

CREDINS BANK S.H.A.

Financial Statements as at

31 December 2007

(with independent auditor's report thereon)



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Independent Auditors' Report

To the shareholders of
Banka Credins Sh.a.

Tirana, 26 March 2008

We have audited the accompanying balance sheet of Banka Credins Sh.a. (the "Bank") as of 31 December 2007, and the related statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with article 38 of the Banking Law of the Republic of Albania Law, No. 8365, dated 2 July 1998. 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 2007, and of its financial performance and its cash flows for the period then ended in accordance with article 38 of the Banking Law of the Republic of Albania.

Emphasis of Matter

Without qualifying our opinion we draw attention to notes 6 and 13 to the financial statements. In 2006, the Bank received a special purpose financing from its shareholders to cover an impairment loss of a specific credit exposure. The Bank recognized this special purpose financing as a liability in the balance sheet at 31 December 2006 and the portion of the special fund that was used to cover the impairment loan loss provision was recognized in the income statement in 2006. During 2007 the specific credit exposure which had been impaired was repaid and the shareholders were reimbursed the special purpose financing relating to this credit exposure. The Bank disclosed the release of special funds by reducing the loan loss provision charge in the income statement. As there is no clear guidance on the treatment of the special fund contributed by, and redeemed to, the shareholders in the accounting legislation applicable to banks in Albania, the Management believes this approach presents a fairer presentation in the financial statements of the contribution and reimbursement of special financing from the shareholders of the Bank.

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CREDINS BANK SH.A.

Balance sheet as at 31 December 2007

(in Lek '000)

	Notes	31 December 2007	31 December 2006
Assets			
Cash and Central Bank	3	6,246,972	4,730,681
Due from banks	4	5,954,871	4,847,228
Investment securities	5	6,429,493	5,570,455
Loans and advances to customers	6	15,981,991	10,918,460
Intangible assets	7	36,958	30,903
Property and equipment	8	571,291	496,669
Other assets	9	547,900	946,026
Total assets		35,769,476	27,540,422
Liabilities			
Due to banks and other financial institutions	10	1,768,376	1,068,728
Due to customers	11	30,809,321	23,564,802
Statistical provision	6	181,194	111,492
Other liabilities	12	475,682	823,793
Special fund	13	-	48
Subordinated debt	14	735,843	530,120
Total liabilities		33,970,416	26,098,983
Shareholder's equity			
Paid-up capital	15	1,598,111	1,369,415
Share premium	15	84,814	84,814
Translation reserve	16	(415,418)	(241,486)
Retained earnings		531,553	228,696
		1,799,060	1,441,439
Total liabilities and shareholder's equity		35,769,476	27,540,422

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 29.

CREDINS BANK SH.A.

Income statement for the year ended 31 December 2007

(in Lek '000)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	17	2,355,153	1,477,670
Interest expense	18	<u>(1,200,479)</u>	<u>(792,606)</u>
Net interest income		1,154,674	685,064
Fee and commission income	19	251,400	174,101
Fee and commission expense	19	<u>(29,059)</u>	<u>(29,637)</u>
Net fee and commission income		222,341	144,464
Other income/(expenses), net		3,493	918
Profit/(losses) from foreign exchange transactions		<u>100,301</u>	<u>107,274</u>
		103,794	108,192
Provision for loan losses	6, 13	(8,669)	(300,693)
Statistical provision	6	(73,543)	(52,213)
Loans written off	6	(7,208)	-
Coverage of bad loans from the special fund	13	-	197,815
Provision on guarantees given to customers	12	(9,411)	(10,907)
Amortization of intangible assets	7	(9,080)	(8,936)
Depreciation of property and equipment	8	(74,857)	(57,479)
Personnel expenses	20	(265,611)	(176,992)
Administrative expenses	21	<u>(365,458)</u>	<u>(239,551)</u>
		(813,837)	(648,956)
Profit before taxes		666,972	288,764
Income tax expense	22	<u>(135,419)</u>	<u>(60,068)</u>
Net profit		<u>531,553</u>	<u>228,696</u>

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 29.

CREDINS BANK SH.A.

Statement of changes in equity for the year ended 31 December 2007

(in Lek '000)

	Paid-up capital	Share premium	Translation reserve	Retained earnings	Total
Balance at 31 December 2005	1,237,745	-	(138,331)	75,273	1,174,687
Change in translation reserve	-	-	(103,155)	-	(103,155)
Appropriation of retained earnings	75,273	-	-	(75,273)	-
Increase of paid-up capital	56,397	84,814	-	-	141,211
Net profit for the year	-	-	-	228,696	228,696
Balance at 31 December 2006	1,369,415	84,814	(241,486)	228,696	1,441,439
Change in translation reserve	-	-	(173,932)	-	(173,932)
Appropriation of retained earnings	228,696	-	-	(228,696)	-
Net profit for the year	-	-	-	531,553	531,553
Balance at 31 December 2007	1,598,111	84,814	(415,418)	531,553	1,799,060

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 6 to 29.

CREDINS BANK SH.A.

