	82
Fee and commission expenses	**139,136**	**114,863**
Net fee and commission income	**604,894**	**395,711**

Figures above do not include fees received for loans and advances to customers (transaction costs) considered as adjustment for the carrying value of these financial assets as per effective interest rate method.

27. Net trading income

Net trading income for the year ended 31 December 2008 and 2007 are composed as follows:

	31 December 2008	31 December 2007
Foreign exchange	293,147	39,962
Equities (AFS VISA Shares)	18,908	-
Total	**312,055**	**39,962**

The amount disclosed in respect of VISA shares, is result of redemption of 5,029 shares, out of a total of 8,950 shares, on which the Bank was entitled from the cards' business with VISA.

(amounts in '000 Lek, unless otherwise stated)

28. Other operating (expenses)/ income, net

Other income for the year ended 31 December 2008 and 31 December 2007 are as follows:

	31 December 2008	31 December 2007
Dividend on AFS equity securities	51	-
Other income/(expense)	37,460	34,463
Loss on sale fixed assets	(525)	-
Loss-writte off of fixed assets	(21,060)	(5,291)
Total	**15,926**	**29,172**

29. Personnel expenses

Personnel costs for the periods ended 31 December 2008 and 31 December 2007 are as follows:

	31 December 2008	31 December 2007
Salaries	805,895	547,467
Social Insurance	100,430	80,003
Management consulting fee	-	50,093
Training & similar	9,882	19,155
Termination indemnities	2,970	527
Other	5,061	7,381
Total	**924,238**	**704,626**

30. Other expenses

Other expenses for the years ended 31 December 2008 and 31 December 2007 are as follows:

	31 December 2008	31 December 2007
Insurance	157,645	102,934
Advertising & Publication	134,616	91,525
Maintenance & repair	127,889	93,776
Software maintenance	116,289	80,822
Telephone and electricity	93,651	51,922
Transportation of counting valuable	65,097	36,826
Consulting & Legal fees	63,184	36,078
Stationery	62,855	43,098
Travel & business trips	38,963	45,656
Administration cost lost loans	24,130	6,549
Security	22,634	15,385
Other	878	8,125
Total	**907,831**	**612,696**

(amounts in '000 Lek, unless otherwise stated)

31. Income tax expense

Recognized in the income statements:

	31 December 2008	31 December 2007
Current tax expense		
Current year	225,306	270,237
Income tax previous years	150,180	-
Total Current Tax	**375,486**	**270,237**
Deferred tax expense	(6,390)	98,877
Total Deferred Tax	**(6,390)**	**98,877**
Total Income Tax	**369,096**	**369,114**

A more detailed presentation on the calculation of income tax at the yearly income tax rates is presented as follows:

	31 December 2008	31 December 2007
Profit Before Tax	**2,144,874**	**1,269,579**
Nondeductible Costs:	**108,186**	**45,372**
Depreciation and Amortization Fixed Assets	27,608	-
Provisions for loans	24,451	-
Other Expenses	15,695	25,715
Office Expenses	14,692	7,212
Rent Apartments	12,312	-
Personnel Costs	6,981	9,847
Representation	6,447	2,598
Adjustment to Taxable Balance of 2007	-	**36,234**
Taxable Profit	2,253,060	1,351,185
Income Tax @10% (2007: 20%)	**225,306**	**270,237**
Income tax previous years	**150,180**	**-**
Deferred tax	**(6,390)**	**98,877**
Net Profit	**1,775,778**	**900,465**

For the year ended 31 December 2008, for the purpose of current tax liabilities calculation, profit before tax, based on the Law No. 9228 dated 29.04.2004 "On Accounting and Financial Statements" has been calculated according to International Financial Reporting Standards. In addition, according to provisions of Instruction No. 5, dated 30.01.2006 on "Income Tax", it has been adjusted with certain expenses which are classified as non deductible. Calculation differences for fixed assets depreciations and provisions for loans, which result between tax and accounting rules are the main items of nondeductible costs during 2008.

