Banka Kombetare Tregtare sh.a.

Independent Auditors' Review Report
and
Consolidated Interim Financial Statements as at
30 June 2008

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Independent Auditors' Report on Review of Interim Financial Statements

To the shareholders and management of
Banka Kombetare Tregtare sh.a.

Tirana, 31 July 2008

Introduction

We have reviewed the accompanying consolidated balance sheet of Banka Kombetare Tregtare sh.a. ("the Bank") as at 30 June 2008, and the related consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the interim financial statements). Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review. The financial statements of the Bank as at and for the year ended 31 December 2007 were audited by another auditor whose report dated 14 February 2008, expressed a qualified opinion due to their disagreement as to the treatment of the share capital issued in United States Dollars as a monetary item.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As explained in Note 3.4, the Bank has treated its share capital issued in United States Dollars as a monetary item in the interim financial information and recognized the revaluation difference during the six-month period ended 30 June 2008 in the income statement. This treatment is not in accordance with IAS 21, 'The Effects of Changes in Foreign Exchange Rates'. Share capital should be treated as a non-monetary item and carried at the exchange rate at the date of transaction. Accordingly, although this has no effect on total shareholders' equity, if this share capital was treated as a non-monetary item at 30 June 2008 the retained earnings would be decreased by USD 16,823,008, translation reserve would be increased by USD 20,415,730, and net profit for the six-month period then ended would be decreased by USD 3,592,722.

Qualified Conclusion

Based on our review, with the exception of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view of the financial position of the Bank as at 30 June 2008, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34, 'Interim Financial Reporting'.

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Consolidated interim balance sheet as at 30 June 2008
(amounts in USD, unless otherwise stated)

	Notes	30 June 2008	31 December 2007
Assets			
Cash and balances with Central Bank	5	146,959,796	156,677,902
Placement and balances with banks	6	243,735,658	218,311,284
Treasury bills	7	302,066,462	251,938,823
Investment securities available-for-sale	8	13,116,087	12,215,324
Investment securities held-to-maturity	9	204,263,709	193,725,179
Loans and advances to customers	10	389,598,249	337,642,482
Property and equipment	11	14,452,613	14,109,572
Intangible assets	12	671,994	755,009
Non – current assets held for sale	13	813,839	487,377
Due from third parties	14	-	10,483,713
Other assets	15	5,954,650	3,330,019
Total assets		**1,321,633,057**	**1,199,676,684**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	16	1,225,132,052	1,126,547,952
Due to banks	17	12,416,466	2,214,031
Due to third parties	14	1,827,817	-
Deferred tax liabilities	18	134,739	78,463
Accruals and other liabilities	19	6,766,838	6,269,306
Total liabilities		**1,246,277,912**	**1,135,109,752**
Shareholders' equity			
Share capital		63,400,000	44,700,000
Translation difference		410,141	1,503,706
Fair value reserve		145,876	-
Retained earnings	20	2,211,868	1,107,471
Net profit for the period		9,187,260	17,255,755
Total shareholders' equity		**75,355,145**	**64,566,932**
Total liabilities and shareholders' equity		**1,321,633,057**	**1,199,676,684**

The accompanying notes 1 to 37 are an integral part of these consolidated interim financial statements

The consolidated interim financial statements were authorised for release by the Board of Directors on 31 July 2008 and signed on its behalf by:

Seyhan Pencapligil
CEO and Board Member

Skender Emini
Head of Financial Control

Consolidated interim income statement for the six-month and three-month periods ended 30 June 2008 and 2007

(amounts in USD, unless otherwise stated)

	Notes	Six-month period ended 30 June 2008	Three-month period ended 30 June 2008	Six-month period ended 30 June 2007	Three-month period ended 30 June 2007
Interest					
Interest income	21	46,071,043	23,751,505	31,238,546	16,403,147
Interest expense	22	(23,996,953)	(12,556,183)	(14,119,565)	(7,460,064)
Net interest margin		**22,074,090**	**11,195,322**	**17,118,981**	**8,943,083**
Non-interest income, net					
Fees and commissions, net	23	2,495,599	1,454,520	1,836,427	1,040,167
Foreign exchange revaluation loss, net	24	(772,511)	(99,799)	(480,232)	(540,600)
Profit from FX trading activities, net		1,219,586	599,260	764,967	441,260
Other income (expense), net	25	(9,666)	(21,988)	37,383	20,067
Total non-interest income, net		**2,933,008**	**1,931,993**	**2,158,545**	**960,894**
Operating expenses					
Personnel	26	(5,255,155)	(2,774,665)	(4,048,559)	(1,987,215)
Administrative	27	(5,454,447)	(3,033,797)	(3,394,177)	(1,937,986)
Depreciation and amortization	11, 12	(1,533,924)	(797,949)	(1,098,250)	(582,688)
Total operating expenses		**(12,243,526)**	**(6,606,411)**	**(8,540,986)**	**(4,507,889)**
Impairment of loans	10	(2,584,447)	(1,080,233)	(310,672)	(135,759)
Profit before taxes		**10,179,125**	**5,440,671**	**10,425,868**	**5,260,329**
Income tax	28	(991,865)	(567,034)	(2,154,068)	(1,095,752)
Net profit for the period		**9,187,260**	**4,873,637**	**8,271,800**	**4,164,577**

The accompanying notes 1 to 37 are an integral part of these consolidated interim financial statements

Consolidated interim statement of changes in equity for the six-month period ended 30 June 2008

(amounts in USD, unless otherwise stated)

	Share Capital	Translation difference	Reserves	Fair Value Reserves	Retained earnings	Net profit for the period	Total
Balance as at 1 January 2007	**33,000,000**	**450,372**	**229,877**		**(62,012)**	**11,908,991**	**45,527,228**
Appropriation of prior year net profit	-	-	-	-	11,908,991	(11,908,991)	-
Increase in share capital	11,700,000	-	(232,820)	-	(11,467,180)	-	-
Adjustment of retained earnings with 30 June 2007 exchange rate	-	-	-	-	183,950	-	**183,950**
Adjustment of reserves with 30 June 2007 exchange rate	-	-	2,943	-	-	-	**2,943**
Net profit for the period	-	-	-	-	-	8,271,800	**8,271,800**
Appropriation of 2006 year translation difference	-	(450,372)	-	-	450,372	-	-
Translation difference for the period	-	326,222	-	-	-	-	**326,222**
Balance as at 30 June 2007	**44,700,000**	**326,222**	**-**	**-**	**1,014,121**	**8,271,800**	**54,312,143**
Adjustment of retained earnings with 31 December 2007 exchange rate	-	-	-	-	93,350	-	**93,350**
Net profit for the period	-	-	-	-	-	8,983,955	**8,983,955**
Translation difference for the period	-	1,177,484	-	-	-	-	**1,177,484**
Balance as at 31 December 2007	**44,700,000**	**1,503,706**	**-**	**-**	**1,107,471**	**17,255,755**	**64,566,932**
Appropriation of prior year net profit	-	-	-	-	17,255,755	(17,255,755)	-
Increase in share capital	18,700,000	-	-	-	(18,700,000)	-	-
Adjustment of retained earnings with 30 June 2008 exchange rate	-	-	-	-	1,044,936	-	**1,044,936**
Net profit for the period	-	-	-	-	-	9,187,260	**9,187,260**
Appropriation of 2007 year translation difference	-	(1,503,706)	-	-	1,503,706	-	-
Fair Value Reserve for available-for-sale securities	-	-	-	145,876	-	-	**145,876**
Translation difference for the period	-	410,141	-	-	-	-	**410,141**
Balance as at 30 June 2008	**63,400,000**	**410,141**	**-**	**145,876**	**2,211,868**	**9,187,260**	**75,355,145**

The accompanying notes 1 to 37 are an integral part of these consolidated interim financial statements

Consolidated interim statement of cash flows for the six-month periods ended 30 June 2008 and 2007

(amounts in USD, unless otherwise stated)

	Six-month period ended 30 June 2008	Six-month period ended 30 June 2007
Cash flows from operating activities:		
Profit before taxes	10,179,125	10,425,868
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Interest expense	23,996,953	14,119,565
Interest income	(46,071,043)	(31,238,546)
Depreciation and amortization	1,533,924	1,098,250
Gain on sale of property and equipment	(4,235)	(4,321)
Gain on sale of treasury bills	(5,431)	(8,487)
Write-off of property and equipment	40,324	45
Deferred tax asset/liability	48,445	35,193
Impairment of loans	2,584,447	310,672
Cash flows from operating profits before changes in operating assets and liabilities	(7,697,491)	(5,261,761)
(Increase)/decrease in operating assets:		
Placements and balances with banks	(8,602,590)	(7,759,516)
Loans and advances to customers	(28,008,497)	(33,134,033)
Other assets	8,249,497	(220,686)
	(28,361,590)	(41,114,235)
Increase/(decrease) in operating liabilities:		
Due to customers	9,124,001	34,312,664
Due to third parties	1,754,823	3,679,658
Accruals and other liabilities	253,895	850,930
	11,132,719	38,843,252
Interest paid	(18,622,628)	(10,754,486)
Interest received	39,523,592	27,125,740
Income taxes paid	(1,214,232)	(1,720,293)
Net cash flows (used in) / from operating activities	(5,239,630)	7,118,217
Cash flows from investing activities		
Settlement / (purchases) of investment securities	4,011,187	(23,383,751)
(Purchases) / settlement of treasury bills	(26,959,472)	11,096,240
Investment in affiliates	-	107,253
Purchases of property and equipment	(811,623)	(1,451,377)
Proceeds from sale of property and equipment	49,761	4,570
Proceeds from sale of treasury bills	2,416,049	5,721,530
Net cash used in investing activities	(21,294,098)	(7,905,535)
Cash flows from financing activities		
Proceeds from short term borrowings	9,618,846	1,628,708
Net cash from financing activities	9,618,846	1,628,708
Net decrease / (increase) in cash and cash equivalents	**(16,914,882)**	**841,390**
Translation difference	7,196,776	2,339,578
Cash and balances with Central Bank at the beginning of the year	**156,677,902**	**98,690,893**
Cash and balances with Central Bank at the end of the six months	**146,959,796**	**101,871,861**

The accompanying notes 1 to 37 are an integral part of these consolidated interim financial statements

1. General

BKT is a commercial bank offering a wide range of universal services. The Bank provides banking services to state and privately owned enterprises and to individuals in the Republic of Albania. The main source of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both Lek and foreign currency. BKT offers: a variety of corporate and consumer loans, EMV-compliant debit and credit cards, ATMs, on-line banking facilities, qualified international banking services and various treasury products. It also invests in government securities and takes part actively in the local and international inter-bank markets.