Statement of cash flows for the year ended 31 December 2007

(in Lek '000)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Cash flows from operating activities			
Net profit for the period		531,553	228,696
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	8	74,857	57,479
Amortization	7	9,080	8,936
Disposal of fixed assets	8	5,583	5,508
Provision for loan losses	6	(122,741)	352,906
Loans written off	6	7,208	-
Provision for guarantees	12	9,411	10,907
Coverage of bad loans from the special fund	13	-	(197,815)
Translation adjustments		(173,932)	(103,155)
Cash flows provided by/(used in) operating profits before changes in operating assets and liabilities		341,019	363,462
Changes in operating assets and liabilities:			
Change in other assets		398,126	(491,308)
Change in loans and advances to customers		(4,878,296)	(5,072,476)
Change in due from banks and statutory reserve		(1,335,469)	(1,686,176)
Change in due to banks		699,648	527,869
Change in due to customers		7,244,471	8,883,144
Change in other liabilities		(357,521)	608,882
Net cash provided by operating activities		1,770,958	2,769,935
Cash flows from investing activities			
Purchases of property and equipment	8	(155,062)	(114,643)
Purchases of intangible assets	7	(15,135)	(6,366)
Purchases of treasury bills		(859,038)	(3,091,444)
Net cash used in investing activities		(1,029,235)	(3,212,453)

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Statement of cash flows for the year ended 31 December 2007 (continued)

(in Lek '000)

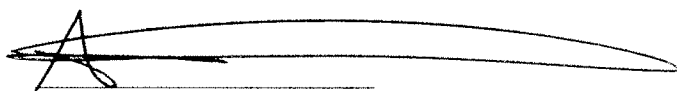
Cash flows from financing activities

Increase in special fund	13	-	197,863
Increase in subordinated debt		205,723	400,645
Proceeds from increase of share capital		-	56,397
Proceeds from increase of share premium		-	84,814
Net cash provided by financing activities		<u>205,723</u>	<u>739,719</u>


Increase in cash and cash equivalents		1,288,465	660,663
Cash and cash equivalents, beginning of the period		<u>6,110,984</u>	<u>5,450,321</u>
Cash and cash equivalents, end of the period	23	<u>7,399,448</u>	<u>6,110,984</u>

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 6 to 29.

These financial statements have been approved by the Directors of Credins Bank Sh.a. 20 March 2008 and signed on its behalf by:



Artan Santo
General Manager



Valentina Prodan
Chief Accountant

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2007

(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 2007, the Bank was operating through a head office located in Tirana, 22 branches located in Tirana, Durres, Fier, Lezha, Elbasan, Vlora, Shkodra, Korca, Vora and Shijak and 3 agencies in Tirana and in Durres Port.

As at 31 December 2007 the Bank had 275 employees (31 December 2006: 169 employees).

2. Significant accounting policies

(a) Basis of preparation

The accompanying financial statements have been prepared in accordance with article 38 of the Banking Law of the Republic of Albania Law, No. 8365, dated 2 July 1998.

The accompanying financial statements are expressed in Lek, the Albanian currency, into which all currencies utilised by the Bank in its operations are converted.

The Bank is required to keep its statutory books and records in Lek. As allowed by local legislation, capital that was originally recorded in US Dollars according to the historical exchange rates at the respective transaction dates, is presented for statutory purposes at the Lek equivalent of the original US Dollar balances. In accordance with local regulations, the difference between the Lek value of capital at the historic rate of exchange and the rate of exchange at the balance sheet date is recorded as a translation reserve in equity.

The financial statements are prepared on the historic cost basis and its accounting policies applied are the same as those applied for the year ended 31 December 2006.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with the Central Bank (except for the statutory reserve) and short-term highly liquid investments with maturities of three months or less when purchased.

(c) Treasury bills

Treasury bills are classified as held-to-maturity assets and are recorded at nominal value discounted for accrued discount. “Regular way” purchases are accounted for at settlement date. Treasury bills are considered to be investments held to maturity as the Bank has the intent to do so.

(d) Interest income and expense

Interest income and expense is recognised on an accruals basis, other than interest income on substandard, doubtful and loss loans, which is recognised on a cash basis.

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

2. Significant accounting policies (continued)

(e) Loans and advances to customers

Loans and advances to customers are reported at their gross values. A provision for potential loan losses is recorded as a liability in the Bank's balance sheet.

The credit policy and procedure of the Bank is in accordance with instructions issued by the Bank of Albania (Reg. no.101, dated 27.12.2006). The Bank classifies its loans in the following categories adopting the following loan loss provision rates:

<i>Type of loans</i>	<i>Loss Provision</i>	<i>Days in arrear</i>
Standard & Past Due	1%	up to 30 days
Special Mention	5%	31 to 90 days
Substandard	20%	91 to 180 days
Doubtful	50%	181 to 365 days
Loss	100%	Over 365 days

Loans and advances to customers are reported net of provisions for specific loan losses for loans classified as substandard, doubtful and loss. Provisions created for possible losses on loans classified as standard, past due and special mention are classified as a statistical provision on the liabilities side of the balance sheet.

The Management perform the classification based on the analysis in accordance with the priority and complementary characteristics being the following:

- (i) days in arrear
- (ii) financial situation of the borrower
- (iii) financial situation of the guarantor
- (iv) quality of collateral pledged

Provision for loan losses

The provision for loan losses is recorded as a contra asset against loans to customers in the balance sheet. This provision includes estimates covering probable losses on substandard, doubtful and loss loans.

