

CREDINS BANK SH.A.

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

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Independent Auditors' Report

Tirana, 6 July 2009

To the Shareholders of Credins Bank Sh.a.

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

Auditors' Responsibility

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

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

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



Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 3.t to the financial statements. Our opinion on the 2008 financial statements dated 8 May 2009 was qualified because we had not been able satisfy ourselves regarding the management assumption on the recoverability of the outstanding loans and advances to customers for the year ended 31 December 2008 and 31 December 2007. Furthermore, we noted that the Bank had used a method of calculation which, in our opinion, was not in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. Since that date, the Bank has provided us with appropriate methodology as explained in note 3.t to the accompanying financial statements. The Company has reissued its financial statements and recorded a revised collective impairment loss on loans and advances to customers for the years ended 31 December 2008 and 2007.

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CREDINS BANK SH.A.

Income statement for the year ended 31 December 2008 and 2007


(in Lek '000)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	7	3,287,020	2,429,031
Interest expense	7	<u>(1,533,054)</u>	<u>(1,200,165)</u>
Net interest income	7	1,753,966	1,228,866
Fee and commission income	8	217,738	141,520
Fee and commission expense	8	<u>(30,841)</u>	<u>(29,059)</u>
Net fee and commission income	8	186,897	112,461
Other expenses, net		(3,280)	(2,683)
Profit/(loss) from foreign exchange transactions		<u>205,737</u>	<u>(75,285)</u>
Other banking income		202,457	(77,968)
Provision for loan losses	15	(341,528)	(34,716)
Amortization of intangible assets	18	(8,122)	(8,852)
Depreciation of property and equipment	17	(113,752)	(88,020)
Personnel expenses	9	(385,141)	(265,610)
Administrative expenses	10	<u>(472,093)</u>	<u>(349,431)</u>
		(1,320,636)	(746,629)
Profit before taxes		822,684	516,730
Income tax expense	11	<u>(83,751)</u>	<u>(138,659)</u>
Net profit		738,933	378,071

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 53.

These financial statements have been approved by the Board of Directors of Credins Bank Sh.a. on 6 July 2009 and signed on its behalf by:


Artan Santo
General Director


Valentina Prodani
Head of Finance and Accounting

CREDINS BANK SH.A.

Balance sheet as at 31 December 2008

(in Lek '000)

	Notes	31 December 2008	31 December 2007
Assets			
Cash and cash equivalents	12	6,821,784	8,326,436
Restricted balances with Central Bank	13	3,250,567	2,783,889
Loans and advances to banks	14	748,214	1,420,529
Loans and advances to customers	15	24,436,133	15,864,091
Investment securities	16	3,891,698	6,429,493
Property and equipment	17	774,697	677,929
Intangible assets	18	36,078	36,461
Deferred tax assets	19	51,712	33,289
Current tax asset		1,086	-
Assets held for sale	20	56,655	7,280
Other assets	21	197,047	140,869
Total assets		40,265,671	35,720,266
Liabilities			
Due to banks and other financial institutions	22	1,241,551	1,768,376
Due to customers	23	34,572,233	31,221,235
Subordinated debt	24	1,274,970	735,843
Current tax liabilities		-	33,018
Other liabilities	25	25,659	46,922
Total liabilities		37,114,413	33,805,394
Shareholders' equity			
Share capital	26	2,119,762	1,598,110
Share premium		336,334	84,814
General reserve	27	258,618	-
Other comprehensive items	27	(299,605)	(146,123)
Revaluation reserve	16.1	(2,784)	-
Retained earnings		738,933	378,071
		3,151,258	1,914,872
Total liabilities and shareholders' equity		40,265,671	35,720,266

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 53.

CREDINS BANK SH.A.

Statement of changes in equity for the year ended 31 December 2008

(in Lek '000)

	<u>Share capital</u>	<u>Share premium</u>	<u>General reserve</u>	<u>Other comprehensive items</u>	<u>Revaluation reserve</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance at 1 January 2007	1,369,415	84,814	-	(113,242)	-	195,814	1,536,801
Appropriation of retained earnings	228,695	-	-	(32,881)	-	(195,814)	-
Current year profit	-	-	-	-	-	378,071	378,071
	-	-	-	-	-	-	-
Balance at 31 December 2007	<u>1,598,110</u>	<u>84,814</u>	<u>-</u>	<u>(146,123)</u>	<u>-</u>	<u>378,071</u>	<u>1,914,872</u>
Appropriation of retained earnings	272,935	-	258,618	(153,482)	-	(378,071)	-
Increase of paid-up capital	248,717	251,520	-	-	-	-	500,237
Revaluation of available for sale securities	-	-	-	-	(2,784)	-	(2,784)
Current year profit	-	-	-	-	-	738,933	738,933
	-	-	-	-	-	-	-
Balance at 31 December 2008	<u>2,119,762</u>	<u>336,334</u>	<u>258,618</u>	<u>(299,605)</u>	<u>(2,784)</u>	<u>738,933</u>	<u>3,151,258</u>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 53.

CREDINS BANK SH.A.

Statement of cash flows for the year ended 31 December 2008

(in Lek '000)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Cash flows from operating activities			
Profit for the period		738,933	378,071
<i>Adjustments for:</i>			
Depreciation and amortization	17,18	121,874	96,872
Disposed fixed assets	17,18	3,385	5,552
Impairment on financial assets	15	341,528	34,716
Loans written off	15	(1,252)	(7,208)
Net interest income	7	(1,753,966)	(1,192,576)
Income tax expense	11	83,751	138,659
Change in loans and advances to banks		677,637	(1,012,650)
Change in loans and advances to customers		(8,873,701)	(4,788,184)
Change in restricted balances with Central bank		(466,578)	(607,192)
Change in other assets		(56,178)	227,037
Change in deposits from banks		(522,209)	694,491
Change in deposits from customers		3,213,769	7,219,900
Change in other liabilities		(21,263)	24,928
Interest received		3,333,916	2,266,343
Interest paid		(1,378,380)	(1,020,001)
Income tax paid		(136,278)	(126,268)
Net cash (used in)/from operating activities		(4,695,012)	2,332,490
Cash flows used in investing activities			
Sale/(purchase) of investment securities		2,444,074	(779,778)
Increase in assets available for sale		(49,375)	(7,280)
Purchase of property and equipment	17	(213,901)	(204,994)
Purchase of intangible assets	18	(7,743)	(15,136)
Net cash from/(used in) investing activities		2,173,055	(1,007,188)
Cash flows from financing activities			
Increase in subordinated liabilities		517,066	205,670
Decrease in special fund		-	(197,863)
Paid up capital		500,239	-
Net cash from financing activities		1,017,305	7,807
Net (decrease)/increase in cash and cash equivalents			
		(1,504,652)	1,333,109
Cash and cash equivalents at 1 January		8,326,436	6,993,327
Cash and cash equivalents at 31 December	12	6,821,784	8,326,436

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 53.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

1. Reporting entity

Credins Bank Sh.A. (hereinafter “the Bank”) is an Albanian financial institution which was incorporated on 1 April 2003 under the Albanian Commercial Law and was licensed by the Bank of Albania on 31 March 2003 to operate as a bank in all fields of banking activity in Albania in accordance with the law No. 8365, “On banks in the Republic of Albania”, dated July 1998. The Bank is also subject to law No. 8269, dated December 1997, “On the Bank of Albania”.

As at 31 December 2008, the Bank was operating through a head office located in Tirana, 26 branches located in Tirana, Durres, Fier, Lezha, Elbasan, Vlora, Shkodra, Korca, Shijak, Shkozet, Kavaja and Lushnja and 3 agencies in Tirana and in Durres Port. As at 31 December 2008 the Bank had 386 employees (31 December 2007: 275 employees).

2. Basis of Preparation

a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). Starting from 1 January 2008 the application of International Financial Reporting Standards became the statutory requirement for the Bank. 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 Company for the year ended 31 December 2007 is provided in note 30.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for those financial instruments which are measured at fair value.

c) Functional and presentation currency

These 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 judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 5.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Bank and in preparing an opening IFRS balance sheet at 1 January 2007 for the purposes of the transition to IFRSs.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3. Significant accounting policies

a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Furthermore allowance for loan losses for loans, provision for guarantees to customers and special fund extended by the shareholders, all denominated in foreign currency are translated at the foreign exchange rate ruling at the reporting date.