BKT was registered on 11 December 1998 with the Bank of Albania (BoA) to operate as a bank in the Republic of Albania and is subject to Law no. 8269 “On the Bank of Albania” dated December 1997 and Law no. 9662 “On Banks in the Republic of Albania”, dated 18 December 2006.

The Bank, upon the Shareholders Decision taken on 30 April 2008, increased its paid-up capital by USD 18,700,000 by allocation of the balance of retained earnings of Lek 1,476,178,000 as at 31 March 2008, translated into USD using the exchange rate announced by Bank of Albania as at 30 April 2008 (1USD=78.94 Lek). As a result 1,870,000 shares were issued to the existing shareholders with a nominal value of USD 10 per share.

The total number of issued and paid-up shares of the Bank following this increase in capital is 6,340,000, and the composition is as follows:

	No. of shares	*%*	*Total in USD*
Calik / Seker Consortium	3,804,002	60	38,040,020
EBRD	1,267,999	20	12,679,990
IFC	1,267,999	20	12,679,990
	6,340,000	**100**	**63,400,000**

The headquarters of BKT is located in Tirana. Currently in Albania, the Bank has a network of 21 branches, 16 agencies and 4 custom agencies. Seven of branches are in Tirana, while the others are located in Durres, Elbasan, Korca, Gjirokaster, Vlora, Lushnje, Shkodra, Fier, Berat, Pogradec, Saranda, Lezha, Kukes and Peshkopi. Similarly, most of the agencies are in Tirana (seven of them), whereas the others are placed in Kamza, Vore, Bilisht, Delvina, Kavaja, Lac, Rreshen, Shkozet and Bushat followed by custom agencies in Kakavija, Kapshtica, Durres Seaport and Rinas Airport.

Last year signalled the initial international expansion of BKT network by opening of Prishtina Branch in Kosova, which started its full activity at the beginning of September 2007, which was recently followed by Prizren Branch, inaugurated in June 2008.

Furthermore, during the first half of 2008, the Bank opened four other agencies in Albania. The Bank had 595 employees as at 30 June 2008.

2. Adoption of new and revised Standards

At the date of authorisation of these financial statements the following Interpretations were in issue but not yet effective:

- Revised IFRS 2 *Share-based Payment* (effective from 1 January 2009);
- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009);
- IFRS 8 *Operating Segments* (effective from 1 January 2009);

2. Adoption of new and revised Standards (continued)

- Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009);
- Revised IAS 23 *Borrowing Costs* (effective from 1 January 2009);
- Amendments to IAS 27, *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2009);
- Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IAS 32 *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IAS 40, *Investment Property* (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 15 *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009); and
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008).

The directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

3. Summary of accounting principles

3.1 Statement of compliance

These consolidated interim financial statements have been prepared in accordance with IAS 34 "*Interim Financial Reporting*".

3.2 Basis of preparation

The financial statements are presented in US Dollars. The functional currency used in preparing the financial statements is Albanian Lek (ALL). They are prepared on the historical cost basis.

The accounting policies applied by the Bank, are consistent with those used in the annual financial statements for the year ended 31 December 2007.

3.3 Basis of consolidation

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

On 3 September 2007 BKT opened its first branch outside of the territory of the Republic of Albania. This branch was opened in Prishtina, Kosova.

3.3 Basis of consolidation (continued)

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

3.4 Foreign currency

a) Presentation currency

The Bank has chosen to present its financial statements in US Dollars, as its equity is wholly owned by international investors, who have issued the start-up capital in USD and view the performance of the investment in terms of USD.

b) Foreign currency transaction

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are booked at historical cost on the transaction date, are translated at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement in “Foreign exchange revaluation gain (loss), net”.

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, with the exception of the share capital, which is issued and maintained in USD as per the legislation in Albania as well as per special law no. 8634 between the Bank’s shareholders and the Republic of Albania on the Bank’s privatisation. Furthermore, the Operating Policy Guidelines of the Bank require that the share capital be hedged by USD assets, and it is therefore treated as a monetary item, with the revaluation difference being taken to the profit and loss account together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

c) Translation of financial statements from functional currency to presentation currency

Translation of financial statements from functional currency to presentation currency is done as follows:

- assets and liabilities for each balance sheet presented (including comparatives) are translated at the closing rate at the date of that balance sheet.
- income and expenses for each income statement (including comparatives) are translated at exchange rates at the dates of the transactions;
- equity items other than the net profit for the period and share capital are translated at the closing rate existing at the date of balance sheet;
- share capital has been translated as described in paragraph 3.4 b) above; and
- all resulting exchange differences are recognised as a separate component of equity in the “Translation difference” account.

3.5 Financial assets

(i) Recognition

Held-to-maturity investments, available-for-sale financial assets and originated loans and receivables are recognised on the day they are transferred to the bank and are initially measured at fair value, plus transaction costs.

3.5 Financial assets (continued)

(ii) Classification

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Debt instruments that are held-to-maturity, are available-for-sale, or are loans and receivables that recognise income on an effective interest rate basis.

Held- to-maturity investments

Treasury bills and debt investments with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as *held-to-maturity* investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized to income through interest income in the income statement based on the effective interest rate of the instrument, when applicable.

Available-for-sale financial assets

Certain bills and debentures held by the Bank are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in Note 30. Gains and losses arising from changes in fair value are recognized directly in investment revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit and loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investment revaluation reserve is included in profit or loss for the period.

Loans and receivables

Loans and receivables are created by the Bank providing money to a debtor. Originated loans and receivables comprise loans and advances to customers and credit institutions. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iii) Specific instruments

Cash and cash equivalents
Cash and cash equivalents comprise cash balances on hand and cash deposited with the Central Bank.

Placements and balances with banks
Placements and balances with banks include inter-bank placements and current account balances.

Treasury bills Available-for-sale
Treasury bills available-for-sale after initial recognition are re-measured at fair value. Gains and losses arising from change in the fair value of such available-for-sale investments are recognised directly in equity.

3.5 Financial assets (continued)

(iii) Specific instruments (continued)

Treasury bills Held-to-maturity
Treasury Bills are considered to be investments held-to-maturity as the Bank has the intent and ability to do so.

Investment securities Available-for-sale
Investment securities available-for-sale after initial recognition are re-measured at fair value. Gains and losses arising from change in the fair value of such available-for-sale investments are recognised directly in equity.

Investment securities Held-to-maturity
Investment securities held-to-maturity, are debt investments that the Bank has the intent and ability to hold to maturity. As a result they are classified as held-to-maturity assets.

Loans and advances to customers
Loans and advances originated by the Bank are classified as loans and receivables. Loans and advances are reported net of provisions for loan losses to reflect the estimated recoverable amounts (refer to accounting policy 3.6).

(iv) Derecognition
A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

(v) Impairment of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount and any impairment loss of that asset is determined, based on the net present value of future anticipated cash flows, and is recognized as the difference between the recoverable amount and the carrying amount.

3.6 Loans and advances to customers

Loans and advances to customers are reported at amortized cost net of allowances to reflect the estimated recoverable amounts.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

Expected cash flows are estimated based on previous experience of customers’ repayment history and any late payments of interest or penalties. Changes in the allowance amount are recognized in the income statement.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down of the allowance is reversed through the income statement.

3.7 Financial liabilities

Due to banks and customer deposit balances are classified as liabilities measured at amortized cost. These financial liabilities are initially measured at fair value, net of transaction costs. Due to banks and customer deposits are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. A financial liability is derecognised when it is extinguished.

3.8 Interest income and expense

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

3.9 Fees and commissions income

Fees and commissions income arises on financial services provided by the Bank such as funds transfers, account maintenance fees, lending and trade finance activities.

Fees and commissions income are generally recognized on an accrual basis when the service has been provided. Loan origination fees, which are drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield on the loan.

3.10 Spot foreign exchange transactions

During the normal course of business the Bank enters into spot foreign exchange transactions with settlement dates 1 or 2 days after the trade date. These transactions are recorded as off balance sheet items on the trade date and recorded in the financial statements on the settlement date.