Provision for risks and expenses

The provision for statistical risks on loans and guarantees is based on statistical information from proceeding years related to loan losses covering the populations of standard and special mention loans.

The provision for risks and expenses is recorded as a liability in the balance sheet.

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Notes to the financial statements for year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

2. Significant accounting policies (continued)

(f) Property, equipment and intangible assets

Property and equipment is stated at cost less accumulated depreciation, which are calculated on a declining balance method over the estimated useful life of the assets, except for depreciation of property and amortization of start up cost, which is based on the straight line method. The yearly depreciation and amortization rates are as follows:

Property	5%
Computer and related equipment	25%
Office equipment	20%
Furniture and fittings	20%
Software	25%
Start up costs	15%

(g) Expenses to be amortised

Expenses to be amortised are leasehold improvements and are stated at cost less accumulated amortisation. Amortisation is calculated on a straight line basis over the period of the lease. According to the regulations of the Bank of Albania, the net balance of leasehold improvements is recorded as part of other assets as expenses to be amortised.

(h) Commissions

Fee and commission income arises on financial services provided by the Bank and is recognized when the corresponding service is provided.

(i) Taxation

The Bank determines taxation at the end of the year 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.

(j) 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.

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Notes to the financial statements for year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

2. Significant accounting policies (continued)

(k) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at year-end. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction. 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 main currencies as at 31 December 2007 and 31 December 2006 were as follows:

	31 December 2007	31 December 2006
USD	82.89	94.14
EUR	121.78	123.85
GBP	166.02	184.65
CHF	73.65	77.17

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Notes to the financial statements for year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

3. Cash and Central Bank

Cash and Central Bank comprise cash on hand and balances with the Central Bank as follows:

	31 December 2007	31 December 2006
Cash on hand	2,359,239	2,146,496
Central Bank		
Current account	123,723	37,758
Term deposit	980,121	370,114
Statutory reserve	2,783,889	2,176,313
Total	6,246,972	4,730,681

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank maintains a minimum of 10% of customer deposits with the Central Bank as a statutory reserve. According to the Bank of Albania regulations 80% of this reserve is not available in the Bank's daily operations.

4. Due from banks

Due from banks is composed as follows:

	31 December 2007	31 December 2006
Correspondent banks:		
Current accounts		
Resident	5,291	4,783
Non-resident	534,435	688,257
Deposit accounts		
Resident	114,886	408,269
Non-resident	4,482,626	3,597,644
Guarantees		
Non-resident	817,633	148,275
Total	5,954,871	4,847,228

5. Investment securities

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

	31 December 2007	31 December 2006
Treasury Bills	4,835,544	5,368,598
Government bonds	1,593,949	201,857
Total	6,429,493	5,570,455

CREDINS BANK SH.A.

Notes to the financial statements for year ended 31 December 2007

(amounts in Lek'000, unless otherwise stated)

5. Investment securities (continued)

Treasury bills

The effective interest rates on treasury bills for the year ended 31 December 2007 fluctuated between 5.65% and 8.35% (2006: 5% and 8.7%). Details of treasury bills by type are presented as follows:

	31 December 2007			31 December 2006			
	<i>Nominal value</i>	<i>Deferred discount</i>	<i>Book value</i>	<i>Nominal value</i>	<i>Deferred discount</i>	<i>Book value</i>	
3 months	550,000	(3,761)	546,239	3 months	1,062,280	(6,987)	1,055,293
6 months	1,185,739	(21,707)	1,164,032	6 months	1,200,500	(26,546)	1,173,954
12 months	3,222,928	(97,656)	3,125,272	12 months	3,254,272	(114,921)	3,139,351
	4,958,667	(123,124)	4,835,543		5,517,052	(148,454)	5,368,598

Government Bonds

At 31 December 2007, the Bank maintained 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 coupon rate of 8.25% (2-year), 8.2%, 8.6% and 8.7% (3-year), 9.65%, 9.83%, 10.14% and 10.42% (5-year) (2006: 8.00%, 8.20%, 9.68%). Details of government bonds are as follows:

	31 December 2007				31 December 2006			
	<i>Nominal value</i>	<i>Deferred premium/ (discount)</i>	<i>Accrued interest</i>	<i>Book value</i>	<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	24 months	-	143	50,143
36 months	150,000	(1,043)	4,170	153,127	36 months	(713)	991	50,278
60 months	1,150,000	-	29,437	1,179,437	60 months	-	1,436	101,436
	1,553,333	(658)	41,274	1,593,949		(713)	2,570	201,857

CREDINS BANK SH.A.

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

(amounts in Lek'000, unless otherwise stated)

6. Loans and advances to customers

Loans and advances to customers, net consist of the following:

	31 December 2007	31 December 2006
Loans and advances to customers, gross	16,145,247	11,274,159
Provision for loan losses	(163,254)	(355,699)
Loans and advances to customers, net	15,981,991	10,918,460

Movements in the provision for loan losses for substandard, doubtful and lost loans are detailed as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
At the beginning of the year	355,699	53,206
Charge for the year	279,952	841,413
Reversal of provisions	(468,053)	(540,720)
Write off loans	(7,208)	-
Effect of foreign currency movement	2,864	1,800
At 31 December 2007	163,254	355,699

During the year ended 31 December 2007 the loan loss provision charge in the income statement is presented net of special fund released during the year (refer to note 13).