The applicable rate of exchange (Lek to foreign currency unit) for the principal currencies as at 31 December 2008 and 31 December 2007 were as follows:

	31 December 2008	31 December 2007
USD	87.91	82.89
EUR	123.80	121.78
GBP	127.66	166.02
CHF	82.97	73.65
CAD	72.22	84.45

b) Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

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

c) Fee 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, placement fees and syndication fees, are recognised as the related services are performed. Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3 Significant accounting policies (continued)

d) Lease payments made

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

e) Income tax expense

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years in accordance with the Albanian tax legislation. Taxable income is calculated by adjusting the statutory profit before taxes for certain income and expenditure items as required under Albanian law.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3 Significant accounting policies (continued)

f) Financial assets and liabilities

i) Recognition

The Bank initially recognises loans and advances, customers' deposits and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

ii) Classification

See accounting policies 3 (g), (h), (i) and (n)

iii) Derecognition

The Bank derecognises 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 recognised as a separate asset or liability.

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

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

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3 Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

iv) Amortized cost measurement

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

v) 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 recognised valuation models for determining the fair value of common and more simple financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable, if any.

For more complex instruments, the Bank uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value indicated by valuation techniques is recognised in income or expenses depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the balance sheet.

vi) 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 amortised cost) with similar risk characteristics.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

vi) Identification and measurement of impairment (continued)

Objective evidence that the financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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

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

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

g) Cash and cash equivalents

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

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

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3. Significant accounting policies (continued)

h) Loans and advances

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

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

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

i) Investment securities

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

(i) Held to maturity

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

(ii) Available for sale investments

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Significant accounting policies (continues)

j) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. 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 cost

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

(iii) Depreciation

Depreciation is recognised in profit or loss on a declining balance method over the estimated useful life of the assets, except for depreciation of property which is based on the straight line method. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Buildings	20 years
Electronic and office equipment	4 years
Vehicles	5 years
Furniture and fittings	5 years
Leasehold improvements	5 to 20 years

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

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3. Significant accounting policies (continued)

k) Intangible Assets

(i) Software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is five years.

(ii) Licenses

Licences and rights to use that are acquired by Bank are stated at cost less accumulated amortisation and impairment losses, if any. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the license, from the date that it is available for use. The estimated useful life of licenses is ten years.

l) Leased Assets

Leases are operating leases which are not recognised on the Bank's balance sheet.

m) Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3. Significant accounting policies (continued)

m) Impairment of non-financial assets (continued)

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

n) Deposits and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's chief sources of debt funding. When the Bank sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

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

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus 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.

o) Provisions

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

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

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

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3. Significant accounting policies (continued)

p) Financial guarantee

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.

q) Employee benefits

(i) Compulsory social security contributions

The Bank makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The social insurance authorities are responsible for providing the legally set minimum threshold for pensions under a defined contribution pension plan. The Bank's contributions to the benefit pension plan are charged to the income statement as incurred.

(ii) Paid annual leave

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

r) Foreign exchange netting operations

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot or at forward date. The notional amount of these contracts does not represent the actual market or credit risk associated with this product.

s) Non-current assets held for sale

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

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3. Significant accounting policies (continued)

t) Reissuance of financial Statements

On 8 May 2009, the Bank Management approved and issued the financial statements for the year ending 31 December 2008. Since that date the Bank's calculation of collective impairment losses on loans and advances to customers for the years ended 31 December 2008 has been revised in order to comply with the requirements of IAS 39 "Financial Instruments: Recognition and Measurement". Initially, the Bank assessed the impairment allowance by considering both specific and collective impairments. Assets that were not specifically impaired and individually significant were collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar monetary characteristics. Although grouping based on similar credit risk characteristics is considered an appropriate methodology, due to the lack of sufficient experience on the default of all types of problematic credits and because the individual loan portfolio increased significantly in recent years where the default problems appear later during the tenor of the loan, credit risk characteristics were not taken into consideration. Subsequent to the previous mentioned methodology the Bank revised its methodology by grouping the financial assets on the basis of similar credit risk characteristics that are indicative of the debtors' ability to repay amounts due to the contractual terms, and, accordingly adjusted the financial statements. A reconciliation of the reissued financial statements with those issued on 8 May 2009 is as follows:

	Balance as at 31 December 2008			Shareholders Equity as of 31 December 2008
	Net Deferred Tax	Loans and advances to customers	Profit for the year ending 31 December 2008	
As previously reported	41,412	24,539,136	867,327	3,243,961
Correction of the impairment allowance to loans and advances to customers	-	(103,003)	(142,660)	(103,003)
Correction of the deferred tax	10,300	-	14,266	10,300
Reissued	51,712	24,436,133	738,933	3,151,258
	Balance as at 31 December 2007			Shareholders Equity as of 31 December 2007
	Net Deferred Tax	Loans and advances to customers	Profit for the year ending 31 December 2007	
As previously reported	37,255	15,824,435	347,796	1,879,182
Correction of the impairment allowance to loans and advances to customers	-	39,656	32,887	39,656
Correction of the deferred tax	(3,966)	-	(2,612)	(3,966)
Reissued	33,289	15,864,091	378,071	1,914,872

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3. Significant accounting policies (continued)

u) Standards, Interpretations and amendments to published Standards that are not yet effective and are relevant to the Bank's activities

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:

- 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 financial statements and will be applicable retrospectively. The Bank management does not believe this will impact the Bank's operations.
- 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 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* (effective for annual periods beginning on or after 1 July 2009) incorporates the following changes that are likely to be relevant to the Bank's operations:
 - 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. The Bank is currently in the process of determining the potential effect of this standard on the Bank's segment reporting.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3. Significant accounting policies (continued)

u) Standards, Interpretations and amendments to published Standards that are not yet effective and are relevant to the Bank's activities (continued)

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

- 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. Since the Bank has no such qualifying assets, this will have no impact on prior periods in the Bank's 2009 financial statements.

- Amended IAS 27 *Consolidated and Separate Financial Statements* 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.

- 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 the Bank's 2009 financial statements. The Bank does not expect these amendments to have a significant impact on the financial statements.

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

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3. Significant accounting policies (continued)

u) Standards, Interpretations and amendments to published Standards that are not yet effective and are relevant to the Bank's activities (continued)

▪ 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 with IAS 18 (e.g the entity is not required to supply construction materials); and
- the agreement is for sale of goods but the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery).

IFRIC 15 is not relevant to the Bank's operations as the Bank does not provide real estate construction services or develop real estate for sale.

▪ IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* 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 financial statements, applies prospectively to the Bank's existing hedge relationships and net investments. The interpretation is not expected to have any impact on the financial statements.

▪ 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 remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders it is not possible to determine the effects of application in advance.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

3. Significant accounting policies (continued)

u) Standards, Interpretations and amendments to published Standards that are not yet effective and are relevant to the Bank's activities (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. The interpretation is not expected to have any impact on the financial statements.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management

a) Introduction and overview

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 has overall responsibility for the establishment and oversight and control of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO) and the Credit Committee, which are responsible for developing and monitoring Bank risk management policies in specified areas up to predetermined limits of exposure.

The 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. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The risk arising from investments in securities is maintained in low levels as investments are made only in government securities, Treasury Bills and Bonds, considered as risk free investments.

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committee for all credit exposures granted within 10% of the regulatory capital. The Board of Directors in cooperation with the Credit Committee are responsible for oversight of the Bank's credit risk, including:

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management (continued)

b) Credit risk (continued)

Formulating credit policies, covering collateral requirements, credit assessment, documentary and legal procedures, and compliance with regulatory and statutory requirements.

Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Branches Credit Committees and the Heads of Corporate and SME & Individuals Credit Departments. Larger facilities require approval by Credit Committee or the Board of Directors as appropriate.

Reviewing and assessing credit risk. Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

Limiting concentrations of exposure to counterparties, different industries, currency and maturity.

Developing and maintaining the Bank's risk classifications in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades in accordance with the Bank of Albania Credit Risk Management Regulation, 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 approval by Credit Committee and these grades are subject to regular monthly reviews.

Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.