3.11 Repurchase agreements

Securities purchased from the Central Bank under agreements to resell (‘reverse repos’) within a short period of time (usually 1 week) are recorded as amounts due from the Central Bank. The difference between sale and repurchase price is treated as interest and accrued over the life of the Repo agreements using the effective yield method.

3.12 Taxation

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the statement of income and expenditures except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

3.12 Taxation (continued)

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 reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.13 Pension plan

The Bank has created a fully employer sponsored pension plan fund (refer to note 19 “Reserve fund for retiring employees”) during 2002. The amount to be charged to this fund is decided upon at the beginning of the year as 5% of yearly budgeted personnel salary expenses. During the year, the amount accrued is charged to the income statement and to the fund on a monthly basis.

The benefit due to employees is calculated based on the number of years they have worked at the Bank, starting from 1 January 2002, and the most recent monthly salary. Only employees that have worked at the Bank for at least 5 years starting from 1 January 2002 are entitled to the benefit.

The amount due to employees based on the above plan will be grossed up by the interest that will accrue from the date the employees leave the Bank until their retirement. It will be paid to employees only when they reach the Albanian statutory retirement age, in monthly instalments equal to 75% or maximum 100% of their state monthly pension.

3.14 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of items of property and equipment. Depreciation is calculated in accordance with the following rates:

• Buildings	5%
• Motor vehicles	20%
• Furniture and office equipment	20%
• Computers and electronic equipment	25%

3.15 Intangible assets

Intangible assets comprise of software acquired by the Bank. Intangibles assets are stated at cost less accumulated amortization and impairment losses. Amortization is charged to the income statement on a straight-line basis over the estimated useful life of the intangible asset. Software is amortized at an annual rate of 25%.

3.16 Leases

To date, the leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

3.17 Impairment

The carrying amounts of the Bank’s assets are reviewed at each balance sheet date to determine whether any indication of impairment exists. If any such indication exists, the asset’s recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

3.18 Non- current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period or in the period of the revision, and future periods if the revision affects both current and future periods.

a) Impairment losses on loans to customers

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 group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Held-to maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortized cost. The estimation of the fair value of treasury bills and investments held to maturity is disclosed in note 30.

5. Cash and balances with the Central Bank

Cash and balances with the Central Bank as at 30 June 2008 and 31 December 2007, are detailed as follows:

	30 June 2008	*31 December 2007*
Cash in hand	29,051,647	28,741,465
Capital equivalency deposit	7,960,507	8,600,352
Bank of Albania		
Current account	206,505	20,210,548
Statutory reserve	109,657,441	99,039,955
Accrued interest	83,696	85,582
	109,947,642	119,336,085
	146,959,796	**156,677,902**

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 Bank of Albania as a statutory reserve account, which during the month can be decreased up to 80% of its level, provided that the monthly average is obtained.

Capital equivalency deposit represents mostly the amount placed with Central Banking Authority of Kosovo, in order to obtain the license for Kosovo Branch, opened in 2007.

6. Placements and balances with banks

Placements and balances with banks as at 30 June 2008 and 31 December 2007 consisted as follows:

	30 June 2008	*31 December 2007*
Placements	234,308,994	213,983,812
Cash collateral held by correspondent banks and financial institutions	7,364,068	1,383,197
Current accounts	603,401	1,856,221
Accrued interest	1,459,195	1,088,054
	243,735,658	**218,311,284**

Placements are held with non-resident banks from Organisation for Economic Cooperation and Development ("OECD") countries and have contractual maturities up to 1 year. Current accounts represent balances with correspondent banks in the OECD countries.

Cash collateral represents mostly collateral held by correspondent banks and financial institutions against letters of credit issued to the Bank's clients by the correspondent banks and some cash deposit for the security of risks, which might rise from the credit card activity of the Bank.

7. Treasury bills

Treasury bills bear interest at market rates ranging from 7.17% p.a. to 8.89% p.a. on a compound basis and are all denominated in Lek. Treasury bills by original maturity are presented as follows:

Treasury bills available-for-sale

Treasury bills available-for-sale by original maturity as at 30 June 2008 and 31 December 2007 are presented as follows:

	30 June 2008				*31 December 2007*		
	Purchase Value	Amortized discount	Market to market gain	Fair Value	Purchase value	Amortized discount	Fair Value
3 months	-	-	-	-	52,822	111	52,933
6 months	157,556	1,428	216	159,200	1,470,733	43,536	1,514,269
12 months	94,995,113	4,753,913	156,410	99,905,436	64,186,768	1,994,083	66,180,851
	95,152,669	**4,755,341**	**156,626**	**100,064,636**	**65,710,323**	**2,037,730**	**67,748,053**

Treasury bills held-to-maturity

Treasury bills held-to-maturity by original maturity as at 30 June 2008 and 31 December 2007 are presented as follows:

	30 June 2008			*31 December 2007*		
	Purchase Value	Amortized discount	Amortized cost	Purchase value	Amortized discount	Amortized cost
3 months	-	-	-	5,384,688	11,894	5,396,582
6 months	25,641,278	490,400	26,131,678	24,536,749	550,476	25,087,225
12 months	167,862,078	8,008,070	175,870,148	149,299,458	4,407,505	153,706,963
	193,503,356	**8,498,470**	**202,001,826**	**179,220,895**	**4,969,875**	**184,190,770**

As at 30 June 2008, the fair value of the Treasury bills held-to-maturity portfolio was USD 202,359,672, which exceeds the carrying value by USD 357,846, while as at 31 December 2007 the fair value of this portfolio was USD 183,856,490, which was lower than carrying value by USD 334,280.

8. Investment securities available-for-sale

Investment securities available-for-sale as at 30 June 2008 comprise two Lek denominated bonds as follows:

	30 June 2008					
Issuer	**Nominal value**	**Unamortized discount**	**Accrued interest**	**Market to market loss**	**Fair value**	**Maturity date**
Lek Denominated Bond						
Government of Albania	9,070,883	(3,812)	27,187	(7,344)	9,086,914	18 December 2008
Government of Albania	3,887,521	(1,934)	146,992	(3,406)	4,029,173	17 January 2009
	12,958,404	**(5,746)**	**174,179**	**(10,750)**	**13,116,087**	

8. Investment securities available-for-sale (continued)

Investment securities available-for-sale comprise two Lek denominated bonds as of December 31, 2007 as follows:

	31 December 2007				
Issuer	**Nominal value**	**Unamortized discount**	**Accrued interest**	**Fair Value**	**Maturity date**
Lek Denominated Bond					
Government of Albania	8,444,927	(7,524)	25,311	8,462,714	18 December 2008
Government of Albania	3,619,255	(3,493)	136,848	3,752,610	17 January 2009
	12,064,182	**(11,017)**	**162,159**	**12,215,324**	

9. Investment securities held-to-maturity

Investment securities held-to-maturity as at 30 June 2008 comprise only one USD and Lek denominated bonds (with two, three, five and seven year original maturity) as follows:

	30 June 2008					
Issuer	**Nominal Value**	**Unamortized Premium / (Discount)**	**Accrued interest**	**Net Value**	**Maturity Date**	**S & P / Moody's Bond**
USD Denominated Bonds						
Republic of Turkey	5,000,000	(26,275)	26,111	4,999,836	15 June 2010	BB-
	5,000,000	**(26,275)**	**26,111**	**4,999,836**		
Lek Denominated Bonds						
Government of Albania	2,591,681	(4,697)	40,992	2,627,976	18 October 2008	B1
Government of Albania	2,591,681	-	24,794	2,616,475	20 November 2008	B1
Government of Albania	5,183,361	4,541	156,797	5,344,699	19 February 2009	B1
Government of Albania	2,591,681	(6,499)	41,780	2,626,962	18 April 2009	B1
Government of Albania	3,239,601	-	9,593	3,249,194	18 June 2009	B1
Government of Albania	2,591,681	-	76,390	2,668,071	20 August 2009	B1
Government of Albania	1,295,840	(2,911)	29,739	1,322,668	19 September 2009	B1
Government of Albania	9,070,882	-	342,942	9,413,824	18 January 2010	B1
Government of Albania	8,422,962	-	257,462	8,680,424	20 February 2010	B1
Government of Albania	1,943,761	-	33,700	1,977,461	18 April 2010	B1
Government of Albania	25,916,807	8,335	597,454	26,522,596	05 October 2008	B1
Government of Albania	1,943,761	(4,364)	76,023	2,015,420	05 January 2009	B1
Government of Albania	1,943,761	(1,813)	66,520	2,008,468	05 July 2009	B1
Government of Albania	20,733,446	(141,466)	406,145	20,998,125	05 October 2009	B1
Government of Albania	5,183,361	(14,318)	220,466	5,389,509	05 January 2010	B1
Government of Albania	5,183,361	9,349	212,863	5,405,573	05 July 2010	B1
Government of Albania	9,070,882	(63,358)	186,356	9,193,880	05 October 2010	B1
Government of Albania	9,070,882	-	393,707	9,464,589	07 January 2011	B1
Government of Albania	1,943,761	-	40,728	1,984,489	07 April 2011	B1
Government of Albania	14,254,244	-	218,586	14,472,830	08 November 2011	B1
Government of Albania	18,141,765	-	753,332	18,895,097	09 February 2012	B1
Government of Albania	10,366,723	-	159,427	10,526,150	08 May 2012	B1
Government of Albania	27,212,647	-	386,452	27,599,099	08 November 2012	B1
Government of Albania	2,591,681	-	36,934	2,628,615	08 November 2012	B1
Government of Albania	1,619,800	-	11,879	1,631,679	07 December 2014	B1
	194,700,013	**(217,201)**	**4,781,061**	**199,263,873**		
	199,700,013	**(243,476)**	**4,807,172**	**204,263,709**		

9. Investment securities held-to-maturity (continued)

As at 30 June 2008, the fair value of the bond portfolio was USD 206,292,063, which exceeds the carrying value by USD 2,028,354.