According to the regulations of the Bank of Albania, the provisions raised against standard and special mention loans are presented as a statistical provision under liabilities. Movements in the statistical provision for loan losses for standard and special mention loans are detailed as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
At the beginning of the year	111,492	61,235
Charge for the year	161,667	127,093
Write back in provision for risks and expenses for the year	(88,123)	(74,880)
Effect of foreign currency movement	(3,842)	(1,956)
At 31 December 2007	181,194	111,492

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

(amounts in Lek'000, unless otherwise stated)

6. Loans and advances to customers (continued)

Loans and advances to customers by industry are detailed as follows:

	31 December 2007	31 December 2006
Commerce	4,369,487	3,793,209
Construction	4,213,962	2,793,744
Consumer loans	2,546,554	783,289
Processing industry	1,620,944	1,317,187
Public, social and personal services	1,559,281	972,524
Hotels and restaurants	1,209,036	436,097
Production and distribution of electricity/water	113,278	58,725
Mining	80,595	20,103
Agriculture	67,581	38,570
Transport and telecommunication	63,433	215,695
Health and social activities	55,170	67,607
Real estate	28,468	163,730
Financial activities	18,010	1,893
Fishery	2,298	4,198
Other	197,150	607,588
Total	16,145,247	11,274,159

As at 31 December 2007 in the loans and advances to customers portfolio is included a balance of Lek 14,665 thousand (2006: nil) representing finance lease contracts disbursed by the Bank starting from December 2007. For this portfolio the Bank has provided provision of 1% of the outstanding balance.

7. Intangible assets

Intangible assets include software costs and start up costs made for the new branches premises and are composed as follows:

	Software installation	Start-up costs	Total
Historical Cost			
At 31 December 2006	53,191	3,891	57,082
Additions	6,380	8,755	15,135
At 31 December 2007	59,571	12,646	72,217
Accumulated amortization			
At 31 December 2006	(25,051)	(1,128)	(26,179)
Charge of the year	(7,903)	(1,177)	(9,080)
At 31 December 2007	(32,954)	(2,305)	(35,259)
Net book value			
At 31 December 2006	28,140	2,763	30,903
At 31 December 2007	26,617	10,341	36,958

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

(amounts in Lek'000, unless otherwise stated)

8. Property and equipment

Property and equipment consist of the following:

	Building	Electronic and office equipment	Vehicles, Furniture & Fittings	Assets under construction	Total
Cost					
At 31 December 2006	286,839	263,169	58,292	-	608,300
Additions	-	126,685	23,197	5,180	155,062
Disposals	-	(1,802)	(7,055)	-	(8,857)
At 31 December 2007	286,839	388,052	74,434	5,180	754,505
Accumulated amortization					
At 31 December 2006	(23,547)	(75,831)	(12,253)	-	(111,631)
Charge for the year	(14,342)	(50,701)	(9,815)	-	(74,858)
Disposals	-	617	2,658	-	3,275
At 31 December 2007	(37,889)	(125,915)	(19,410)	-	(183,214)
Net book value					
At 31 December 2006	263,292	187,338	46,039	-	496,669
At 31 December 2007	248,950	262,137	55,024	5,180	571,291

9. Other assets

Other assets at 31 December 2007 and 31 December 2006:

	31 December 2007	31 December 2006
Suspense accounts	307,488	23,238
Expenses to be amortized	112,067	74,678
Transactions as agent (State Treasury)	84,518	825,650
Debtors	30,295	14,789
Inventory	13,047	7,671
VAT reimbursable	485	-
Total	547,900	946,026

The Suspense accounts represent payments in transit to be executed. Transactions as agent represent services provided by the Bank on behalf of the State Treasury. As at 31 December 2007 and 31 December 2006 asset and liability amounts are off-set against each other for each counterparty representing the amount to be received from the State Treasury in virtue of the agent contract.

VAT reimbursable is related to the leasing services offered by the Bank for assets lent under finance lease.

Under inventory for an amount of Lek 7,280 thousand is included a property acquired by the Bank through legal process as collateral for bad loans, for which the Bank has the intention to sale in the short term.

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

(amounts in Lek'000, unless otherwise stated)

10. Due to banks and other financial institutions

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

	31 December 2007	31 December 2006
Current accounts:		
Resident	482,221	378,856
Non resident	1,250	8,022
Term deposit accounts:		
Resident	99,150	-
Non resident	1,185,755	681,850
Total	1,768,376	1,068,728

11. Due to customers

Due to customers at 31 December 2007 and 31 December 2006:

	31 December 2007	31 December 2006
Current accounts:		
Foreign currency	2,459,700	1,926,470
Local currency	3,109,819	2,027,044
	5,569,519	3,953,514
Term deposits:		
Foreign currency	10,363,466	7,845,876
Local currency	13,989,549	11,317,828
	24,353,015	19,163,704
Guarantee deposits:		
Foreign currency	806,552	346,896
Local currency	80,235	100,688
	886,787	447,584
Total	30,809,321	23,564,802

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(amounts in Lek'000, unless otherwise stated)

12. Other liabilities

Other liabilities are comprised of the following:

	31 December 2007	31 December 2006
Payment in transit	403,323	767,235
Provision for tax on profit	33,018	23,868
Provision for guarantee given to customers	19,729	10,941
Suppliers and accrued payables	19,612	21,747
Foreign exchange accounts	-	2
Total	475,682	823,793

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

Movements in the provision for guarantees can be detailed as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
At the beginning of the year	10,941	-
Charge for the year	15,713	16,450
Reversal of provisions	(6,303)	(5,543)
Effect of foreign currency movement	(622)	34
At the end of the period	19,729	10,941

As at 31 December 2007 there are no outstanding foreign exchange accounts. These accounts represent the exposure that the Bank has with exchange bureaus and for the year ended 31 December 2006 was as follows:

	31 December 2006				
	Bank Open Position	Exchange bureaus position	Exposure	Cash collateral	Net exposure
EUR – USD	18,577	18,579	(2)	282	279
Total	18,577	18,579	(2)	282	279

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13. Special fund

Based on the decision taken from the Shareholders' Assembly Meeting dated 23 June 2006, five of the shareholders of the Bank created a special fund up to 2 million Euro in order to cover for possible losses from bad debt service loans disbursed until 30 June 2006. This decision was taken in order to fulfil the requirements of potential investors who want to invest in shares of Credins Bank Sh.a.

During the year 2007 the cash contribution from the five shareholders amounting to Euro 1,612,600 equivalent to Lek 203,978 thousand out of which an amount of Euro 1,612,208 equivalent to Lek 197,815 thousands related to loan losses of "Alcred Food Processing", was reimbursed to the shareholders as these losses were fully recovered.

Movements in the special fund are detailed as follows:

	Year ended 31December 2007	Year ended 31December 2006
At the beginning of the year	48	-
Funds made available during the year	-	199,720
Funds used during the year	-	(197,815)
Funds reimbursed during the year	203,978	-
Delivered funds	(203,978)	-
Effect of foreign currency movement	(48)	(1,857)
At the end of the year	-	48

14. Subordinated debt

On 27 December 2004 the Shareholders' Assembly approved the borrowing of subordinated debt amounting to USD 3 million from one of its shareholders, Aleksander Pilo with interest rate of 8.5% p.a. 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 Teršana. This debt bears interest of 6% p.a. and is called upon prior consent of the Bank of Albania. 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 lending of 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 bears interest of six-month Euribor +3% margin p.a. and will be repaid in annual instalments of Euro 666,666 respectively by 31 December 2013, 2014 and 2015. However, the Bank can repay prior to maturity, notwithstanding the above schedule of payments. In the event that there is a change in control of the Bank, the debt shall be immediately repaid to SECO.

As at 31 December 2007 the outstanding Subordinated Debt was Euro 4 million and USD 3 million (31 December 2006: EUR 2 million and USD 3 million).

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

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15. Share capital

The share capital represents the permanent capital contributed by the 12 shareholders initially of US Dollars 5,250 thousand. This contribution, translated with the historical rate of exchange of USD/Lek 133.33 is equivalent to Lek 700,000 thousand. During 2003, the share capital was increased by USD 1,243,508, which at the historical rate of exchange of USD/Lek 107.82 is equivalent to Lek 134,078 thousand. On 30 June 2004, the share capital was increased by USD 506,492, which at the historical rate of exchange of USD/Lek 101.50 is equivalent to 51,409 thousand. During 2005 the Bank increased its share capital by USD 3,614,155 equivalent of Lek 450,614 thousand at the historical rate of exchange.

At 1 July 2005, the General Assembly of Shareholders approved the equity sale transactions between two of the Bank shareholders, Mr. Muhamet Malo and Mr. Renis Tershana. Mr Malo shares of 14.67 % or equivalent of USD 1,197,652 were purchased from Mr. Tershana. Such transactions took place on 25 July 2005 and the shares were purchased for an amount of USD 2,142,512.

During 2006 the Bank increased its share capital by USD 1,367,248 equivalent of Lek 131,669 thousand using the historical rate of exchange. At 29 December 2006 the General Assembly of Shareholders approved the issuance of 599,070 additional new shares, offered to « Emigres S.I. », for an amount of USD 1,500,000. These new shares have been recorded at the par value of USD 1 whereas the remaining amount of USD 900,930 or Lek equivalent 84,814 thousand, is recognised as premium paid.

As at 18 May 2007 the Bank has increased its share capital, based on the decision of the General Assembly of Shareholders of 21 February 2007, by USD 2,409,089 equivalent of Lek 228,695 thousand using the historical rate of exchange.

The capital of the Bank as of 31 December 2007 is Lek 1,598,110 thousand translated at the historical rate of exchange (31 December 2006: 11,981,403 shares) with a nominal value of USD 1 each

The shareholders of the Bank and the respective shareholding are described in as follows:

	31 December 2007	31 December 2006
	(%)	(%)
Credins Institute Sh.a.	39.26	41.33
Mr. Renis Tershana	18.69	19.67
Mr. Aleksander Pilo	15.15	15.95
Mrs. Monika Milo (Vice Executive Director)	5.64	5.93
Mr. Artan Santo (Executive Director)	5.57	5.87
Emigres S.I.	5.00	-
“Bushati” Company	3.34	3.52
Mr. Maltin Korkuti (Vice Executive Director)	2.79	2.93
Mr. Asllan Grezda	1.41	1.49
Mr. Sejdin Zere	1.25	1.31
Mrs. Elena Daci	0.95	1.00
Mr. Leonat Koco	0.95	1.00
Total	100	100

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

(amounts in Lek'000, unless otherwise stated)

16. Translation reserve

The share capital of the Bank is issued and denominated in US Dollars. It is converted into Lek at the historical rate ruling at the date of any increase. The difference between the historic rate and year-end rate is reported in the translation reserve under shareholders' equity.