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

Each branch and business unit is required to implement credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit/branch has a Chief Credit Risk officer who reports on all credit related matters to local management and the Bank Credit Committee. Each business unit/branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management (continued)

b) Credit risk (continued)

Exposure to credit risk

	Year ended 31 December 2008	Year ended 31 December 2007
<i>Loans and advances to customers</i>		
<i>Individually impaired</i>		
Standard	660,703	621,501
Special mention	837,606	111,736
Substandard	447,043	196,311
Doubtful	14,453	25,614
Lost	66,509	41,205
<i>Gross amount</i>	2,026,314	996,367
Allowance for impairment	(301,320)	(150,606)
<i>Carrying amount</i>	1,724,994	845,761
<i>Collectively impaired</i>		
Standard	22,049,442	14,394,491
Special mention	572,108	493,040
Substandard	243,343	144,251
Doubtful	45,968	10,972
Lost	54,149	34,924
<i>Gross amount</i>	22,965,010	15,077,678
Allowance for impairment	(253,871)	(59,348)
<i>Carrying amount</i>	22,711,139	15,018,330
Total carrying amount	24,436,133	15,864,091
<i>Loans and advances to banks</i>		
<i>Neither past due nor impaired</i>		
Standard	748,214	1,420,529
Total carrying amount	748,214	1,420,529
<i>Investment securities</i>		
<i>Neither past due nor impaired</i>		
Standard	3,891,698	6,429,493
Total carrying amount	3,891,698	6,429,493

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management (continued)

b) Credit risk (continued)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s).

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 is the specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for Banks of homogeneous assets in respect of losses that have been incurred but not identified on loans subject to individual assessment for impairment.

Write-off policy

The writing off of losses is done with the decision of the Board of Directors when the legal process of demanding payment from the borrower is completed and the borrower continues to be a debtor to the bank for the unpaid portion.

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

	Loans and advances to customers	
	Gross	Net
31 December 2008		
Standard: Individually impaired	660,703	609,594
Special mention: Individually impaired	837,606	716,879
Substandard: Individually impaired	447,043	332,798
Doubtful: Individually impaired	14,453	11,690
Lost: Individually impaired	66,509	54,033
Total	2,026,314	1,724,994
31 December 2007		
Standard: Individually impaired	621,501	521,622
Special mention: Individually impaired	111,736	96,862
Substandard: Individually impaired	196,311	173,136
Doubtful: Individually impaired	25,614	23,375
Lost: Individually impaired	41,205	30,766
Total	996,367	845,761

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management (continued)

b) 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 generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral usually 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 collateral and other security enhancements held against financial assets is shown below:

	31 December 2008	31 December 2007
Against individually impaired:		
Property	2,364,314	1,189,592
Other	21,599	6,000
Against collectively impaired:		
Property	74,044,638	32,770,064
Other	23,634,104	15,348,270
Total	100,064,655	49,313,926

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

Loans and advances to customers	31 December 2008	31 December 2007
Construction	6,214,579	4,195,378
Commerce	5,926,997	4,350,217
Consumer loans	4,437,964	2,535,323
Public, social and personal services	2,800,188	1,552,404
Processing industry	1,680,895	1,613,795
Hotels and restaurants	1,268,066	1,203,704
Production and distribution of electricity/water	1,234,908	112,778
Real estate	388,036	28,342
Transport and telecommunication	283,799	63,153
Financial activities	221,710	17,931
Agriculture	205,363	67,283
Mining	73,348	80,240
Health and social activities	48,002	54,927
Fishery	-	2,288
Other	207,469	196,282
Total	24,991,324	16,074,045

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management (continued)

c) Liquidity risk

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

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, without incurring unacceptable losses or risking damage to the Bank's reputation.

Short-term liquidity is managed by the Treasury Department, while mid-term and long-term liquidity is managed by ALCO. The Risk Management Division reports regularly to ALCO and the Treasury Department on level of exposure to liquidity risk.

Treasury Department maintains a portfolio of short-term liquid assets, made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained by the Bank.

Daily reports produced by Treasury as well as weekly and monthly reports produced by the Risk Management Division cover the liquidity position of the Bank. All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The key measures used by the Bank for managing liquidity risk are the calculation of liquidity ratios and the evaluation of liquidity gaps for specific periods.

Volatility in global and Albania's financial markets

The ongoing global financial and economic crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and volatility in stock markets. Further adverse developments resulting from the crisis might result in negative implications on the financial and liquidity position of the Bank.

The Bank calculates on a weekly basis the following ratios: liquid assets to short-term liabilities, loans to deposits, and liquid assets to deposits. Liquid assets are considered as including cash and cash equivalents, Albanian government treasury bills and any short term deposits with banks maturing within one month. Details of the liquid assets to short-term liabilities ratio during the reporting period were as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Average for the period	73.14%	109.90%
Minimum for the period	53.77%	84.50%
Maximum for the period	98.01%	133.40%

Maturity gaps for each major currency are calculated and analyzed by the Bank on a monthly basis. The tables below show an analysis of the Bank's assets and liabilities as of 31 December 2008 and 31 December 2007 according to their remaining maturity:

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management (continued)

c) Liquidity risk (continued)

Residual contractual maturities of financial assets and liabilities

31 December 2008	Up to 1 month	1 to 3 months	3-6 months	6-12 months	1 to 5 years	Over 5 years	Total
Financial assets							
Cash and Central Bank	6,616,851	204,933	-	-	-	-	6,821,784
Restricted balances with Central Bank	647,429	759,279	671,843	976,395	195,621	-	3,250,567
Loans and advances to banks	210,776	-	261,053	190,385	86,000	-	748,214
Investment Securities	689,535	913,630	456,480	385,879	1,446,174	-	3,891,698
Loans and advances to customers	2,346,560	1,796,182	1,751,976	3,094,389	11,290,813	4,156,213	24,436,133
Assets held for sale	-	-	-	56,655	-	-	56,655
Other assets	195,463	-	-	2,670	-	-	198,133
Total	10,706,614	3,674,024	3,141,352	4,706,373	13,018,608	4,156,213	39,403,184
Financial liabilities							
Due to banks and other financial institutions	1,241,551	-	-	-	-	-	1,241,551
Due to customers	8,370,318	6,818,354	6,658,340	10,785,673	1,939,548	-	34,572,233
Other liabilities	25,659	-	-	-	-	-	25,659
Subordinated debt	-	22,114	-	-	1,252,856	-	1,274,970
Total	9,637,528	6,840,468	6,658,340	10,785,673	3,192,404	-	37,114,413
Liquidity risk as at 31 December 2008	1,069,086	(3,166,444)	(3,516,988)	(6,079,300)	9,826,204	4,156,213	2,288,771
Cumulative	1,069,086	(2,097,358)	(5,614,346)	(11,693,646)	(1,867,442)	2,288,771	-
31 December 2007							
Total financial assets	11,442,528	3,272,032	3,386,158	4,808,223	10,242,964	1,820,713	34,972,618
Total financial liabilities	8,128,163	6,786,426	6,585,222	8,710,500	3,562,065	-	33,772,376
Liquidity risk as at 31 December 2007	3,314,365	(3,514,394)	(3,199,064)	(3,902,277)	6,680,899	1,820,713	1,200,242
Cumulative	3,314,365	(200,029)	(3,399,093)	(7,301,370)	(620,471)	1,200,242	-

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management (continued)

d) Market risks

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments.

Management of market risks

ALCO is responsible for the overall management of market risks. The risk of foreign exchange positions is measured and reported by the Risk Management Department on a daily basis. The Bank manages this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. The Bank manages interest rate risk by conducting repricing gap analysis and profit margin analysis for each major currency. The Risk Management Department produces these reports on a monthly basis.

Exposure to Foreign Exchange Risk

The analysis of assets and liabilities as of 31 December 2008 and 31 December 2007 by the foreign currencies in which there were denominated is as follows:

	ALL	USD	EUR	Other	Total
Assets					
Cash and Cash equivalent	1,771,058	2,442,330	2,280,076	328,320	6,821,784
Restricted balances with Central Bank	1,807,217	515,548	927,802	-	3,250,567
Loans and advances to banks	287,561	218,861	241,792	-	748,214
Loans and advances to customers	12,795,224	3,412,173	8,228,736	-	24,436,133
Investment Securities	3,891,698	-	-	-	3,891,698
Property, equipment and intangibles	810,775	-	-	-	810,775
Asset held for sale	56,655	-	-	-	56,655
Deferred taxes	51,712	-	-	-	51,712
Other assets	176,826	407	20,900	-	198,133
Total	21,648,726	6,589,319	11,699,306	328,320	40,265,671
Liabilities and equity					
Due to banks and other financial institutions	426,258	59,721	754,573	999	1,241,551
Due to customers	19,699,730	5,253,961	9,301,618	316,924	34,572,233
Other liabilities	23,990	-	1,666	3	25,659
Subordinated debt	-	-	1,274,970	-	1,274,970
Shareholder's equity	1,346,698	1,293,265	511,295	-	3,151,258
Total	21,496,676	6,606,947	11,844,122	317,926	40,265,671
Net position as at 31 December 2008	152,050	(17,628)	(144,816)	10,394	-
31 December 2007					
Total assets	18,427,207	6,924,874	9,949,308	418,877	35,720,266
Total liabilities and equity	17,987,787	7,340,505	9,970,706	421,268	35,720,266
Net position as at 31 December 2007	439,420	(415,631)	(21,398)	(2,391)	-