(amounts in '000 Lek, unless otherwise stated)

31. Income tax expense (continued)

Corporate Income tax rate applicable for the period 2008, starting January 1, 2008 is 10% according to the Law No. 9766 date 09.07.2007 "On some changes on the provisions of the Corporate and Personal Income Tax of the Law No.8438 date 28.12.1998 "On Income Tax", (2007:20%).

Based on the previous accounting legislation, taxable profit for 2007 results with a difference compared to IFRS comparative Profit before tax, amounting to Lek 36,234 thousand. The tax liability for the year ended 2007 amounted to Lek 270,237 thousand.

Income tax previous years represents the income tax provision booked on the results of a tax audit performed at former BIA for the 4 years period 2003-2007,which was paid on May 2008, in line with the tax evaluation report received from tax authorities.

The Bank paid during 2008 a prepaid income tax of Lek 183,960 thousand (2007: Lek 248,000 thousand), which can only be offset against income tax expense, if any, after future Tax Office inspections for each jurisdiction.

Tax losses can be carried forward up to 3 years in Albania, whereas in Greece it is possible to carry forward tax losses for a period of 5 years. Deferred tax assets have not been recognized in respect of losses from the Greek subsidiary as its not probable that future taxable profit will be available against which the subsidiary can utilize the benefits there from.

Current tax liabilities

Other liabilities as of 31 December 2008 and 31 December 2007 are composed as follows:

	31 December 2008	31 December 2007
Current tax liabilities	138,441	43,965
Provisions for tax litigations (also see note 32)	110,559	-
Total	**249,000**	**43,965**

(amounts in '000 Lek, unless otherwise stated)

32. Commitment and contigencies

Commitments and contingencies as at 31 December 2008 and 31 December 2007 are as follows:

	31 December 2008	31 December 2007
Contingent Assets	**101,382,986**	**68,832,973**
Guarantees received from credit customers	86,144,908	60,802,509
Forward foreign exchange contracts	4,894,770	4,205,518
Un-drawn credit facilities	4,091,582	2,280,116
Letters of credit	5,860,405	1,118,571
Money market future dated deals	391,321	426,259
Contingent Liabilities	**6,500,946**	**3,823,907**
Guarantees in favor of customers	6,500,946	3,823,907

Guarantees are mainly represented by bid and performance bonds. Guarantees and letters of credit are collateralized by cash and deposits. The Bank issues guarantees to its customers. These instruments bear a credit risk similar to that of loans granted. Based on the management's assessment, no material losses related to guarantees outstanding at 31 December 2007 had been incurred, thus no provision for losses has been accrued in these financial statements.

Dispute with tax authorities

As discussed in note 31, former BIA was subject to an audit by the Albanian tax authorities, covering the fiscal framework of value added tax and corporate income tax for the period 2003-2007. A Tax Reassessment Notification was issued to the Bank on 14.05.2008, which total amounted to Lek 300,359 thousand, including interest and penalties. The bank is following all legal steps to defend itself as it believes the findings are not in accordance with the Albanian legislation. The case is presently at the first level of judicial appeal waiting scheduling by the Tirana District Court.

Out of above amount, the Bank has recognised only the total liability (50% of the above) by recognizing as provision the amount of Lek 110,559 thousand, resulting as a difference from tax credit balance offset. Management believe that the tax risk provision is prudent, they have a strong case with which to defend such tax claims, given the uncertainty of the Albanian tax environment.
Other litigations

The Bank is subject to legal proceedings, claims, and litigation that arise in the ordinary course of business. Management believes that any existing or potential future litigation will not have a material adverse effect on Bank's financial position, results of operations, or cash flows.