17. Interest income

Interest income was earned on the following assets:

	Year ended 31 December 2007	Year ended 31 December 2006
Loans and advances to customers	1,466,798	975,641
Treasury bills and Repurchase agreements	507,057	256,372
Due from banks	342,295	223,458
Penalties on term deposits	39,004	22,199
Total	2,355,154	1,477,670

Penalties on term deposits represent commission charged from the Bank to depositors who rescheduled the maturity of their term deposits.

18. Interest expense

Interest expense was incurred on the following liabilities:

	Year ended 31 December 2007	Year ended 31 December 2006
Due to customers	1,133,876	763,562
Subordinated debt	29,660	23,602
Due to banks	36,943	5,442
Total	1,200,479	792,606

19. Fees and commissions

Fees and commissions received were comprised as follows:

	Year ended 31 December 2007	Year ended 31 31 December 2006
Banking services	139,024	109,907
Loans	111,465	64,194
Treasury operations and inter-bank transactions	911	-
Total	251,400	174,101

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

(amounts in Lek'000, unless otherwise stated)

19. Fees and commissions (continued)

Fees and commissions paid refer mainly to banking services and are comprised as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Treasury operations and inter-bank transaction	23,827	29,603
Banking services	5,232	34
Total	29,059	29,637

20. Personnel expenses

Personnel expenses for the year ended 31 December 2007 and 31 December 2006 are composed as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Salaries	197,433	133,297
Social insurance	28,119	23,894
Other	40,059	19,801
Total	265,611	176,992

21. Other administrative expenses

Other administrative expenses for the years ended 31 December 2007 and 31 December 2006 are composed as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Rent	70,834	42,398
Insurance and surveillance	66,314	54,617
Marketing and subscriptions	62,463	44,346
Maintenance	38,365	28,288
Utilities	37,178	28,079
Supplies	20,349	10,839
Third party fees	18,044	7,897
Transport and travel	2,420	5,817
Other	49,491	17,270
Total	365,458	239,551

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(amounts in Lek'000, unless otherwise stated)

22. Income tax

Income tax in Albania is assessed at the rate of 20% (2006: 20%) of taxable income. The following is a reconciliation of income taxes calculated at the applicable tax rate to taxable profit.

	Year ended 31 December 2007	Year ended 31 December 2006
Accounting profit	666,972	288,763
Non tax deductible expenses	10,121	11,579
Taxable profit	677,093	300,342
Income tax expense 20%	135,419	60,068

23. Cash and cash equivalents

Cash and cash equivalents comprise the following balances:

	31 December 2007	31 December 2006
Cash on hand	2,359,239	2,146,496
Current accounts and deposit with Central Bank	1,103,843	407,872
Loans and advances to financial institutions, with maturities of 3 months or less	3,936,365	3,556,616
Total	7,399,448	6,110,984

24. Related party transactions

Related parties of the Bank include the shareholders of the bank and their close relatives; the supervisory council members and their close relatives; its management members and their close relatives. Substantially all of the Bank's transactions of this nature with its shareholders are carried out at an arms length basis. The outstanding balances are translated in Lek equivalent and are also disclosed at the original interest rates. For the year ended 31 December 2007 outstanding balances are detailed as follows:

Type of transaction	31 December 2007	Interest rates (in % p.a.)
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
Guarantees	84,992	n/a
Collateral placed in favour of the Bank	(1,452,972)	n/a

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

(amounts in Lek'000, unless otherwise stated)

24. Related party transactions (continued)

For the year ended 31 December 2006 outstanding balances are detailed as follows:

Type of transaction	31 December 2006	Interest rates (in % p.a.)
Credit line	179,646	8.72 - 8.73
Overdrafts	21,209	4.53 - 14.52
Term Loans	332,796	6.75 - 13.61
Current accounts	(217,685)	0.30
Term deposits	(8,770)	3.00
Subordinated debt	(530,120)	6.00 - 8.50
Special fund	(199,720)	n/a
Guarantees	15,870	n/a
Collateral placed in favour of the Bank	(1,088,355)	n/a

25. Financial risk management

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability). Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are discussed below.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank strives to preserve a stable value of shareholders' equity in USD. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. The Bank's net open foreign exchange position at 31 December 2007 and 31 December 2006 is shown in note 26.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank attempts to mitigate this risk by monitoring the repricing dates of its assets and liabilities. Also for long term financial assets such as loans and advances to customers the Bank assesses the interest rate according to base rate plus interest margin.