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management (continued)

d) Market risk (continued)

Exposure to Interest Rate Risk

A summary of the Bank's interest rate gap position as of 31 December 2008 and 2007 is as follows:

31 December 2008	Notes	Less than 1 months	1-3 months	3-12 months	1-5 years	over 5 years	Non allocated	Carrying amounts
Assets								
Cash and cash equivalents	12	1,946,156	2,734,075	-	-	-	2,141,553	6,821,784
Restricted balances with Central Bank	13	1,133,070	507,787	1,267,754	182,966	-	158,990	3,250,567
Loans and advances to banks	14	193,427	367,856	180,455	4,458	2,018	-	748,214
Loans and advances to customers	15	2,068,029	19,878,991	363,639	1,463,207	87,747	574,520	24,436,133
Investment securities	16	690,029	1,414,284	1,687,737	99,648	-	-	3,891,698
Total assets		6,030,711	24,902,993	3,499,585	1,750,279	89,765	2,875,063	39,148,396
Liabilities								
Due to banks and other financial institutions	22	1,241,551	-	-	-	-	-	1,241,551
Due to customers	23	12,125,641	5,382,810	13,438,861	1,939,546	-	1,685,375	34,572,233
Subordinated debt	24	-	269,714	-	1,005,256	-	-	1,274,970
Total liabilities		13,367,192	5,652,524	13,438,861	2,944,802	-	1,685,375	37,088,754
GAP as at 31 December 2008		(7,336,481)	19,250,469	(9,939,276)	(1,194,523)	89,765	1,189,688	

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management (continued)

d) Market risk (continued)

Exposure to Interest Rate Risk (continued)

31 December 2007	Notes	Less than 1 months	1-3 months	3-12 months	1-5 years	over 5 years	Non allocated	Carrying amounts
Assets								
Cash and cash equivalents	12	7,565,411	761,025	-	-	-	-	8,326,436
Restricted balances with Central Bank	13	894,355	502,381	965,541	255,354	-	166,258	2,783,889
Loans and advances to banks	14	100,066	1,305,643	14,820	-	-	-	1,420,529
Loans and advances to customers	15	719,979	12,309,102	74,779	1,554,818	915,538	289,875	15,864,091
Investment securities	16	840,840	2,111,379	3,074,599	402,675	-	-	6,429,493
Total assets		10,120,651	16,989,530	4,129,739	2,212,847	915,538	456,133	34,824,438
Liabilities								
Due to banks and other financial institutions	22	1,705,886	-	62,107	-	-	383	1,768,376
Due to customers	23	10,309,745	5,559,856	10,685,650	2,826,007	-	1,839,977	31,221,235
Subordinated debt	24	-	-	-	735,843	-	-	735,843
Total liabilities		12,015,631	5,559,856	10,747,757	3,561,850	-	1,840,360	33,725,454
GAP as at 31 December 2007		(1,894,980)	11,429,674	(6,618,018)	(1,349,003)	915,538	(1,384,227)	

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management (continued)

d) Market risk (continued)

Exposure to Interest Rate Risk (continued)

To supplement repricing gap analysis, the Bank also monitors on a monthly basis the sensitivity of net interest income over a one-year horizon to parallel shifts in the yield curve. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates over a one-year horizon (assuming parallel shifts in the yield curve and a constant balance sheet position) for each currency is as follows:

Year ended 31 December 2008	100 basis point parallel increase	100 basis point parallel decrease
LEK	10,087	(10,087)
USD	28,934	(28,934)
EURO and other currencies	45,731	(45,731)
Year ended 31 December 2007	100 basis point parallel increase	100 basis point parallel decrease
LEK	15,044	(15,044)
USD	16,330	(16,330)
EURO and other currencies	5,181	(5,181)

e) Capital management

Regulatory capital

The Bank's regulator, Bank of Albania, sets and monitors capital requirements measured by the capital adequacy ratio according to the Regulation on Capital Adequacy dated 5 May 1999. The capital adequacy ratio is calculated as the percentage of the regulatory capital to total risk-weighted assets and off balance-sheet items.

The Bank's regulatory capital is analysed into two categories:

1. Base capital, where are added ordinary share capital; premiums of emissions and mergers; retained earnings; and are subtracted unpaid share capital; debit re-valuation differences included in equity for regulatory reporting purposes, which reflect the changes of the historical currency exchange rates compared to the year end exchange rates when the equity is paid in currencies other than the reporting currency; and intangible assets.
2. Additional capital, which includes subordinated liabilities, general reserves and other regulatory adjustments.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

4. Financial risk management (continued)

e) Capital management (continued)

Regulatory capital (continued)

Risk-weighted assets and off balance-sheet items are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank recognises the need to maintain a balance between the higher returns that might be possible with higher risk weighted investments and the requirements for capital adequacy ratio higher than 12% which is the minimum capital adequacy ratio required by the regulator.

The Bank has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the period.

The Bank's regulatory capital position at 31 December 2008 and 2007 was as follows:

	31 December 2008	31 December 2007
Base capital		
Subscribed Capital	2,119,763	1,598,110
Share premium	258,618	84,814
General reserve	336,334	-
Retained earnings as per regulatory purposes	558,829	531,553
Debit re-valuation differences (negative)	(336,993)	(415,418)
Intangible fixed assets	(36,086)	(36,958)
	<u>2,900,465</u>	<u>1,762,101</u>
Additional capital		
Time subordinated liabilities	1,274,970	735,843
Other regulative acts of Bank of Albania	-	-
	<u>1,274,970</u>	<u>735,843</u>
Total regulatory capital	<u>4,175,442</u>	<u>2,497,944</u>
Risk-weighted assets	27,719,732	17,482,773
Risk weighted off balance exposures	1,431,933	1,080,440
Total	29,151,665	18,563,213
Capital adequacy ratio	14.32%	13.46%
Minimum required capital adequacy ratio	12%	12%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is also dependant upon the regulatory capital. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, and is subject to review by the Bank Credit Committee or ALCO as appropriate.

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

5. Use of estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgments are continually evaluated and are based on available relevant market information and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank.

(ii) 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(f)(v).

(iii) Calculation of corporate income tax

Starting from 1 January 2008 the Bank has applied as its statutory accounting framework the International Financial Reporting Standards. Accordingly, the application of International Financial Reporting Standards provide the basis for the underlying records when an entity is subject to corporate tax. However, at the date of release of these financial statements there are limited amendments to the existing income tax law and respective guidelines on the tax on profit calculation which might offer guidance following the introduction of the International Financial Reporting Standard as a statutory framework. Management believes that the tax on profit provision calculation is prudent given the uncertainty of the Albanian tax environment and existing legislation in force and any future tax audit will not have a significant effect on the Bank's financial position, results of operations, or cash flows.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

6. Fair value disclosures

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Due from Banks accounts - Due from Banks accounts include inter-bank placements and items in the course of collection. As deposits are short term and at floating rates their fair value is considered to approximate their carrying amount.

Investment securities - Treasury bills and Government bonds are interest-bearing assets held to maturity. Because no active market exists for these securities, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Loans and advances to customers - Loans and advances are net of allowances for impairment. The Bank's loan portfolio has an estimated fair value approximately equal to its book value due to either their short-term nature or underlying interest rates (which are floating rates: T-Bills, LIBOR plus interest margin), which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year, by changing the base rate.