Investment securities held-to-maturity comprise only one USD and Lek denominated bonds (with two, three, five and seven year original maturity) as of 31 December 2007 as follows:

	31 December 2007					
Issuer	**Nominal Value**	**Unamortized Premium / (Discount)**	**Accrued interest**	**Net Value**	**Maturity Date**	**S & P / Moody's Bond Rating**
USD Denominated Bonds						
Republic of Turkey	5,000,000	(41,339)	26,111	4,984,772	15 June 2010	BB-
	5,000,000	**(41,339)**	**26,111**	**4,984,772**		
Lek Denominated Bonds						
Government of Albania	1,206,418	(35)	42,607	1,248,990	18 January 2008	B1
Government of Albania	18,096,272	13930	507,048	18,617,250	20 February 2008	B1
Government of Albania	5,428,882	(2,053)	103,571	5,530,400	20 March 2008	B1
Government of Albania	1,809,627	696	13,834	1,824,157	18 May 2008	B1
Government of Albania	4,825,673	(3,763)	9,973	4,831,883	19 June 2008	B1
Government of Albania	2,412,836	(12,431)	38,163	2,438,568	18 October 2008	B1
Government of Albania	2,412,836	-	23,083	2,435,919	20 November 2008	B1
Government of Albania	4,825,673	7,595	145,977	4,979,245	19 February 2009	B1
Government of Albania	2,412,836	(9,810)	38,897	2,441,923	18 April 2009	B1
Government of Albania	3,016,046	-	8,931	3,024,977	18 June 2009	B1
Government of Albania	2,412,836	-	71,118	2,483,954	20 August 2009	B1
Government of Albania	1,206,418	(3,778)	27,687	1,230,327	19 September 2009	B1
Government of Albania	603,209	126	12,104	615,439	05 April 2008	B1
Government of Albania	24,128,363	26,181	556,226	24,710,770	05 October 2008	B1
Government of Albania	1,809,627	(8,309)	70,777	1,872,095	05 January 2009	B1
Government of Albania	1,809,627	(2,516)	61,929	1,869,040	05 July 2009	B1
Government of Albania	19,302,690	(182,505)	378,118	19,498,303	05 October 2009	B1
Government of Albania	4,825,673	(17,455)	205,252	5,013,470	05 January 2010	B1
Government of Albania	4,825,673	10,707	198,174	5,034,554	05 July 2010	B1
Government of Albania	8,444,927	(70,814)	173,496	8,547,609	05 October 2010	B1
Government of Albania	13,270,600	-	203,502	13,474,102	08 November 2011	B1
Government of Albania	16,889,854	-	675,704	17,565,558	09 February 2012	B1
Government of Albania	9,651,345	-	139,660	9,791,005	08 May 2012	B1
Government of Albania	25,334,781	-	359,784	25,694,565	08 November 2012	B1
Government of Albania	2,412,836	-	34,386	2,447,222	08 November 2012	B1
Government of Albania	1,508,023	-	11,059	1,519,082	07 December 2014	B1
	184,883,581	**(254,234)**	**4,111,060**	**188,740,407**		
	189,883,581	**(295,573)**	**4,137,171**	**193,725,179**		

As at 31 December 2007 the fair value of the bond portfolio was USD 195,010,027, which exceeded the carrying value by USD 1,284,848.

10. Loans and advances to customers

Loans and advances to customers consisted of the following:

	30 June 2008	*31 December 2007*
Loans and advances to customers, gross	396,128,969	341,514,259
Accrued interest	3,159,509	2,524,949
Less allowances for impairment on loans and advances	(7,169,486)	(4,168,553)
Less unamortized deferred fee income	(2,520,743)	(2,228,173)
	389,598,249	**337,642,482**

Movements in the allowance for impairment on loans and advances:

	2008	*2007*
At 1 January	4,168,553	1,414,258
Impairment charge for the period	2,584,447	2,348,702
Translation difference	416,486	405,593
At the end of the period	**7,169,486**	**4,168,553**

The impairment charge for six-month period ended 30 June 2007 was USD 310,672. As at 30 June 2008, the Bank's loans in arrears for more than 30 days totalled USD 19,952,667 (31 December 2007: USD 7,690,090). All loans are secured by mortgages and personal guarantees.

As at 30 June 2008 the breakdown of the loan portfolio is as follows:

Individuals	59.5%
Private Enterprises	36.9%
Public Enterprises	3.4%
Structured Finance	0.2%

Loans to individuals and loans to private enterprises are secured by mortgages and personal guarantees.

All loans are denominated in Lek, Euro, USD and CHF and bear interest at the following rates:

Loans in Lek	1.10% to 20.00%
Loans in Euro	2.00% to 15.49%
Loans in USD	4.50% to 15.24%
Loans in CHF	4.99% to 8.49%

10. Loans and advances to customers (continued)

The classification of loans is as follows:

Corporate loans by industry	***30 June 2008***		***31 December 2007***	
	USD	**%**	**USD**	**%**
Wholesale Trade	59,291,371	21%	51,414,658	21%
Construction	51,192,905	18%	45,164,142	19%
Retail Trade	26,659,706	10%	19,211,306	8%
Hotels and Restaurants	26,334,077	9%	24,296,651	10%
Other Community, Social and Personal Activities	21,271,092	8%	17,428,342	7%
Manufacturing of Other Non-metallic Products	17,983,546	6%	14,530,063	6%
Manufacture of Food Products, Beverages	11,808,128	4%	9,125,845	4%
Real Estate, Renting and Business Activity	9,866,282	4%	10,917,500	5%
Manufacture of Wood and Wood Products	7,636,690	3%	6,929,790	3%
Personal Needs	7,148,460	3%	9,034,208	4%
Manufacture of Rubber and Plastic Products	6,993,520	3%	5,033,350	2%
Financial Intermediation	4,537,482	2%	2,520,415	1%
Education	4,444,952	2%	4,362,311	2%
Manufacturing of Basic Metallic	3,762,034	1%	5,521,995	2%
Transport, Storage and Communication	2,544,695	1%	2,186,994	1%
Manufacture of Textiles and Textile Products	2,263,595	1%	1,952,878	1%
Manufacture of Pulp, Paper & Paper Products	2,189,973	1%	1,648,357	1%
Other Sectors	9,041,934	3%	7,676,739	3%
	274,970,442	**100%**	**238,955,544**	**100%**

Retail loans by type	***30 June 2008***		***31 December 2007***	
	USD	**%**	**USD**	**%**
Home purchase	67,649,526	56%	58,069,075	57%
Home improvement	15,383,061	13%	11,215,160	11%
Home reconstruction	11,617,129	9%	9,626,683	9%
Super Loan	8,969,835	7%	9,207,249	9%
Shop purchase	7,466,644	6%	5,464,569	5%
Home advances	6,548,346	5%	6,385,558	6%
Overdraft & credit cards	1,991,381	2%	1,022,425	1%
Car purchase	884,581	1%	979,408	1%
Other types	648,024	1%	588,588	1%
	121,158,527	**100%**	**102,558,715**	**100%**

11. Property and equipment

Property and equipment as at 30 June 2008 and 31 December 2007 are composed as follows:

	Land and Buildings	Vehicles and other Equipment	IT Equipment	Office Equipment and furniture	Total
Gross value					
At 1 January 2007	**12,515,449**	**2,166,415**	**5,987,153**	**611,158**	**21,280,175**
Additions	755,785	885,816	1,664,983	117,011	**3,423,595**
Disposals / transfers	-	(77,742)	(120,852)	(157)	**(198,751)**
Translation difference	1,698,622	294,030	812,588	82,947	**2,888,187**
At 31 December 2007	**14,969,856**	**3,268,519**	**8,343,872**	**810,959**	**27,393,206**
Additions	54,347	242,276	426,760	15,753	**739,136**
Disposals / transfers	(48,334)	(142,896)	(315,922)	(1,925)	**(509,077)**
Translation difference	1,110,641	242,628	611,252	60,359	**2,024,880**
At 30 June 2008	**16,086,510**	**3,610,527**	**9,065,962**	**885,146**	**29,648,145**
Accumulated depreciation					
At 1 January 2007	**(4,222,612)**	**(1,293,132)**	**(3,868,665)**	**(452,806)**	**(9,837,215)**
Charge for the year	(570,659)	(377,025)	(1,105,329)	(71,962)	**(2,124,975)**
Disposals / write offs	-	73,603	120,852	-	**194,455**
Translation difference	(622,809)	(209,039)	(615,313)	(68,738)	**(1,515,899)**
At 31 December 2007	**(5,416,080)**	**(1,805,593)**	**(5,468,455)**	**(593,506)**	**(13,283,634)**
Charge for the period	(329,483)	(254,212)	(707,263)	(49,208)	**(1,340,166)**
Disposals / write offs	10,674	142,369	313,660	1,677	**468,380**
Translation difference	(414,881)	(145,445)	(433,787)	(45,999)	**(1,040,112)**
At 30 June 2008	**(6,149,770)**	**(2,062,881)**	**(6,295,845)**	**(687,036)**	**(15,195,532)**
Net book value					
At 1 January 2007	**8,292,837**	**873,283**	**2,118,488**	**158,352**	**11,442,960**
At 31 December 2007	**9,553,776**	**1,462,926**	**2,875,417**	**217,453**	**14,109,572**
At 30 June 2008	**9,936,740**	**1,547,646**	**2,770,117**	**198,110**	**14,452,613**