(amounts in '000 Lek, unless otherwise stated)

33. Related parties

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control. A number of banking transactions are entered into with the related with the Intesa SanPaolo s.p.a in the normal course of business. This related party qualifies as parent company of the Bank. The respective transactions include loans, deposits and others for administrators, shareholders and other closely related to them. Mostly, other related are parties of control or interests of Bank's shareholders, or they are close family members related to key management. The transactions were carried out on commercial terms and at market rates. During reporting period, there were no long term benefits and nor termination benefits paid to key management. There are no doubtful debts related to outstanding balances of related parties, consequently allowances for impairment. The outstanding balances at the end of respective periods are as follows: Related parties as at 31 December 2008 and 31 December 2007 are as follows:

Related parties as at 31 December 2008 and 31 December 2007 are as follows:

	Parent company		**Other related parties**	
	31 December 2008	**31 December 2007**	**31 December 2008**	**31 December 2007**
Assets at end of year	**154,072**	**2,386,336**	**563,601**	**819,802**
Loans and advances to Credit Institutions	154,072	2,386,336	-	-
Loans and advances to customers	-	-	563,601	819,802
Liabilities at end of year	**1,057,840**	**273,070**	**2,766,273**	**820,869**
Loans and advances from Credit Institutions	1,057,840	273,070	-	-
Customers deposits	-	-	2,766,273	820,869
Off balance sheet	**5,743,870**	**12,178**	**686,009**	**1,103,672**
Letter of Credit/of Guarantees given	-	-	314,738	6,436
Letter of Credit/of Guarantees received	2,281,591	12,178	-	-
Foreign Currency Contracts	3,462,279			
Collaterals	-	-	371,271	1,097,236
Income for year ending	**172,700**	**569**	**36,852**	**79,371**
Interest income	172,700	569	36,835	79,367
Commission income	-	-	17	4
Expenses for year ending	**2,939**	**-**	**12,498**	**63,414**
Interest expense	2,939	-	12,498	63,414
Compensation of Key Managers	**-**	**-**	**79,136**	**110,490**
Net Salary	-	-	76,619	54,685
Social & Health Insurance	-	-	2,517	1,882
Management fees	-	-	-	53,923

(amounts in '000 Lek, unless otherwise stated)

34. Lease commitments and operating lease expenses

Operating lease rentals of the Bank are payable as follows:

	31 December 2008	31 December 2007
Less than one year	139,272	187,011
Between one and five years	277,071	464,793
More than five years	100,000	112,330
Total	**516,343**	**764,134**

The Bank has rental agreements with renewal options for its offices in Albania and Greece. During 2008 the amount of Lek 211,678 thousand was recognized as an expense in the statement of profit and loss in respect of lease rentals (2007:Lek 240,462 thousand).

35. Explanation of Transition to IFRS

As stated in note 2 these are the Bank's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2008, the comparative information presented in these financial statements for the year ended 31 December 2007 and in the preparation of an opening IFRS balance sheet at 1 January 2007 (the Bank's date of transition).

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

(amounts in '000 Lek, unless otherwise stated)