Due to other banks and customers-The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

Customer time deposits and Subordinated liabilities - Because no active market exists for these instruments, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

	Held-to-maturity	Available for sale	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
31 December 2008						
Cash and cash equivalents	3,962,495	-	717,736	2,141,553	6,821,784	6,821,784
Restricted balances with Central Bank	-	-	3,250,567	-	3,250,567	3,250,567
Loans and advances to banks	-	-	748,214	-	748,214	748,214
Loans and advances to customers	-	-	24,436,133	-	24,436,133	24,436,133
Available for sale securities	-	3,891,698	-	-	3,891,698	3,891,698
Deposits from banks	-	-	-	1,241,551	1,241,551	1,241,551
Deposits from customers	-	-	-	34,572,233	34,572,233	35,683,258
Subordinated liabilities	-	-	-	1,274,970	1,274,970	1,371,516
31 December 2007						
Cash and cash equivalents	4,974,736	-	992,461	2,359,239	8,326,436	8,326,436
Restricted balances with Central Bank	-	-	2,783,889	-	2,783,889	2,783,889
Loans and advances to banks	1,305,643	-	114,886	-	1,420,529	1,420,529
Loans and advances to customers	-	-	15,864,091	-	15,864,091	15,864,091
Investment securities	6,429,493	-	-	-	6,429,493	6,448,566
Deposits from banks	-	-	-	1,768,376	1,768,376	1,768,376
Deposits from customers	-	-	-	31,221,235	31,221,235	32,129,910
Subordinated liabilities	-	-	-	735,843	735,843	808,736

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

7. Interest income and interest expense

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income		
Loans and advances to customers	2,455,235	1,540,988
Investment securities	465,368	492,683
Cash and cash equivalents	175,257	228,931
Loans and advances to banks	39,720	35,922
Restricted cash with Central Bank	151,440	130,507
<i>Total interest income</i>	<i>3,287,020</i>	<i>2,429,031</i>
Interest expense		
Deposits from customers	(1,442,862)	(1,133,562)
Subordinated liabilities	(66,999)	(36,943)
Deposits from banks	(23,193)	(29,660)
<i>Total interest expense</i>	<i>(1,533,054)</i>	<i>(1,200,165)</i>
Net interest income	1,753,966	1,228,866

8. Fee and commission income and expense

	Year ended 31 December 2008	Year ended 31 December 2007
Fee and commission income		
Banking customer fees	209,583	139,935
Fee and commissions from lending services	8,155	1,585
<i>Total fee and commission income</i>	<i>217,738</i>	<i>141,520</i>
Fee and commission expense		
Treasury operations	(16,549)	(23,827)
Inter bank transaction fees	(4,911)	(4,087)
Other	(9,381)	(1,145)
<i>Total fee and commission expense</i>	<i>(30,841)</i>	<i>(29,059)</i>
Net fee and commission income	186,897	112,461

Fee and commissions from lending services are other than fees included in determining the effective interest rate of loans and advances to customer at amortised cost.

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

9. Personnel costs

	Year ended 31 December 2008	Year ended 31 December 2007
Salaries	323,169	225,806
Social insurance	42,865	28,118
Bonuses and rewards	6,361	6,294
Other	12,746	5,392
	385,141	265,610

10. Administrative expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Rent	108,112	70,834
Insurance and surveillance	93,748	66,314
Marketing and subscriptions	88,934	80,507
Utilities	52,762	37,178
Third party fees	44,428	13,897
Maintenance	22,674	25,202
Transport and travel	12,223	13,178
Supplies	6,440	6,725
Other	42,772	35,596
	472,093	349,431

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

11. Income tax expense

	Year ended 31 December 2008	Year ended 31 December 2007
Current tax	102,174	135,417
Deferred tax expense/(benefit)	(18,423)	3,242
Income tax expense	83,751	138,659

In accordance with Albanian tax regulations, the applicable income tax rate for 2008 is 10% (2007: 20%). The reconciliation of effective income tax rate is summarised as follows:

	%	Year ended 31 December 2007	%	Year ended 31 December 2006
Profit before tax in income statement		822,684		516,730
Prima facie tax calculated at	10	82,268	20	103,346
Non tax deductible expenses	0	1,483	0	2,024
Effect of tax rate reduction	0	-	6	33,289
Income tax expense	10	83,751	26	138,659

Tax returns are filed annually but the profits or losses declared for tax purposes remain provisional until such time as the tax authorities examine the returns and the records of the taxpayer and a final assessment is issued. Albanian tax laws and regulations are subject to interpretations by the tax authorities.

12. Cash and cash equivalents

	31 December 2008	31 December 2007
Cash on hand	2,318,281	2,359,239
Cash in transit	-	290,463
Unrestricted balances with central bank	63,472	123,723
Current accounts with banks	477,536	578,275
Money market placements	3,962,495	4,974,736
	6,821,784	8,326,436

Cash in transit represented cash to be deposited in Raiffeisen Central Bank as at 31 December 2007.

13. Restricted balances with Central bank

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

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

14. Loans and advances to banks and financial institutions

	31 December 2008	31 December 2007
Resident banks and financial institutions	329,075	1,420,529
Non-resident banks and financial institutions	419,139	-
Total	748,214	1,420,529

15. Loans and advances to customers

Loans and advances to customers consisted of the following:

	31 December 2008	31 December 2007
Loans and advances to customers at amortized cost	24,991,324	16,074,045
Loan loss allowances for impairment	(555,191)	(209,954)
	24,436,133	15,864,091

Loans and advances to customers by sector can be detailed as follows:

	31 December 2008	31 December 2007
Corporate lending	15,424,483	11,120,047
Mortgage lending	7,117,862	3,579,994
Private individuals lending	2,023,099	1,332,922
Finance leases	410,285	14,601
Other secured lending	15,595	26,481
	<i>24,991,324</i>	<i>16,074,045</i>
Impairment allowance	(555,191)	(209,954)
	24,436,133	15,864,091

Movements in the provision for loan losses can be detailed as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Balance at the beginning of the year	209,954	182,377
Allowance for loan loss impairment	341,528	34,716
Written offs	(1,252)	(7,208)
Effect of foreign currency movements	4,961	69
Balance at the end of the year	555,191	209,954

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

16. Investment securities

Investment securities are held-to-maturity and are comprised as follows:

	31 December 2008	31 December 2007
Treasury Bills	2,101,145	4,835,544
Government bonds	1,790,553	1,593,949
Total	3,891,698	6,429,493

16.1 Available for sale securities

As at 31 December 2008 the Bank reclassified its Held-to-Maturity investment securities as Available-for-Sale. The Bank identified that during 2008 more than a significant amount of investments were sold prior to their maturity due to the Bank financial resources necessities. Based on the facts and circumstances the Bank management considered that a tainting situation arose and in accordance with IAS 39 these investment were classified as Available-for-Sale for a period of two years.

Treasury bills

The effective interest rates on treasury bills for the year ended 31 December 2008 fluctuated between 7.20% and 8.65% p.a.. Details of treasury bills by type are presented as follows:

31 December 2008					
	<i>Nominal value</i>	<i>Deferred discount</i>	<i>Book value</i>	<i>Revaluation difference</i>	<i>Fair value</i>
6 months	231,881	(813)	231,068	67	231,135
12 months	1,903,283	(36,228)	1,867,055	2,955	1,870,010
	2,135,164	(37,041)	2,098,123	3,022	2,101,145

Government Bonds

As at 31 December 2008, the Bank had a portfolio of 2-year, 3-year and 5-year government bonds, denominated in the local currency (Lek). Interest is received semi annually at a respective coupon rate of 8.25% (2-year), 8.2%, 8.6% and 8.7% (3-year), 9.06%, 9.08%, 9.65%, 9.83%, 10.14% and 10.42% (5-year) Details on government bonds are as follows:

31 December 2008						
	<i>Nominal value</i>	<i>Deferred premium/ (discount)</i>	<i>Accrued interest</i>	<i>Book value</i>	<i>Revaluation difference</i>	<i>Fair value</i>
24 months	253,333	39	7,694	261,066	(247)	260,819
36 months	150,000	(546)	3,792	153,246	494	153,740
60 months	1,347,561	-	34,486	1,382,047	(6,053)	1,375,994
	1,750,894	(507)	45,972	1,796,359	(5,806)	1,790,553

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

16.2 Held to maturity securities

Treasury bills

The effective interest rates on treasury bills for the year ended 31 December 2007 fluctuated between 5.65% and 8.35% p.a.. Details of treasury bills by type are presented as follows:

31 December 2007			
	<i>Nominal value</i>	<i>Deferred discount</i>	<i>Book value</i>
3 months	550,000	(3,761)	546,239
6 months	1,185,739	(21,707)	1,164,032
12 months	3,222,928	(97,655)	3,125,273
	4,958,667	(123,123)	4,835,544

Government Bonds

As at 31 December 2007, the Bank had a portfolio of 2-year, 3-year and 5-year government bonds, denominated in the local currency (Lek). Interest is received semi annually at a respective coupon rate 8.25% (2-year), 8.2%, 8.6% and 8.7% (3-year), 9.65%, 9.83%, 10.14% and 10.42% (5-year) Details on government bonds are as follows:

31 December 2007				
	<i>Nominal value</i>	<i>Deferred premium/ (discount)</i>	<i>Accrued interest</i>	<i>Book value</i>
24 months	253,333	385	7,667	261,385
36 months	150,000	(1,043)	4,170	153,127
60 months	1,150,000	-	29,437	1,179,437
	1,553,333	(658)	41,274	1,593,949

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

17. Property and equipment

	Buildings	Electronic and office equipment	Vehicles, Furniture & Fittings	Leasehold improvements	Prepayments for fixed assets	Total
Cost						
Balance at 1 January 2007	286,839	263,169	58,291	84,209	-	692,508
Acquisitions	-	126,685	23,197	49,932	5,180	204,994
Disposals	-	(1,772)	(7,055)	-	-	(8,827)
Balance at 31 December 2007	286,839	388,082	74,433	134,141	5,180	888,675
Acquisitions	-	120,097	42,685	51,119	-	213,901
Transfers	-	5,180	-	-	(5,180)	-
Disposals	-	(8,803)	(199)	-	-	(9,002)
Balance at 31 December 2008	286,839	504,556	116,919	185,260	-	1,093,574
Depreciation						
Balance at 1 January 2007	(23,547)	(75,831)	(12,252)	(14,371)	-	(126,001)
Depreciation for the year	(14,342)	(50,701)	(9,815)	(13,162)	-	(88,020)
Disposals	-	617	2,658	-	-	3,275
Balance at 31 December 2007	(37,889)	(125,915)	(19,409)	(27,533)	-	(210,746)
Depreciation for the year	(14,342)	(67,030)	(13,972)	(18,408)	-	(113,752)
Disposals	-	5,507	114	-	-	5,621
Balance at 31 December 2008	(52,231)	(187,438)	(33,267)	(45,941)	-	(318,877)
Balance at 1 January 2007	263,292	187,338	46,039	69,838	-	566,507
Balance at 31 December 2007	248,950	262,167	55,024	106,608	5,180	677,929
Balance at 31 December 2008	234,608	317,118	83,652	139,319	-	774,697

No impairment losses were incurred for the years ended 31 December 2008 and 2007 for property and equipment.

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Notes to the financial statements for year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

18. Intangible assets

	Software	Patents and licenses	Total
Cost			
Balance at 1 January 2007	53,190	2,750	55,940
Acquisitions	6,381	8,755	15,136
Balance at 31 December 2007	59,571	11,505	71,076
Acquisitions	1,652	6,091	7,743
Disposals	-	(6)	(6)
Balance at 31 December 2008	61,223	17,590	78,813
Amortization			
Balance at 1 January 2007	(24,914)	(849)	(25,763)
Amortization for the year	(7,902)	(950)	(8,852)
Disposals	-	-	-
Balance at 31 December 2007	(32,816)	(1,799)	(34,615)
Amortization for the year	(6,723)	(1,399)	(8,122)
Disposals	-	2	2
Balance at 31 December 2008	(39,539)	(3,196)	(42,735)
Carrying amounts			
Balance at 1 January 2007	28,276	1,901	30,177
Balance at 31 December 2007	26,755	9,706	36,461
Balance at 31 December 2008	21,684	14,394	36,078

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Notes to the financial statements for the year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

19. Deferred tax asset

Deferred tax assets and liabilities are attributable to the following:

	2008			2007		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Share capital	41,542	-	41,542	41,542	-	41,542
Deferred loan disbursement fees	15,783	-	15,783	7,120	-	7,120
Allowance for loan losses	-	(3,580)	(3,580)	-	(13,450)	(13,450)
Allowance for guarantee losses	-	(2,034)	(2,034)	-	(1,973)	(1,973)
Start up costs	-	-	-	50	-	50
Other	1	-	1	-	-	-
Net deferred tax assets	57,326	(5,614)	51,712	48,712	(15,423)	33,289

The deferred tax assets have been recorded net of the deferred tax liabilities as the amounts are due to the same tax authority and are expected to be settled on a net basis. As at 31 December 2008 and 2007 all the deferred tax assets and liabilities above are recognised in the financial statements. As previously discussed in note 5(iii) due to the limited amendments to the tax legislation there are uncertainties if the deferred tax assets will be realised in the future, however management believes that there is remote likelihood that no future benefits will arise.

As of 31 December 2008 deferred tax liabilities have not been recognised on investment as Available for Sale which if recognised would be Lek 278 thousand with a corresponding reduction of revaluation reserve. Related tax legislation provides that changes to fair value of financial instruments are considered as not taxable incomes or undeductible expenses.

20. Assets held for sale

Other assets held for sale represent properties acquired through a collateral execution during 2008 and 2007, which the Bank intends to sell in the short term.

21. Other assets

	31 December 2008	31 December 2007
VAT deductible	78,870	484
Transactions as agent (State Treasury)	74,227	84,518
Debtors	37,712	30,295
Prepaid expenses	6,238	11,196
Suspense accounts	-	14,376
	197,047	140,869

Transactions as agent represent services provided by the Bank on behalf of the State Treasury. As at 31 December 2008 and 2007 asset and liability amounts are off-set for each counterparty representing the amount to be received from the State Treasury by virtue of the agent contract and are expected to be settled on net basis. The Suspense accounts represent payments in transit to be executed as of 31 December 2007.

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Notes to the financial statements for the year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

22. Due to banks and other financial institutions

Due to banks and other financial institutions are detailed as follows:

	31 December 2008	31 December 2007
Current accounts:		
Resident	531,201	482,221
Non resident	89,726	1,250
Money market deposits:		
Resident	408	99,150
Non resident	620,216	1,185,755
	1,241,551	1,768,376

23. Due to customers

Due to customers are detailed as follows:

	31 December 2008	31 December 2007
Private individuals	24,420,089	23,312,599
Corporate	6,939,942	4,952,800
Sovereign governments	2,536,528	2,181,369
Other customers	675,674	774,467
	34,572,233	31,221,235

Due to customers by currency are detailed as follows:

	31 December 2008	31 December 2007
Current accounts		
Local currency	3,195,953	3,109,720
Foreign currency	2,481,565	2,441,217
Saving accounts		
Local currency	902,370	166,858
Foreign currency	380,989	171,945
Term deposits		
Local currency	15,509,743	13,822,690
Foreign currency	11,575,614	10,191,521
Other customers accounts		
Local currency	91,664	206,700
Foreign currency	434,335	1,110,584
	34,572,233	31,221,235

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Notes to the financial statements for the year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

24. Subordinated debt

Subordinated debt can be detailed as follows:

	31 December 2008	31 December 2007
Mr. Aleksander Pilo	-	370,503
Mr. Renis Tershana	-	121,780
SECO	515,811	243,560
European Fund for Southeast Europe	759,159	-
	1,274,970	735,843

On 27 December 2004 the Shareholders Assembly approved the borrowing of a subordinated debt of USD 3,000 thousand from one of its shareholders, Aleksander Pilo. In addition on 28 June 2006 the Shareholders' Assembly approved a new borrowing as subordinated debt of Euro 2 million from two shareholders, Mr. Aleksander Pilo and Mr. Renis Tershana. The debt in USD bears interest of 8.5% p.a., while the subordinated debt in EUR bears interest of 6% p.a. and is called upon prior consent of the Bank of Albania. Also, this debt can be converted to share capital without changing the existing ownership structure.

On 12 December 2007 the General Assembly of Shareholders approved the borrowing of a subordinated debt of Euro 2 million from State Secretariat for economic Affairs (SECO) acting through the Swiss Investment Fund for Emerging Markets (SIFEM). The debt in Euro bears interest of six-month Euribor + margin of 3% p.a. This debt is to be repaid with equal instalments of Euro 666,666 on 31 December 2013, 2014, 2015, or the Bank can repay it prior to its maturity. Notwithstanding the above schedule of payments, in the event that there is a change in the control of the Bank, the debt shall be immediately repaid to SECO.

As at 31 December 2007 the outstanding Subordinated Debt was EUR 4,000,431 and USD 3,000,000.

On 8 February 2008, The General Assembly of Shareholders approved the borrowing of a subordinated debt of Euro 3 million from European Fund for Southeast Europe. On 31 July 2008, an additional amount of Euro 3 Million was disbursed to the Bank. The debt bears a fixed interest rate of 7.85% p.a. until the 5th anniversary of the day of the disbursements which thereafter is increased to 12.85% p.a. Any payment under the debt shall be repaid on the 10th anniversary of the disbursement; nevertheless, the Bank can repay the loan on any March 22 or September 22 following the 5th anniversary of the disbursement upon 90 days prior notice.