12. Intangible assets

Intangible assets as of 30 June 2008 and 31 December 2007 are composed as follows:

	Software
Gross value	
At 1 January 2007	**1,989,277**
Additions	401,847
Translation difference	269,989
At 31 December 2007	**2,661,113**
Additions	55,016
Translation difference	204,809
At 30 June 2008	**2,920,938**
Accumulated depreciation	
At 1 January 2007	**(1,358,097)**
Charge for the year	(332,020)
Translation difference	(215,987)
At 31 December 2007	**(1,906,104)**
Charge for the period	(193,758)
Translation difference	(149,082)
At 30 June 2008	**(2,248,944)**
Net book value	
At 1 January 2007	**631,180**
At 31 December 2007	**755,009**
At 30 June 2008	**671,994**

Software represents mostly the Bank's operating and accounting system implemented during 2001, which was upgraded during the first half of 2005, followed by the license purchase for additional users during 2007.

13. Non – current assets held for sale

This item includes the collateral values of some unrecoverable loans totalling USD 813,839 (2007: USD 487,377), the ownership of which, was taken on behalf of the Bank. The values of these assets are reappraised on a regular basis and the Bank has in place an Asset Sale Committee, which deals with the sale process of these kinds of assets.

14. Due from / to third parties

The Bank acts as an agent for the tax authorities either in the collection of taxes or in performing advance payments for the budget. In return, the Bank charges a commission to the taxpayers for the service rendered. The credit balance as at 30 June 2008 at USD 1,827,817 (2007: USD 10,483,713 - debit balance) represents the net period-end outstanding amount of payments and collections made by the Bank to and from the third parties, on behalf of tax authorities.

15. Other assets

Other assets**,** net as at 30 June 2008 and 31 December 2007 are as follows:

	30 June 2008	***31 December 2007***
Inventory	5,845	5,102
Accrued account maintenance commission	309,665	-
Spot transactions revaluation gain	485,868	245,595
Other debtors, net	5,153,272	3,079,322
	5,954,650	**3,330,019**

"Inventory" represents stationary, supplies and printed-paper waiting to be deployed in use.

"Other debtors" is composed as follows:

	30 June 2008	***31 December 2007***
Other debtors	5,155,926	3,081,976
Provision	(2,654)	(2,654)
	5,153,272	**3,079,322**

"Other debtors" are composed of four main items. The first item of USD 502,056 (2007: USD 348,953) consists mostly of USD 439,169 (2007: USD 298,204), which is continuously recoverable from the credit clients of the Bank and of USD 32,162, which is fully cash collateralised. The other three items represent advance payments to suppliers (due to head office reconstruction and opening of new branches in Albania and Kosovo) of USD 3,335,628 (2007: USD 2,237,768), prepaid expenses of USD 958,826 (2007: USD 452,927) and prepaid income tax of USD 361,321.

16. Customer deposits

Customer deposits as at 30 June 2008 and 31 December 2007 are composed as follows:

	30 June 2008	*31 December 2007*
Current accounts:		
Individuals	43,327,380	39,349,356
Private enterprises	71,470,919	90,321,721
State owned entities	31,941,071	69,097,157
	146,739,370	**198,768,234**
Deposits:		
Individuals	967,714,180	825,377,085
Private enterprises	47,771,241	48,967,285
State owned entities	39,068,043	34,880,962
	1,054,553,464	**909,225,332**
Other customer accounts:		
Individuals	6,879,582	6,430,380
Private enterprises	16,207,350	11,399,469
State owned entities	752,286	724,537
	23,839,218	**18,554,386**
	1,225,132,052	**1,126,547,952**

Current accounts and deposits can be further analysed as follows:

	30 June 2008			*31 December 2007*		
	Local currency	*Foreign currency*	*Total*	*Local currency*	*Foreign currency*	*Total*
Current accounts	**91,322,723**	**55,416,647**	**146,739,370**	**138,935,168**	**59,833,066**	**198,768,234**
Deposits						
On demand	45,300	113,821	**159,121**	42,892	124,288	**167,180**
One month	40,770,414	46,705,960	**87,476,374**	30,924,207	53,162,205	**84,086,412**
Three months	84,005,144	86,281,545	**170,286,689**	66,693,976	76,672,907	**143,366,883**
Six months	127,131,680	73,827,590	**200,959,270**	116,027,878	61,730,362	**177,758,240**
Twelve months	325,918,238	168,185,706	**494,103,944**	277,821,333	140,750,746	**418,572,079**
Two years and over	57,378,784	21,220,928	**78,599,712**	51,310,574	17,709,583	**69,020,157**
Accrued interest on deposits	16,964,284	6,004,070	**22,968,354**	12,144,379	4,110,002	**16,254,381**
Total deposits	**652,213,844**	**402,339,620**	**1,054,553,464**	**554,965,239**	**354,260,093**	**909,225,332**
Other customer accounts	**12,063,447**	**11,775,771**	**23,839,218**	**12,272,560**	**6,281,826**	**18,554,386**
Total customer deposits	**755,600,014**	**469,532,038**	**1,225,132,052**	**706,172,967**	**420,374,985**	**1,126,547,952**

16. Customer deposits (continued)

Other customer accounts are composed as follows:

	30 June 2008			*31 December 2007*		
	Local currency	*Foreign currency*	*Total*	*Local currency*	*Foreign currency*	*Total*
Deposits from liquidation of Xhaferi Foundation	1,166,170	26,630	**1,192,800**	1,085,776	25,241	**1,111,017**
Deposit guarantees for letters of credit	-	6,935,169	**6,935,169**	-	626,582	**626,582**
Escrow accounts	8,790,294	2,104,561	**10,894,855**	9,008,477	2,531,262	**11,539,739**
Bank drafts	-	8,101	**8,101**	-	8,051	**8,051**
Payment orders to be executed	27,521	179,782	**207,303**	60,416	178,155	**238,571**
Other	2,079,462	2,521,528	**4,600,990**	2,117,891	2,912,535	**5,030,426**
	12,063,447	**11,775,771**	**23,839,218**	**12,272,560**	**6,281,826**	**18,554,386**

"Deposits from the liquidation of the Xhaferi Foundation" represent non-interest bearing escrow accounts given by the Government. "Deposit guarantee for letters of credit" represent the cash collateral held by Bank against similar collateral provided by Bank to correspondent banks for letters of credit opened on behalf of its customers.

"Escrow accounts" balance represents sums momentarily blocked until the completion of an operation or the extinction of a risk. Amounts registered in these accounts are related to cash coverage received from customers due to the issuance of bid and performance bonds by the bank or due to treasury bill transactions with Bank of Albania intermediated by the Bank.

"Other" represents deposits that are pending to be allocated into the relevant deposit category the next business day (value date).

17. Due to banks

Due to banks as at 30 June 2008 and 31 December 2007 consisted as follows:

	30 June 2008	*31 December 2007*
Deposits from resident banks	2,542,283	-
Reverse REPO with Central Bank	4,634,667	-
Current accounts of non resident banks	5,220,028	2,192,226
Current accounts of resident banks	19,488	21,805
	12,416,466	**2,214,031**

The Bank as at 30 June 2008, has borrowed in Lek from two resident banks. The contractual maturities and their balances are detailed as follows:

Bank	**Currency**	**Principal**	**Accrued Interest**	**Total Deposit**	**Maturity Date**
Credins Bank	ALL	1,231,048	186	1,231,234	01 July 2008
International Commercial Bank	ALL	1,295,840	15,209	1,311,049	24 July 2008
		2,526,888	**15,395**	**2,542,283**	

18. Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 10% (2007: 20%). The movement on the deferred income tax account is as follows:

	30 June 2008	*31 December 2007*
Balance at 1 January	(78,463)	75,246
Income statement benefit/(expense)	(48,445)	(150,254)
Exchange differences	(7,831)	(3,455)
Balance at the end of the period	**(134,739)**	**(78,463)**

Deferred income tax liabilities are attributable to the following items:

	30 June 2008	*31 December 2007*
Deferred income on fees on loans	252,074	445,635
Allowance for loan impairment	(579,276)	(862,654)
Decelerated depreciation	186,377	320,643
Start up costs written off	6,086	17,913
	(134,739)	**(78,463)**

19. Accruals and other liabilities

A breakdown of accruals and other liabilities as at 30 June 2008 and 31 December 2007 is presented as follows:

	30 June 2008	*31 December 2007*
Creditors	1,861,488	1,864,538
Reserve fund for retiring employees	1,178,436	1,016,894
Due to tax authorities	395,701	581,929
Transit account	376,168	470,911
Social insurance	132,904	101,698
Accrued expenses	1,631,326	1,123,049
Other	1,190,815	1,110,287
	6,766,838	**6,269,306**

"Creditors" represent balances from old transactions that the Albanian Government is keeping with the Bank, pending the determination of the rightful owner of these amounts. As at the date of the report, a decision is not yet taken.