Credit risk

Credit risk is the risk that the counter party to a financial instrument will fail to repay the obligation and cause the Bank to incur a loss. The Bank manages credit risk by dealing only with approved counter parties under specific credit limits. The Supervisory Council approves limits for some categories of counterparties, meanwhile for others, provision of the Central Bank regulations serve as limits to exposure. The Bank regularly monitors its limits with, and exposures to, individual counter parties and countries. Also refer to note 6.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments, and, in general to retain continuity of its core businesses (credit operations, depository and payment services). On an operational basis, the Bank monitors the stability of its customer deposits, and, on that basis adjusts the balance of its current assets / access to funding, in order to preserve high payment capability. On a more strategic level, the Bank manages this risk by continually monitoring expected cash flows from financial instruments and adjusting inter-bank takings and placements to match the timing of payments and receipts. An analysis of the Bank's expected timing of cash flows of assets and liabilities is shown in note 27.

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

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26 Foreign currency position

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

	31 December 2007				Total
	ALL	USD	EUR	Other	
Assets					
Cash and Central Bank	3,291,918	755,679	2,117,168	82,207	6,246,972
Due from banks	101,207	4,345,243	1,280,017	228,404	5,954,871
Treasury bills	6,429,493	-	-	-	6,429,493
Loans and advances to customers	7,748,124	1,818,465	6,415,402	-	15,981,991
Property, equipment and intangible assets	608,249	-	-	-	608,249
Other assets	230,259	187,869	121,536	8,236	547,900
Total	18,409,250	7,107,256	9,934,123	318,847	35,769,476
Liabilities					
Due to banks	368,481	20,166	1,379,145	584	1,768,376
Due to customers	17,179,603	5,418,494	7,899,141	312,083	30,809,321
Statistical provision	95,173	18,888	67,133	-	181,194
Other liabilities	230,068	132,710	104,502	8,402	475,682
Subordinated debt		248,670	487,173	-	735,843
Shareholder's equity	531,553	1,267,507	-	-	1,799,060
Total	18,404,878	7,106,435	9,937,094	321,069	35,769,476
Net position	4,372	821	(2,971)	(2,222)	-

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

(amounts in Lek'000, unless otherwise stated)

26. Foreign currency position (continued)

	31 December 2006				
	ALL	USD	EUR	Other	Total
Assets					
Cash and Central Bank	1,908,997	784,231	1,919,598	117,855	4,730,681
Due from banks	351,564	3,614,374	636,020	245,270	4,847,228
Treasury bills	5,570,455	-	-	-	5,570,455
Loans and advances to customers	5,263,882	1,760,415	3,894,163	-	10,918,460
Property, equipment and intangible assets	527,572	-	-	-	527,572
Other assets	1,020,301	465,417	(403,787)	(135,905)	946,026
Total	14,642,771	6,624,437	6,045,994	227,220	27,540,422
Liabilities					
Due to banks	356,253	9,940	700,159	2,376	1,068,728
Due to customers	13,445,560	4,899,485	5,003,199	216,558	23,564,802
Statistical provision	55,376	17,506	38,610	-	111,492
Other liabilities	623,601	117,984	80,942	1,266	823,793
Special fund	-	-	48	-	48
Subordinated debt	-	282,420	247,700	-	530,120
Shareholder's equity	228,696	1,212,743	-	-	1,441,439
Total	14,709,486	6,540,078	6,070,658	220,200	27,540,422
Net position	(66,715)	84,359	(24,664)	7,020	-

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

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27 Maturity analysis

An analysis of assets and liabilities as at 31 December 2007 according to their remaining maturity is as follows:

	31 December 2007						Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1-5 years	Over 5 years	
Assets							
Cash and Central Bank	6,246,972	-	-	-	-	-	6,246,972
Due from banks	3,138,794	797,571	1,077,079	919,936	21,491	-	5,954,871
Treasury bills	840,841	1,611,379	1,360,722	1,063,876	1,552,675	-	6,429,493
Loans and advances to customers	842,384	864,168	944,883	2,837,097	8,772,932	1,720,527	15,981,991
Property, equipment & intangibles	-	-	-	-	-	608,249	608,249
Other assets	436,013	249	4,143	4,743	1,246	101,506	547,900
Total	11,505,004	3,273,367	3,386,827	4,825,652	10,348,344	2,430,282	35,769,476
Liabilities							
Due to banks	1,706,270	-	-	62,106	-	-	1,768,376
Due to customers	5,970,407	6,786,056	6,579,563	8,647,288	2,826,007	-	30,809,321
Statistical provision	9,105	10,194	10,145	36,409	96,431	18,910	181,194
Other liabilities	468,332	370	5,659	1,106	215	-	475,682
Subordinated debt	-	-	-	-	735,843	-	735,843
Shareholder's equity	-	-	-	531,553	-	1,267,507	1,799,060
Total	8,154,114	6,796,620	6,595,367	9,278,462	3,658,496	1,286,417	35,769,476
Liquidity risk at 31 December 2007	3,350,890	(3,523,253)	(3,208,540)	(4,452,810)	6,689,848	1,143,865	-
Cumulative	3,350,890	(172,363)	(3,380,903)	(7,833,713)	(1,143,865)	-	-

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

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27. Maturity analysis (continued)

An analysis of assets and liabilities as at 31 December 2006 according to their remaining maturity is as follows:

	31 December 2006						
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1-5 years	Over 5 years	Total
Assets							
Cash and Central Bank	4,730,681	-	-	-	-	-	4,730,681
Due from banks	2,644,148	912,468	687,841	522,641	80,130	-	4,847,228
Treasury bills	400,191	1,961,337	1,253,369	1,753,701	201,857	-	5,570,455
Loans and advances to customers	899,169	788,630	877,647	1,671,005	4,816,576	1,865,433	10,918,460
Property, equipment & intangibles	-	-	-	-	-	527,572	527,572
Other assets	871,348	-	1,902	3,099	11,014	58,663	946,026
Total	9,545,537	3,662,435	2,820,759	3,950,446	5,109,577	2,451,668	27,540,422
Liabilities							
Due to banks	1,068,728	-	-	-	-	-	1,068,728
Due to customers	8,201,380	4,691,512	3,371,398	5,455,717	1,844,795	-	23,564,802
Statistical provision	111,492	-	-	-	-	-	111,492
Other liabilities	823,793	-	-	-	-	-	823,793
Special fund	48	-	-	-	-	-	48
Subordinated debt	-	-	-	-	-	530,120	530,120
Shareholder's equity	-	-	-	228,696	-	1,212,743	1,441,439
Total	10,205,441	4,691,512	3,371,398	5,684,413	1,844,795	1,742,863	27,540,422
Liquidity gap at 31 December 2006	(659,904)	(1,029,077)	(550,639)	(1,733,967)	3,264,782	708,805	-
Cumulative gap	(659,904)	(1,688,981)	(2,239,620)	(1,733,967)	(708,805)	-	-

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28. 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 2007	31 December 2006
<i>Contingent Assets</i>		
Guarantees in favour of customers	2,334,114	893,321
Commitments in favour of customers	348,598	-
<i>Contingent liabilities</i>		
Guarantees pledged from credit customers	1,539,428	1,085,589
Guarantees received from credit customers	59,085,095	35,929,877

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 2007 will be incurred. However, the Bank has decided to book a provision in the financial statements of 1% for all the guarantees given to customers with the funds of the Bank. A different rate of provision is raised against guarantees related to customers classified at a different class.

Lease commitments

The Bank leases office premises in Tirana, Durrës, Fier, Vlora, Lezha, Elbasan, Shkodra, Korca, Vora, Shijak and Shkozë under five year operating leases. Such future commitments for the year ended 31 December 2007 and for the year ended 31 December 2006 are composed as follows:

	31 December 2007	31 December 2006
Not later than 1 year	94,094	44,657
Later than 1 year and not later than 5 years	335,712	124,605
Later than 5 years	308,440	141,898
Total	738,246	401,203

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29. 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.

Treasury bills – held to maturity investment securities

Treasury bills are interest-bearing assets held to maturity. Because no active market exists for treasury bills, 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.

As at 31 December 2007, the fair value of the treasury bills portfolio was Lek 4,837,029 thousand (2006: 5,353,228 Lek thousand), while its carrying value was Lek 4,835,544 thousand (2006: 5,368,598 Lek thousand).

Government bonds – held to maturity investment securities

Government bonds are long-term interest-bearing assets held to maturity. Because no active market exists for government bonds, 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.

As at 31 December 2007, the fair value of the government bond portfolio was Lek 1,614,290 thousand (2006: 192,126 thousand), while its carrying value was Lek 1,593,949 thousand (2006: 201,857 Lek thousand).

Loans and advances to customers

Loans and advances are presented 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, EURIBOR, 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.

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30. Post balance sheet events

As at 14 December 2007, following the Memorandum of Understanding, the shareholders of the Bank concluded the Investment Agreement with Development Finance Equity Partners AG (DFE) the fund manager of B.F.S.E Holding B.V. (BFSE). By this Agreement DFE, the management, the investors and the shareholders have regulated the purchase, investment and the relationship between them.

Under this agreement DFE and BFSE have agreed to purchase 1,439,049 shares from Mr. Renis Tershana and also to invest in the additional shares issued by the bank totalling 2,957,059 shares with par value 1 US Dollar per share. The purchase price will be Euro 1.37 per share with an investment in the issued shares of the Bank amounting to Euro 4,054,128.

The agreement will be finalised upon the completion of the following conditions:

- a) The investors and the Bank will have obtained approval from the Bank of Albania for the purchase and investment
- b) The investors and the Bank will have obtained approval from the Competition Authority in Albania
- c) The investors will receive from the Albanian legal counsels of the Bank in the appropriate form and substance for the investors with regard to the Albanian Law, including validity and applicability and implementation of this agreement with the conditions set thereon
- d) Acceptance of the draft of the Statute of the Bank by the investors
- e) Approval of the proposed purchase and investment by the Assembly of the Shareholders
- f) Establishment of subordinated debt agreements with SECO for a total amount of Euro 2,000,000 and other lenders approved by the investors with a total amount up to Euro 8,000,000.
- g) Confirmation from the Management representative that there have not been any unusual transaction up to the finalization of the investment
- h) Confirmation from each of the investors, according to their reasonable judgement, that there have not occurred Material Unfavourable Changes.

These conditions were not fulfilled as at 31 December 2007, thus the investment was not finalised by the year end. To date point a), e) and part of point f) have been fulfilled.

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