On 11 November 2008, The General Assembly of Shareholders approved the borrowing of a subordinated debt of Euro 2,120,000 from SECO. The debt bears a fixed interest rate 6.2% p.a. As at 31 December 2008 the outstanding Subordinated Debt was EUR 10,298,626.

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Notes to the financial statements for the year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

25. Other liabilities

Other liabilities are comprised of the following:

	31 December 2008	31 December 2007
Suppliers and accrued payables	25,659	19,613
Payments in transit	-	27,309
	25,659	46,922

Payments in transit represent mainly payments to be performed on behalf of third parties.

26. Share capital

The share capital is composed of type A shares and normal shares both with a nominal value of 1 USD for each share. The subscribed share capital contributed by the shareholders of the Bank is denominated in USD and EUR and is reported in the financial statements with the historical rates of exchange. As at 31 December 2008 the subscribed share capital amounts to USD 14,390,490 and EUR 2,015,709. All shares rank equally towards Bank's residual assets and are owned by the following shareholders:

	31 December 2008	31 December 2007
	(%)	(%)
Mr. Aleksander Pilo	23.64	15.15
B.F.S.E Holding BV	22.17	-
Mr. Renis Teršana	17.30	18.69
Mr. Artan Santo (Executive Director)	7.88	5.57
Mrs. Monika Milo (Vice Executive Director)	6.30	5.64
"Bushati" Company	4.73	3.34
Emigres S.l.	4.15	5.00
Mr. Maltin Korkuti (Vice Executive Director)	3.94	2.79
SECO (SIFEM-IT)	3.17	-
Mr. Sejdin Zere	3.15	1.25
Mr. Asllan Grezda	1.17	1.41
Mrs. Elena Daci	0.79	0.95
Mr. Leonat Koco	0.79	0.95
Mrs. Jorgji Balli	0.82	-
Credins Institution SH.A.	-	39.26
Total	100	100

The paid up capital of the Bank as of 31 December 2008 is Lek 2,119,762 thousand translated at the historical rate of exchange (31 December 2007: Lek 1,598,110 thousand) with a nominal value of USD 1 each.

A reconciliation of share capital at the beginning and end of the year are as follows:

	Normal shares		Type A shares	
	2008	2007	2008	2007
At the beginning of the year	14,390,491	11,981,402	-	-
Increase in number of shares	3,464,520	2,409,089	2,957,059	-
At the end of the year	17,855,011	14,390,491	2,957,059	-

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Notes to the financial statements for the year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

27. General Reserve

On 10 April 2008, upon the approval of the General Shareholders Assembly, the Bank created two reserves through an appropriation from retained earnings being the general reserve, which represents the risk weighted assets reserve, as required by the Bank of Albania, and the statutory reserve, as required by the by-laws of the Bank. The general reserve is calculated as 1.25% of the risk weighted assets, whereas the statutory reserve is calculated as 5% of annual profit after tax as measured under previous GAAP.

	31 December 2008	31 December 2007
General reserve	232,041	-
Statutory reserve	26,577	-
	258,618	-

Other comprehensive items

Prior to transition to IFRS the Bank has capitalised its accumulated profit as an increase in share capital. Upon the transition to IFRS the resulting accumulated difference between the retained earning as per previous GAAP and IFRS was classified within equity as other comprehensive items.

28. Related party transactions

The Bank reports as related parties the shareholders of the bank and their close relatives; the supervisory council members and their close relatives; its management members and their close relatives. The outstanding balances are translated in Lek equivalent and also are disclosed the original interest rates. The transaction values that have occurred with the related parties of the Bank are as follows:

Related party	Transaction	Year ended 31 December 2008	Year ended 31 December 2007
Shareholder	<i>Lease expense</i>	16,388	5,261
Shareholder	<i>Purchase of goods</i>	-	2,122
Affiliate	<i>Sale of assets</i>	-	4,444
Affiliate	<i>Leasing income</i>	(1,434)	(629)

For the year ended 31 December 2008 and 2007 outstanding balances are detailed as follows:

Type of transaction	31 December 2008	Interest rates (in % p.a.)
Credit line	(171,016)	10.27
Overdrafts	(25,468)	0
Term Loans	(585,226)	0.8 - 10.39
Current accounts	625,110	0.5-0.8
Term deposits	169,681	0.8 - 7
Subordinated debt	(510,056)	7.73
Guarantees	(81,911)	n/a
Collateral placed in favour of the	(2,060,811)	n/a

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Notes to the financial statements for the year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

28. Related party transactions (continued)

<i>Type of transaction</i>	<i>31 December 2007</i>	<i>Interest rates (in % p.a.)</i>
Credit line	115,931	8.72 - 8.73
Overdrafts	2,503	10.00
Term Loans	594,724	4.53 - 16.91
Current accounts	(446,382)	0.20 - 0.80
Term deposits	(57,004)	3.00 - 7.00
Subordinated debt	(492,230)	6.00 - 8.50
Special fund	84,992	n/a
Guarantees	(1,452,972)	n/a
Collateral placed in favour	115,931	8.72 - 8.73

In addition the key management remuneration has been as follows:

Year ended 31 December 2008	<i>Salaries</i>	<i>Bonuses</i>
Key management remuneration	48,377	7,603
Supervisory Council remuneration	2,260	220
Year ended 31 December 2007		
Key management remuneration	37,876	9,287
Supervisory Council remuneration	2,945	308

29. Commitments and contingent liabilities

Commitments and contingencies include guarantees extended to customers and received from credit institutions. The balance is comprised of the following:

	31 December 2008	31 December 2007
<i>Contingent Assets</i>		
Guarantees in favour of customers	2,426,805	2,334,114
Commitments in favour of customers	603,880	348,598
<i>Contingent liabilities</i>		
Guarantees pledged from credit customers	2,166,323	1,539,428
Guarantees received from credit customers	100,843,029	59,085,095

Guarantees and letters of credit

Guarantees received from the customers include cash collateral, mortgages, inventory and other assets pledged in favour of the bank from its borrowers. The Bank issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans granted. Based on management's estimate, no material losses related to guarantees and letters of credit outstanding at 31 December 2008 will be incurred.

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Notes to the financial statements for the year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

29. Commitments and contingent liabilities (continued)

Lease commitments

The Bank leases office premises in Tirana, Durres, Fier, Vlora, Lezha, Elbasan, Shkodra, Korca and Vora mostly under ten year operating leases. Such future commitments for the years ended 31 December 2008 and 2007 are detailed as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Not later than 1 year	125,116	94,094
Later than 1 year and not later than 5 years	481,855	335,712
Later than 5 years	333,216	308,440
Total	940,187	738,246

Litigation and claims

Dispute with tax authorities

During 2008, the Bank was subject to an audit by the Albanian tax authorities on the Value Added Tax (for the period January 2004 – September 2008) and corporate income taxes (for the years 2004 – 2007). At the end of December 2008, the tax audit was completed and a Tax Reassessment Notification issued to the Company on 30 December 2008. The total assessment amounts to Lek 39,957 thousand, including interest and penalties.

The Bank is following all legal steps to defend itself as it believes the findings are neither in accordance with the Albanian legislation nor applicable withholding tax legislation. The Bank has presented the case at the administrative appeal and its waiting the scheduling of the hearing from the General Tax Directorate. In accordance with tax procedures the Bank paid during 2009 an amount of approximately Lek 19,979 thousand and is expecting a hearing to appeal at the General Tax Directorate

Based on inquiries and analysis of the Bank management and in house lawyers the management believes that there is no need to recognise a tax risk provision related to this assessment as at 31 December 2008.

Other litigations

Further, the Company is subject to other legal proceedings, claims, and litigation arising in the ordinary course of business. Management believes that the ultimate costs to resolve these matters will not have a material adverse effect on Bank's financial position, results of operations, or cash flows.