"Transit account" represents the undefined customer accounts that are cleared within a couple of days after the end of the period.

"Reserve fund for retiring employees" represents a specific fund created in 2002 by the Bank, which will be paid to staff on their retirement. Also refer note 3.13.

"Accrued expenses" include USD 527,337 (2007: USD 427,728) of deposit insurance premium due for the second quarter of 2008 according to the Law no. 8873 "On the Insurance of Deposits" dated 29 March 2002, that provides insurance coverage to individual depositors against bank failures.

Accrued expenses for personnel also includes USD 1,103,989 (2007: USD 695,321) of accrued amounts of holiday salary and year end planned bonuses given to the bank's staff and management.

"Other" consists of two items. The first item of USD 1,120,296 (2007: USD 1,038,510) are payments due to construction companies in relation to semi finished home loans and the second item of USD 70,519 (2007: USD 71,777) represents cash guarantees received from the suppliers.

20. Retained earnings

Retained earnings at 30 June 2008 represent the cumulative non distributed earnings from 2007 year's profit. As described in note 1, the Bank has used its statutory retained earnings amounting to Lek 1,476,178,000 or USD 18,700,000 to increase its share capital on 30 April 2008.

21. Interest income

Interest income is composed as follows:

	Six-month period ended 30 June 2008	*Six-month period ended 30 June 2007*
Treasury bills and investment securities	20,593,135	14,070,816
Placements with banks and balances with Central Bank	7,048,415	5,198,391
Loans and advances to customers	18,429,493	11,969,339
	46,071,043	**31,238,546**

Interest income can be further analysed as follows:

	Six-month period ended 30 June 2008	*Six-month period ended 30 June 2007*
Available-for-sale financial assets	522,617	435,676
Held-to-maturity investments	27,118,933	18,833,531
Loans and receivables	18,429,493	11,969,339
	46,071,043	**31,238,546**

Interest income on impaired loans for the six-month period ended 30 June 2008 was USD 277,336 (30 June 2007: USD 74,088).

22. Interest expense

Interest expense raised from financial liabilities measured at amortized cost is composed as follows:

	Six-month period ended 30 June 2008	*Six-month period ended 30 June 2007*
Due to banks	203,584	117,618
Customer deposits	23,793,369	14,001,947
	23,996,953	**14,119,565**

23. Fees and commissions, net

Fee and commission revenue and expense are comprised of the following items:

	Six-month period ended 30 June 2008	***Six-month period ended 30 June 2007***
Fee and commission income		
Lending activity	1,199,190	919,736
Payment services to clients	824,184	566,956
Customer accounts' maintenance	304,460	162,159
Cash transactions with clients	138,260	131,282
Card transactions	111,184	48,775
Inter bank transactions	35,679	28,168
Other fees and commissions	27,263	24,325
	2,640,220	*1,881,401*
Fee and commission expense		
Inter bank transactions	(92,181)	-
Customer accounts' maintenance	(48,565)	(43,356)
Payment services to clients	(3,875)	(1,618)
	(144,621)	*(44,974)*
Fees and commissions, net	**2,495,599**	**1,836,427**

24. Foreign exchange revaluation, net

Foreign exchange revaluation, net represents the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in note 3.4 it also includes the revaluation of the Bank's share capital. The revaluation gain on the share capital for the six-month period ended 30 June 2008 is USD 3,592,722 (2007: USD 1,570,468).

25. Other income (expense), net

Other income and expenses are composed as follows:

	Six-month period ended 30 June 2008	***Six-month period ended 30 June 2007***
Other income		
Gain on sale of fixed assets	4,223	4,321
Sundry	32,743	33,107
	36,966	*37,428*
Other expense		
Loss on sale or write off of fixed assets	(40,324)	(45)
Sundry	(6,308)	-
	(46,632)	*(45)*
Other income (expense), net	**(9,666)**	**37,383**

26. Personnel expenses

Personnel expenses are composed as follows:

	Six-month period ended 30 June 2008	*Six-month period ended 30 June 2007*
Salaries	3,660,220	2,707,915
Performance bonus	736,617	669,859
Social insurance	480,502	327,185
Training	211,647	154,502
Reserve fund for retiring employees	151,017	122,771
Life insurance	3,331	2,793
Other	11,821	63,534
	5,255,155	**4,048,559**

27. Administrative expenses

Administrative expenses are composed as follows:

	Six-month period ended 30 June 2008	*Six-month period ended 30 June 2007*
Marketing expenses	1,345,358	470,579
Deposit insurance expense	1,011,819	753,251
Telephone, electricity and IT expenses	929,329	703,357
Lease payments	418,834	197,217
Security and insurance expenses	373,932	296,484
Repairs and maintenance	348,782	244,910
Transportation and business related travel	305,484	244,801
Credit/debit cards expenses	248,005	185,606
Office stationery and supplies	200,618	128,164
Representation expenses	119,772	84,574
Taxes other than tax on profits	65,366	18,905
Other external services (including external audit fees)	41,768	31,916
Sundry	45,380	34,413
	5,454,447	**3,394,177**

28. Income tax

Income tax is comprised of:

	Six-month period ended 30 June 2008	*Six-month period ended 30 June 2007*
Current income tax	943,420	2,118,875
Deferred tax loss (note 18)	48,445	35,193
	991,865	**2,154,068**

28. Income tax (continued)

Income tax in Albania is assessed at the rate of 10% (2007: 20%) of taxable income. The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Six-month period ended 30 June 2008	*Six-month period ended 30 June 2007*
Profit before taxes	**10,179,125**	**10,425,868**
Computed tax using applicable tax rate	1,017,913	2,085,174
Non tax deductible expenses	49,338	71,508
Foreign exchange difference	(75,386)	(2,614)
Income tax	**991,865**	**2,154,068**
Effective tax rate	**10%**	**21%**

29. 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 credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risk.

(a) Credit Risk:

Credit risk is the risk of financial loss arising from the failure of a customer to settle financial obligations to the Bank as they fall due. It is the traditional or “natural risk” associated with the banking industry. The Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over EUR 1,000,000 are approved only upon decision of the Board of Directors of the Bank. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

Maximum credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 30 June 2008 and 31 December 2007 are as follows:

	30 June 2008	*31 December 2007*
Treasury bills and other eligible bills	302,066,462	251,938,823
Due from other banks	243,735,658	218,311,284
Loans and advances to customers (net)	389,598,249	337,642,482
Investment securities - available for sale	13,116,087	12,215,324
Investment securities - held to maturity	204,263,709	193,725,179
Financial guarantees	19,349,921	15,823,265
Standby letters of credit	10,922,652	3,242,086
Commitments to extend credit	15,960,428	13,193,276
Maximum exposures to credit risk	**1,199,013,166**	**1,046,091,719**

29. Financial risk management (continued)

(a) 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). These loans are graded A to D in the Bank's internal credit risk grading system.

The risk Committee of BKT is engaged with the grading of customers and their scoring according to the proper categories. It decides the changes on grading & takes the necessary operations according to the monitoring procedures. The risk committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

Past due but not impaired loans
Loans and securities, where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment
The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. It consists in the specific loss component that relates to individually significant exposures. Refer to note 4.a.

Write-off policy
The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Bank of Albania "On Credit Risk Management". The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

	Loans and advances to customers			
30 June 2008	**Retail**	**Corporate**	**Advances**	**Total Loans**
Neither past due nor impaired	98,868,287	246,607,087	5,517,113	350,992,487
Past due but not impaired	2,559,494	2,202,241	129,825	4,891,560
Individually impaired	13,182,400	26,161,114	901,408	40,244,922
Total Loans, Gross (Note 10)	**114,610,181**	**274,970,442**	**6,548,346**	**396,128,969**
Less: allowance for individually impaired loans	(4,227,617)	(2,040,461)	(901,408)	(7,169,486)
Total Loans, Net of impairment	**110,382,564**	**272,929,981**	**5,646,938**	**388,959,483**

29. Financial risk management (continued)

(a) Credit Risk (continued):

	Loans and advances to customers			
31 December 2007	**Retail**	**Corporate**	**Advances**	**Total Loans**
Neither past due nor impaired	87,644,163	222,894,018	5,762,361	316,300,542
Past due but not impaired	1,021,020	790,267	40,911	1,852,198
Individually impaired	7,507,974	15,271,259	582,286	23,361,519
Total Loans, Gross (Note 10)	**96,173,157**	**238,955,544**	**6,385,558**	**341,514,259**
Less: allowance for individually impaired loans	(2,472,577)	(1,112,083)	(583,893)	(4,168,553)
Total Loans, Net of impairment	**93,700,580**	**237,843,461**	**5,801,665**	**337,345,706**

Set out below is an analysis about the credit quality of corporate loans to customers:

Rating	***30 June 2008***	***31 December 2007***
A – Good	7,215,116	7,544,109
B - Acceptable	242,024,068	215,807,685
C - Close Monitoring	22,098,509	12,753,024
D - Unacceptable	3,632,749	2,850,726
Total	**274,970,442**	**238,955,544**

Set out below are the carrying amount of loans and advances to customers whose term have been renegotiated:

30 June 2008 /	*Loans and advances to customers*			
31 December 2007	**Retail**	**Corporate**	**Advances**	**Total Loans**
Renegotiated loans	149,527	6,802,712	-	6,952,239
Renegotiated loans	110,810	3,032,473	-	3,143,283

Set out below is the ageing analysis as at 30 June 2008 of all past due loans, either impaired or not impaired individually:

	Loans and advances to customers			
30 June 2008	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 30 days	4,599,372	4,491,257	302,063	9,392,692
Past due 31-60 days	1,410,787	2,157,191	158,536	3,726,514
Past due 61-90 days	747,124	1,231,014	-	1,978,138
Past due 91-180 days	1,730,105	6,908,367	275,690	8,914,162
Past due 180 days- 365 days	1,433,453	1,519,249	59,908	3,012,610
Past due 1-2 years	514,915	1,433,720	-	1,948,635
Past due over 2 years	106,186	266,422	-	372,608
Total	**10,541,942**	**18,007,220**	**796,197**	**29,345,359**

29. Financial risk management (continued)

(a) Credit Risk (continued):

	Loans and advances to customers			
31 December 2007	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 30 days	1,915,435	2,078,433	149,157	4,143,025
Past due 31-60 days	612,296	218,251	74,284	904,831
Past due 61-90 days	600,798	856,256	79,543	1,536,597
Past due 91-180 days	720,053	991,502	-	1,711,555
Past due 180 days- 365 days	653,125	1,374,112	62,034	2,089,271
Past due 1-2 years	163,838	662,858	-	826,696
Past due over 2 years	30,340	590,800	-	621,140
Total	**4,695,885**	**6,772,212**	**365,018**	**11,833,115**

Set out below is an analysis of collateral and credit enhancement obtained during the years:

	Loans and advances to customers			
30 June 2008	**Retail**	**Corporate**	**Advances**	**Total Loans**
Residential, commercial or industrial property	254,217,725	626,274,502	-	880,492,227
Financial assets	2,145,578	41,281,660	-	43,427,238
Other	19,326,677	24,812,730	-	44,139,407
Total	**275,689,980**	**692,368,892**	**-**	**968,058,872**

	Loans and advances to customers			
31 December 2007	**Retail**	**Corporate**	**Advances**	**Total Loans**
Residential, commercial or industrial property	211,321,550	457,732,748	-	669,054,298
Financial assets	2,267,254	54,198,107	-	56,465,361
Other	17,874,366	19,287,546	-	37,161,912
Total	**231,463,170**	**531,218,401**	**-**	**762,681,571**

Credit quality of other financial assets is detailed as follows:

30 June 2008	**Treasury bills**	**Due from other banks**	**Available for sale portfolio**	**Held to maturity portfolio**	**Total**
Good	302,066,462	243,735,658	13,116,087	204,263,709	763,181,916
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**302,066,462**	**243,735,658**	**13,116,087**	**204,263,709**	**763,181,916**

31 December 2007	**Treasury bills**	**Due from other banks**	**Available for sale portfolio**	**Held to maturity portfolio**	**Total**
Good	251,938,823	218,311,284	12,215,324	193,725,179	676,190,610
Acceptable	-	-	-	-	-
Close monitoring	-	-	-	-	-
Total	**251,938,823**	**218,311,284**	**12,215,324**	**193,725,179**	**676,190,610**

29. Financial risk management (continued)

(b) Liquidity risk:

Liquidity risk is the current and prospective risk to earnings or capital arising from Bank's inability to meet its obligations when they come due without incurring unacceptable losses. The purpose of Liquidity Risk Management (LRM) is to make sure that Bank is able to meet all payment obligations when they come due, without incurring unacceptable losses. Bank's LRM policy includes how the Bank identifies, measures, monitors and control that risk.

Organization of LRM: Bank's LRM Organization includes two different bodies in the monitoring and management of liquidity. The involvement of different bodies guarantees clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to Treasury Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to Risk Management Group. The main purpose of the Risk Management Group, which conducts daily overview of LRM reports, is to provide early warning signal of liquidity risk to the top management of Bank.

LRM Reports: Bank's LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under business as usual scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows / outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity. An analysis of the Bank's expected timing of cash flows by simple remaining maturity is shown in note 31.

(c) Market risk:

1) Foreign currency risk:

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Bank of Albania guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions. The Bank's net open foreign currency position and sensitivity analysis based on reasonably possible changes in foreign exchange rates against local currency at 30 June 2008 and 31 December 2007 are shown in note 32.

2) 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 Treasury Department of the Bank manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the balance sheet date were outstanding for the whole year. The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in note 33.

29. Financial risk management (continued)

(d) Capital management:

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Regulatory capital
The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 9662 date 18.12.2006 "On Banks in the Republic of Albania".

Capital Adequacy Ratio
The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and off balance-sheet items, expressed as a percentage. The minimum Capital Adequacy Ratio required by Bank of Albania is 12%, whereas the Bank's internal operations covenants requires a minimum ratio of 15%.

The Modified Capital Adequacy Ratio is the proportion of the base capital to risk-weighted assets and off balance-sheet items, expressed as a percentage. The minimum modified capital adequacy is 6%.

Risk-Weighted Assets (RWAs)
Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments with Bank of Albania have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that capital equal to 12% of the carrying amount must support it.
Off-balance-sheet credit related commitments are taken into account. The amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

Compliance

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

30. Estimation of fair value

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.

Placements and balances with Banks

Placements and balances with banks include inter-bank placements and items in the course of collection. As all the placements and overnight deposits are short term and at floating rates their fair value is considered to be equal to their carrying amount.

Treasury bills

Treasury bills are interest-bearing assets classified as available-for-sale and held to maturity. Since no active market exists for these investments, 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 30 June 2008, the fair value of the Treasury bills held-to-maturity portfolio was USD 202,359,672 (2007: USD 183,856,490), which exceeds the carrying amount by USD 357,846 (2007: lower by USD 334,280).

Investment securities held-to-maturity

Fair value of investment securities held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, 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 of 30 June 2008, the fair value of the bond portfolio was USD 206,292,063 (2007: USD 195,010,027), which exceeds the carrying amount by USD 2,028,354 (2007: USD 1,284,848).

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 approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The time deposits have an estimated fair value approximately equal to their carrying amount, because of either their short-term nature and underlying interest rates, which approximate market rates.

31. Liquidity risk

As at 30 June 2008 the Bank's assets, liabilities and shareholders' equity have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	146,959,796	-	-	-	-	146,959,796
Placement and balances with banks	79,297,398	56,420,426	108,017,834	-	-	243,735,658
Treasury bills	31,029,316	98,176,932	172,860,214	-	-	302,066,462
Investment securities available-for-sale	-	-	13,116,087	-	-	13,116,087
Investment securities held-to-maturity	-	-	45,003,320	157,628,710	1,631,679	204,263,709
Loans and advances to customers	8,586,744	29,308,569	100,463,775	144,043,148	107,196,013	389,598,249
Property and equipment	-	-	-	4,515,873	9,936,740	14,452,613
Intangible assets	-	-	-	671,994	-	671,994
Non current assets held for sale	-	-	813,839	-	-	813,839
Other assets	5,954,650	-	-	-	-	5,954,650
Total assets	**271,827,904**	**183,905,927**	**440,275,069**	**306,859,725**	**118,764,432**	**1,321,633,057**
Liabilities and shareholders' equity						
Customer deposits	384,174,604	322,615,593	461,386,451	56,955,404	-	1,225,132,052
Due to banks	12,416,466	-	-	-	-	12,416,466
Due to third parties	1,827,817	-	-	-	-	1,827,817
Deferred tax liabilities	-	-	-	134,739	-	134,739
Accruals and other liabilities	5,588,402	-	-	-	1,178,436	6,766,838
Shareholders' equity	-	-	-	-	75,355,145	75,355,145
Total liabilities and shareholders' equity	**404,007,289**	**322,615,593**	**461,386,451**	**57,090,143**	**76,533,581**	**1,321,633,057**
Net Position	**(132,179,385)**	**(138,709,666)**	**(21,111,382)**	**249,769,582**	**42,230,851**	**-**
Cumulative Net Position	**(132,179,385)**	**(270,889,051)**	**(292,000,433)**	**(42,230,851)**	**-**	**-**

As explained in note 29.b, the new LRM approach of the Bank implemented in 2007 resulted in positive liquidity gaps for all the time buckets up to one year as at 30 June 2008. The new LRM policy of the Bank, among others, is based on three main assumptions:

- Using statistical method and historical data (derived since 2001), the actual LRM reports include analysis into the behavioural re-investment pattern of deposits;
- Short term securities available for sale are considered liquid through the secured funding from Bank of Albania;
- Bank's reserve requirements held with BoA are considered as non-liquid assets.

31. Liquidity risk (continued)

LRM reports are produced for each single currency Lek, Euro and USD and for the total balance sheet as well. Maximum cumulative outflow limits, which are managed and monitored on a daily-basis, have been assigned for each of the above currencies.