35. Explanation of Transition to IFRS (Reconciliation of equity):

		Previous GAAP	Effect of transition to IFRSs (reclassifications)	Effect of transition to IFRSs (adjustments)	IFRSs	Previous GAAP	Effect of transition to IFRs (reclassifications)	Effect of transition to IFRSs (adjustments)	IFRSs
		1 January 2007				31 December 2007			
Assets	*Note*								
Cash and cash equivalents	*a*	19,597,442	(17,066,458)		2,530,984	10,665,623	(5,818,189)		4,847,434
Loans and advances to banks	*a*	-	17,066,458		17,066,458	-	5,818,189		5,818,189
Loans and advances to customers	*b, c*	25,199,127	(254,156)	51,715	24,996,686	30,728,845	(324,775)	167,336	30,571,406
AFS Investment Securities	*d*	2,393,561	3,268,686	(351,788)	5,310,459	2,578,691	15,710		2,594,401
HTM Investment Securities	*d*	31,610,905	(3,268,686)		28,342,219	32,424,437	(15,710)		32,408,727
Property and equipment	*e*	778,601		(124,430)	654,171	1,078,932		(154,876)	924,056
Intangible assets	*f*	315,388		(190,438)	124,950	276,138		(159,875)	116,263
Deferred tax assets	*h*	-		133,916	133,916	-		39,343	39,343
Current tax assets		1,944	-		1,944	-	-		-
Other assets	*g*	393,670		(33,433)	360,237	616,440		(39,337)	577,103
Total assets		**80,290,638**	**(254,156)**	**(514,458))**	**79,522,024**	**78,369,106**	**(324,775)**	**(147,409)**	**77,896,922**
Liabilities									
Deposits from banks		19,839,444	-		19,839,444	4,079,996	-		4,079,996
Deposits from customers		55,442,100			55,442,100	68,815,984	-		68,815,984
Subordinated debt		487,105			487,105	428,791			429,791
Current tax liabilities	*j*	-			-	-	43,965		43,965
Deferred tax liabilities	*h*	-		15,999	15,999	-		20,303	20,303
Other liabilities	*j*	460,150	(254,156)		205,994	570,343	(368,740)		201,603
Total Liabilities		**76,228,799**	**(254,156)**	**15,999**	**75,990,642**	**73,895,114**	**(324,775)**	**20,303**	**73,590,642**
Equity									
Share capital and premiums	*l*	3,775,320		(356,580)	3,418,740	3,001,851	-		3,001,851
Other reserves	*d*	388,933		(360,194)	28,739	625,687		(498,908)	126,779
Translation reserve	*i, l*	(634,312)		649,581		6,236		22,180	28,416
Other comprehensive items	*k*	-		-	-	416,889			416,889
Retained earnings	*b,c,d,e, f,g,h,k*	531,898		(463,263)	68,635	840,218		(107,873)	732,345
Total Equity		**4,061,839**	**-**	**(530,456)**	**3,531,383**	**4,473,992**		**(167,713)**	**4,306,280**

35. Explanation of Transition to IFRS (continued)

(a) Under previous GAAP cash and cash equivalent includes balances with a remaining maturity of more than three months based on the accounting manual provided from Bank of Albania. Under IFRSs those balances have been classified under Loans and Advances to banks.

The effect is to decrease *cash and cash equivalents* by Lek 17,066,458 thousand as at 1 January 2007 and by Lek 5,818,189 thousand at 31 December 2007 and increase respectively *loans and advances to banks* by the same amount.

(b) Under previous GAAP the estimation of loan losses impairment was made based on the requirements of the Regulation for the Credit Risk Management issued by the Bank of Albania, which results in different estimations for loan loss impairment than the estimation made according to IAS 39 Financial Instruments: Recognition and Measurement. As of 1 January 2007 and 31 December 2007 the loan losses impairment is estimated according to the IFRSs requirements. The effect is to increase respectively *loans and advances to customers, net* and *retained earnings* by Lek 63,725 thousand as at 1 January 2007, composed from the reversal of Lek 31,395 thousand in year 2005, reversal of Lek 32,329 thousand in year 2006 and reversal of loans provisions with impact in Profit and Loss of year 2007,by Lek 123,041 thousand as at 31 December 2007. Also *other liabilities* have been decreased due to the reclassification of statistical provisions of loans as a contra account to *Loans and advances to customers* as at 1 January 2007 and 31 December 2007 respectively by Lek 254,156 thousand and by Lek 324,775 thousand.

(c)Under previous GAAP, loans and advances to customers were subsequently recognised at amortised cost with nominal interest rate. Starting from 1 January 2007 the effect of the measurement of the Loans and advances to customers with amortised cost is recognised using effective interest rate. The effect is to decrease respectively *loans and advances to customers, net* and *retained earnings* by Lek 28,278 thousand as at 1 January 2007, composed from the charge of Lek 16,268 thousand in year 2005, charge of Lek 12,010 thousand in year 2006 and charge of loans administration fee with impact in Profit and Loss of year 2007, by Lek 7,418 thousand as at 31 December 2007.