30. Explanation of transition to IFRSs

As stated in note 2(a), these are the Bank's first financial statements prepared in accordance with IFRSs. The accounting policies set out in note 2 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, and financial performance is set out in the following tables and the notes that accompany the tables:

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Notes to the financial statements for the year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

30. Explanation of transition to IFRS's (continued)

Reconciliation of equity

	Note	Effect of transition to IFRSs		Effect of transition to IFRSs		IFRSs	
		Previous GAAP	1 January 2007	IFRSs Previous GAAP	31 December 2007		
Assets							
Cash on hand and cash equivalents		6,993,327	-	6,993,327	8,326,436	-	8,326,436
Restricted balances with Central Bank		2,176,313	-	2,176,313	2,783,889	-	2,783,889
Loans and advances to banks		408,269	-	408,269	1,420,529	-	1,420,529
Loans and advances to customers, net	a ,b	10,806,968	249,299	11,056,267	15,800,799	63,292	15,864,091
Investment securities		5,570,455	-	5,570,455	6,429,493	-	6,429,493
Property and equipment		566,507	-	566,507	677,929	-	677,929
Intangible assets	c	30,903	(725)	30,178	36,958	(497)	36,461
Assets held for sale		-	-	-	7,280	-	7,280
Deferred tax assets	h	-	36,531	36,531	-	33,289	33,289
Other assets	d	370,773	(2,867)	367,906	140,869	-	140,869
Total assets		26,923,515	282,238	27,205,753	35,624,182	96,084	35,720,266
Liabilities							
Deposits from banks		1,068,728	-	1,068,728	1,768,376	-	1,768,376
Deposits from customers		23,826,380	-	23,826,380	31,221,235	-	31,221,235
Subordinated liabilities		530,120	-	530,120	735,843	-	735,843
Special fund	e	48	197,815	197,863	-	-	-
Current tax liabilities		23,868	-	23,868	33,018	-	33,018
Other liabilities	g	32,934	(10,940)	21,993	66,651	(19,729)	46,922
Total liabilities		25,482,078	186,875	25,668,952	33,825,123	(19,729)	33,805,394
Equity							
Issued capital		1,369,415	-	1,369,415	1,598,110	-	1,598,110
Share premium		84,814	-	84,814	84,814	-	84,814
Capital translation reserve	f	(241,486)	241,486	-	(415,418)	415,418	-
Other comprehensive items		-	(113,242)	(113,242)	-	(146,123)	(146,123)
Retained earnings		228,695	(32,881)	195,814	531,553	(153,482)	378,071
Total equity		1,441,438	95,363	1,536,801	1,799,059	115,813	1,914,872
Total equity and liabilities		26,923,515	282,238	27,205,753	35,624,182	96,084	35,720,266

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Notes to the financial statements for the year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

30. Explanation of transition to IFRS's (continued)

Reconciliation of equity (continued)

a) 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 *loans and advances to customers, net* respectively by Lek 284,814 thousand and Lek 134,494 thousand and decrease *loan loss impairment charge* by the same amount.

b) Under previous GAAP, loans and advances to customers were subsequently recognised at amortised cost with nominal interest rate. As of 31 December 2006 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 *loans and advances to customers* as at 1 January 2007 and 31 December 2007 respectively by Lek 35,515 and Lek 71,202 resulting in a net increase of Lek 35,688 thousand in the income statement. The fee commission income would be decreased by Lek 73,590 thousand and the interest income would be increased by Lek 37,902 thousand. Also as at 31 December an amount of Lek 36,290 thousand erroneously classified fee and commission income was reclassified as interest income.

c) Start-up costs of Lek 497 thousand 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 725 thousand at 1 January 2007 and by Lek 497 thousand at 31 December 2007 and to decrease by Lek 228 thousand amortization expenses for the year ended 31 December 2006.

d) 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 2,865 thousand as of 1 January 2007 and as of 31 December 2007 the effect is nil.

e) During the year 2006 a repayable grant was granted to the Bank by its shareholders amounting Lek 197,863 thousand. Under the previous GAAP almost all the portion of this grant amounting Lek 197,815 thousand was recognised in profit and loss under coverage of bad loans from the special fund. As of 1 January 2007 the amount credited in the income statement is reversed resulting in an increase of the *special fund* by Lek 197,815 thousand and thus in a decrease of the *coverage of bad loans* from the special fund for the same amount.

f) Under the previous GAAP, the share capital contributed in currencies other than the reporting currency is translated with the historical rate of exchange and the translation effects arising from changes in exchange rates as at the reporting date are reflected in equity under *the translation reserve*. Under IFRSs such effects are reflected in *retained earnings* through income statement. As of 1 January 2007 and 31 December 2007 the amounts of Lek 241,486 thousand and 415,418 thousand is transferred to retained earnings.

The effect of the year due to changes in the exchange rates was recognised under profit and loss by decreasing the profit/(losses) from *foreign exchange transactions* by Lek 173,932 thousand.

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Notes to the financial statements for the year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

30. Explanation of transition to IFRSs (continued)

Notes to the reconciliation of equity (continued)

- g) As at 1 January 2007, the bank had raised a provision fund of Lek 10,940 thousand in accordance with the Regulation on Credit Risk Management for off balance-sheet items such as unsecured Letters of Credit and Letters of Guarantees. Under IFRS such provisions are not recognised, unless there is objective evidence for incurred losses, thus this provision is reversed by reducing by Lek 10,940 the *Provision for guarantees* given to customers under other liabilities, reducing by Lek 10,906 thousand the respective charge in the income statement and with of Lek 34 thousand in the *profit from exchange transactions*. As at 31 December 2007 the amount of provision reversed is Lek 19,729 thousand, reducing by Lek 20,351 thousand the respective income and increasing by Lek 622 thousand the foreign exchange net result.
- h) The above changes increased (decreased) the deferred tax asset as follows based on a tax rate of 20% for 1 January 2007 and 10% for 31 December 2007:

	Note	1 January 2007	31 December 2007
Loans and advances to customers	A	(56,962)	(13,450)
Loans and advances to customers	B	7,103	7,120
Intangible assets	C	145	50
Other assets	D	573	-
Special fund	E	39,563	-
Translation reserve	F	48,297	41,542
Other liabilities	G	(2,188)	(1,973)
Increase in deferred tax asset		36,531	33,289

The effect on the income statement for the year ended 31 December 2007 was to increase the previously reported tax charge for the period by Lek 3,242 thousand.

- i) The effect of the above adjustments on retained earnings is as follow:

	Note	1 January 2007	31 December 2007
Loans and advances to customers	A	284,814	134,494
Loans and advances to customers	B	(35,515)	(71,202)
Intangible assets	c	(725)	(497)
Other assets	d	(2,867)	-
Special fund	e	(197,815)	(415,418)
Translation reserve	f	(241,486)	-
Other liabilities	g	10,940	19,729
Deferred tax asset	h	36,531	33,289
Total adjustment to equity		(146,123)	(299,605)

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Notes to the financial statements for the year ended 31 December 2008

(amounts in Lek'000, unless otherwise stated)

30. Explanation of transition to IFRSs (continued)

Reconciliation of profit for the year 2007

	Note	Previous GAAP	Effect of transition to IFRSs	IFRSs
Interest income	b	2,354,839	74,192	2,429,031
Interest expense		<u>(1,200,165)</u>	-	<u>(1,200,165)</u>
Net interest income		1,154,674		1,228,866
Fee and commission income	b	251,400	(109,880)	141,520
Fee and commission expense		<u>(29,059)</u>	-	<u>(29,059)</u>
Net fee and commission income		222,341		112,461
Other expense, net		(2,683)	-	(2,683)
Profit/(loss) from foreign exchange transactions	f,g	<u>99,269</u>	(174,554)	<u>(75,285)</u>
		96,586		(77,968)
Provision for loan losses	a	115,604	(150,320)	(34,716)
Coverage of bad loans from the special fund	e	(197,815)	197,815	-
Provision on guarantees given to customers	g	(9,412)	9,412	-
Amortization of intangible assets	c	(9,081)	228	(8,853)
Depreciation of property and equipment		(88,020)	-	(88,020)
Personnel expenses		(265,611)	-	(265,611)
Administrative expenses	d	<u>(352,296)</u>	2,867	<u>(349,429)</u>
		(806,631)		(746,629)
Profit before taxes		666,970		516,730
Income tax expense	h	(135,417)	(3,242)	(138,659)
Profit for the period		531,553		378,071

31. Post balance sheet events

a) Tax Legislation

Effective from 1 January 2009 the Albanian Parliament approved Law No.10072 dated 09 February 2009 on Some Amendments to Law No.8438 dated 28 December 1998 on Income Tax which is expected to be published and enacted. With these amendments, the Republic of Albania will incorporate any impact due to the introduction of the International Financial Reporting Standards or the National Accounting Standards as the basis for the underlying records when an entity is subject to corporate income tax.

b) Other

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