(d)Consistent with the Group's accounting policy, part of the Held-to-Maturity investment securities have been reclassified as Available-for-Sale investment securities considering that these are perpetual securities, the amount of the reclassification is Lek 3,268,686 thousand as at 01 January 2007. In accordance with IFRSs, available-for-sale investments have recognized as assets at fair value with the effect of changes in fair value recognized directly in equity rather then at income statements. The effect is to decrease *the Fair Value reserve* by Lek 351,787 thousand and increase *the retained earnings* as at 1 January 2007 by the same amount and increase *other operating income, net* by Lek 138,715 for the year ended 31 December 2007, and decrease *the Fair Value reserve* by the same amount as at 31 December 2007. The reclassification of the amount of Lek 15,710 thousand represents the accrued interest of AFS securities as of 31 December 2007, which for GAAP has been placed under held-to-maturity portfolio.

(e)Accumulated depreciation of Property and Equipment under previous is calculated according to the previous GAAP based on declining balance method. Upon the IFRS application the Bank has consider to apply the straight line balance while calculating the depreciation for Property and Equipment being consistent also with the Parent Bank accounting policy.

The effect (net of accumulated depreciation) is to decrease *property and equipment* by Lek 124,430 thousand at 1 January 2007 and increase retained earnings by Lek 102,677 thousand for year 2005 and Lek 21,753 thousand for year 2006. The effect (net of accumulated depreciation) in year 2007 *in* *property and equipment* is Lek 154,876 thousand composed by the amount of Lek 124,430 thousand (explained above) and by the amount of Lek 30,446 thousand which decrease the depreciation expenses for the year ended 31 December 2007 by Lek 51,626 thousand, increase the other operating income net by Lek 20,440 thousand and by Lek 741 thousand income from foreign exchange differences.

(amounts in '000 Lek, unless otherwise stated)

(f)Start-up costs amounting Lek 197,670 arising during the establishment of the Banking activity was capitalised under intangible assets previously according to the previous GAAP and were amortised at 15% annual rate. These costs do not qualify for recognition as an *intangible asset* under IFRS's and start-up costs and *accumulated amortization* at the date of transition to IFRSs have been adjusted accordingly.

The effect (net of accumulated amortisation) is to decrease *intangible assets* by Lek 190,438 thousand at 1 January 2007 and by Lek 159,875 thousand at 31 December 2007 and to decrease by Lek 30,564 thousand amortization expenses for the year ended 31 December 2007.

(g) Under previous GAAP certain assets were recognised under other assets which do not qualify for the asset recognition criteria under IFRSs which have been adjusted accordingly. The effect is to decrease *other assets* by Lek 33,433 thousand as of 1 January 2007 and by Lek 39,337 thousand as of 31 December 2007. As a result *other expenses* were increased by Lek 5,905 thousand for the year ended 31 December 2007.

(h) The above changes increased (decreased) the deferred tax asset as follows, based on the income tax rate of 20 %:

	1 January 2007	31 December 2007
Deferred tax asset	**133,917**	**39,343**
Tangible and intangible assets	62,974	31,475
Other assets	6,687	3,934
Loans and advances to customer	5,656	3,570
Translation effect	58,600	364
Deferred tax liability	**(15,999)**	**(20,303)**
Allowance for impairment	(15,999)	(20,303)
Net deferred tax assets/(liabilities)	**117,917**	**19,040**

The effect on the income statement for the year ended 31 December 2007 was to decrease the previously reported tax charge for the period by Lek 98,877 thousand.

(c) Each item in Profit and loss has been decreased or increased according to Greece profit and loss revaluation balances. The amount is Lek 3,643 thousand with impact in profit and loss year 2007, and translation reserve under shareholders equity.

(d) Under previous GAAP the balances of withholding tax are included under other liabilities Under IFRSs those balances have been classified under current tax liabilities at the amount of Lek 43,965 thousand as of 31 December 2007

(amounts in '000 Lek, unless otherwise stated)

(e) The Bank converted the share capital previously USD denominated into LEK during the month of August 2007. The resulting accumulated difference Lek 416,889 thousand, between the historical value and the exchange rate at the date of conversion was classified within equity as other comprehensive item, and the same amount increasing the retaining earnings.

(f) The adjustment amount as of 01 January 2007, Lek 356,580 thousand, corresponds to the adjustment of the share capital translation with Lek functional currency as at 1 January 2006, with impact in translation reserve.

Reconciliation of profit for 31 December 2007 is as follows:

	Note	**Previous GAAP**	**Effect of transition to IFRSs**	**IFRSs**
Interest income	*c ,i*	5,395,583	33,927	5,429,510
Interest expenses	*i*	(2,728,333)	(5,282)	(2,733,615)
Net interest income		**2,667,250**	**28,645**	**2,695,895**
Fee and commission income	*c, i*	542,227	(31,653)	510,574
Fee and commission expense		(114,802)	(61)	(114,863)
Net fee and commission income		**427,425**	**(31,714)**	**395,711**
Net trading income	*, i, k*	175,928	(135,966)	39,962
Other operating income, net	*i, d, e*	(480,044)	509,216	29,172
Operating income		**2,790,560**	**370,181**	**3,160,740**
Net impairment loss on financial assets	*b, i*	(178,024)	122,512	(55,511)
Personnel costs	*g, i*	(696,602)	(8,024)	(704,626)
Operating lease expenses	*g, i*	(239,450)	(1,012)	(240,462)
Depreciation and Amortization	*e, f,i*	(213,705)	(19,506)	(233,211)
Depreciation of leasehold improvement		(44,655)	-	(44,655)
Other expenses	*g, i*	(602,812)	(9,884)	(612,696)
Total expenses		**(1,975,248)**	**84,088**	**(1,891,161)**
Net income before taxes		**815,311**	**454,268**	**1,269,579**
Income tax expenses	*h*	(270,237)	(98,877)	(369,114)
Profit for the period		**545,074**	**355,391**	**900,465**

The effect on the income statement for the year ended 31 December 2007 was to decrease the previously reported tax charge for the period by Lek 98,877 thousand.

The Bank operated a Stock Option Employee Plan with effective date of application from 1 October 2004. On 20-21 December 2006, the Bank concluded the Share Purchase Agreement with Intesa Sanpaolo and the amount of USD 14,743,800 (Lek 1,222,114 thousand) has materialized as a dedicated deposit amount which will be held until the vesting date (which is determined to be 5 years, i.e. after 1 December 2009) according to the Staff Deposit Pool Plan. Upon the expiration of the vesting date the amount will be paid out to the entitled employees. In case an employee withdraws or is terminated, then the remaining amount from the dedicated amount of deposit will be paid back to the AAEF. There are no impacts in the Profit or Loss from the Deposit Pool Plan.

36. Events after balance sheet date

(i) Tax Control

The Bank was subject to an audit by Albanian Tax authorities covering the 4 years period 2004 - 2007. The aim of this control, which was closed in January 2009, was the verification of Bank's compliance to fiscal framework, covering the area of Corporate Income Tax, Value Added Tax, Tax Procedures and Social and Health Contributions.

After receiving the final evaluation report, the Bank has continuously submitted its objections to Tax Authorities, and by providing sufficient arguments and evidences has achieved an official notification on another control to be done on the same area at no specified date. Therefore, the liabilities claimed in this report are subject of further changes during the future reporting periods.

Despite this fact, in line with tax procedure legislation, the Bank has settled all the liability claimed and at the same time has filed an appeal request to General Tax Directorate. Presently, there is no any other development regarding this issue.

(ii) Other

The management of the Company is not aware of any other events after the balance sheet date that would require either adjustments or additional disclosures in the financial statements.