As at 31 December 2007, the Bank's assets, liabilities and shareholders' equity have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Total
Assets						
Cash and balances with Central Bank	156,677,902	-	-	-	-	156,677,902
Placement and balances with banks	76,679,526	63,468,743	77,529,817	633,198	-	218,311,284
Treasury bills	24,987,931	32,566,719	194,384,173	-	-	251,938,823
Investment securities available-for-sale	-	-	8,462,714	3,752,610	-	12,215,324
Investment securities held-to-maturity	1,248,989	24,147,649	36,856,736	129,952,723	1,519,082	193,725,179
Loans and advances to customers	13,903,680	25,985,869	74,764,128	129,701,122	93,287,683	337,642,482
Property and equipment	-	-	-	4,555,797	9,553,775	14,109,572
Intangible assets	-	-	-	755,009	-	755,009
Non current assets held for sale	-	-	487,377	-	-	487,377
Due from third parties	10,483,713	-	-	-	-	10,483,713
Other assets	3,330,019	-	-	-	-	3,330,019
Total assets	287,311,760	146,168,980	392,484,945	269,350,459	104,360,540	1,199,676,684
Liabilities and shareholders' equity						
Customer deposits	428,507,955	213,831,714	433,118,753	51,089,530	-	1,126,547,952
Due to banks	2,214,031	-	-	-	-	2,214,031
Deferred tax liabilities	-	-	-	78,463	-	78,463
Accruals and other liabilities	5,252,411	-	-	-	1,016,895	6,269,306
Shareholders' equity	-	-	-	-	64,566,932	64,566,932
Total liabilities and shareholders' equity	**435,974,397**	**213,831,714**	**433,118,753**	**51,167,993**	**65,583,827**	**1,199,676,684**
Net Position	**(148,662,637)**	**(67,662,734)**	**(40,633,808)**	**218,182,466**	**38,776,713**	**-**
Cumulative Net Position	**(148,662,637)**	**(216,325,371)**	**(256,959,179)**	**(38,776,713)**	**-**	**-**

With the exception of investment securities, the Bank's financial assets and liabilities all face variable interest rates or have a maturity or re-pricing date of less than one year. Refer to note 33.

32. Foreign currency risk

The following tables present the equivalent amount of assets, liabilities and shareholders' equity by currency as at 30 June 2008 and 31 December 2007 in accordance with the Bank of Albania foreign currency disclosure requirements:

30 June 2008	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets					
Cash and balances with Central Bank	78,550,459	13,004,427	53,203,399	2,201,511	146,959,796
Placements and balances with banks	406,894	146,673,548	77,684,901	18,970,315	243,735,658
Treasury bills	302,066,462	-	-	-	302,066,462
Investment securities available-for-sale	13,116,087	-	-	-	13,116,087
Investment securities held-to-maturity	199,263,873	4,999,836	-	-	204,263,709
Loans and advances to customers	155,344,868	29,498,315	198,392,045	6,363,021	389,598,249
Property and equipment	13,426,910	-	1,025,703	-	14,452,613
Intangible assets	671,994	-	-	-	671,994
Non current assets held for sale	813,839	-	-	-	813,839
Other assets	1,813,036	163,763	3,973,223	4,628	5,954,650
Total assets	**765,474,422**	**194,339,889**	**334,279,271**	**27,539,475**	**1,321,633,057**
Off balance sheet items	3,719,471	9,945,461	5,345,717	3,650,970	22,661,619
Liabilities and shareholders' equity					
Customer deposits	755,600,014	115,117,768	332,963,785	21,450,485	1,225,132,052
Due to banks	7,177,910	1,459,310	3,777,311	1,935	12,416,466
Due to third parties	1,827,817	-	-	-	1,827,817
Deferred tax liabilities	134,739	-	-	-	134,739
Accruals and other liabilities	2,024,642	3,474,244	1,207,394	60,558	6,766,838
Shareholders' equity	12,099,182	63,400,000	(144,037)	-	75,355,145
Total liabilities and shareholders' equity	**778,864,304**	**183,451,322**	**337,804,453**	**21,512,978**	**1,321,633,057**
Off balance sheet items	2,370,351	8,319,803	2,309,096	9,662,369	22,661,619
Net position (GAP)	**(12,040,762)**	**12,514,225**	**(488,561)**	**15,098**	-
Cumulative net position	(12,040,762)	473,463	(15,098)	-	
Total assets / Total liabilities	98.46%	106.53%	99.86%	100.05%	100.00%
GAP / FX denominated assets		0.06	(0.001)	0.0005	-
Sensitivity analysis depending on changes in foreign currency					
Lek depreciates by 10%		1,137,657	(137,660)	1,373	1,001,370
Lek depreciates by 5%		595,915	(72,108)	719	524,527
Lek appreciates by 5%		(658,643)	79,698	(795)	(579,740)
Lek appreciates by 10%		(1,390,469)	168,252	(1,678)	(1,223,895)

32. Foreign currency risk (continued)

31 December 2007	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets					
Cash and balances with Central Bank	90,534,391	12,934,280	52,069,179	1,140,052	156,677,902
Placements and balances with banks	364,107	128,211,097	70,450,148	19,285,932	218,311,284
Treasury bills	251,938,823	-	-	-	251,938,823
Investment securities available-for-sale	12,215,324	-	-	-	12,215,324
Investment securities held-to-maturity	188,740,407	4,984,772	-	-	193,725,179
Loans and advances to customers	143,614,324	23,651,720	163,648,580	6,727,858	337,642,482
Property and equipment	13,303,775	-	805,797	-	14,109,572
Intangible assets	755,009	-	-	-	755,009
Non current assets held for sale	452,117	-	35,260	-	487,377
Due from third parties	10,483,713				10,483,713
Other assets	520,867	26,534	2,782,497	121	3,330,019
Total assets	**712,922,857**	**169,808,403**	**289,791,461**	**27,153,963**	**1,199,676,684**
Off balance sheet items	3,092,081	10,441,115	279,143	3,293,059	17,105,398
Liabilities and shareholders' equity					
Customer deposits	706,172,967	113,768,552	286,257,240	20,349,193	1,126,547,952
Due to banks	893	866,531	1,346,607	-	2,214,031
Deferred tax liabilities	78,463	-	-	-	78,463
Accruals and other liabilities	1,569,738	3,640,370	996,534	62,664	6,269,306
Shareholders' equity	19,866,932	44,700,000	-	-	64,566,932
Total liabilities and shareholders' equity	**727,688,993**	**162,975,453**	**288,600,381**	**20,411,857**	**1,199,676,684**
Off balance sheet items	-	5,441,232	1,909,928	9,754,238	17,105,398
Net position (GAP)	**(11,674,055)**	**11,832,833**	**(439,705)**	**280,927**	**-**
Cumulative net position	(11,674,055)	158,778	(280,927)	-	
Total assets / Total liabilities	98.40%	107.03%	99.85%	100.93%	100%
GAP / FX denominated assets		0.07	(0.002)	0.01	
Sensitivity analysis depending on changes in foreign currency					
Lek depreciates by 10%		1,075,712	(116,433)	25,539	984,818
Lek depreciates by 5%		563,468	(60,989)	13,377	515,856
Lek appreciates by 5%		(622,781)	67,409	(14,786)	(570,158)
Lek appreciates by 10%		(1,314,759)	142,307	(31,214)	(1,203,666)

33. Interest rate risk

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 30 June 2008 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	4.38%	1.74%	3.14%
Placement and balances with banks	N/A	3.15%	4.43%
Treasury bills	8.05%	N/A	N/A
Investment securities held-to-maturity	9.21%	5.41%	N/A
Loans and advances to customers	12.65%	7.31%	9.40%
Liabilities			
Customer deposits	4.99%	2.59%	3.37%
Due to banks	0.10%	0.10%	0.10%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2007 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	4.38%	3.40%	3.12%
Placement and balances with banks	N/A	4.75%	4.36%
Treasury bills	7.87%	N/A	N/A
Investment securities held-to-maturity	8.87%	4.90%	N/A
Loans and advances to customers	12.83%	8.84%	9.64%
Liabilities			
Customer deposits	4.38%	3.56%	3.10%
Due to banks	0.10%	0.10%	0.10%

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 30 June 2008 were as follows:

	Up to 1 month	***1-3 months***	***3-12 months***	***1-5 years***	***Over 5 years***	***Total***
Assets						
Cash and balances with Central Bank	146,959,796	-	-	-	-	146,959,796
Placement and balances with banks	79,297,398	56,420,426	108,017,834	-	-	243,735,658
Treasury bills	31,029,316	98,176,932	172,860,214	-	-	302,066,462
Investment securities available-for-sale	-	-	13,116,087	-	-	13,116,087
Investment securities held-to-maturity	-	-	116,496,496	86,135,534	1,631,679	204,263,709
Loans and advances to customers	48,160,956	18,420,023	306,031,278	1,318,992	15,667,000	389,598,249
Total	**305,447,466**	**173,017,381**	**716,521,909**	**87,454,526**	**17,298,679**	**1,299,739,961**
Liabilities						
Customer deposits	384,174,604	322,615,593	461,386,451	56,955,404	-	1,225,132,052
Due to banks	12,416,466	-	-	-	-	12,416,466
Total	**396,591,070**	**322,615,593**	**461,386,451**	**56,955,404**	**-**	**1,237,548,518**

33. Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2007 were as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Assets						
Cash and balances with Central Bank	156,677,902	-	-	-	-	156,677,902
Placement and balances with banks	76,679,526	63,468,743	77,529,817	633,198	-	218,311,284
Treasury bills	24,987,931	32,566,719	194,384,173	-	-	251,938,823
Investment securities available-for-sale	-	-	8,462,714	3,752,610	-	12,215,324
Investment securities held-to-maturity	1,248,989	24,147,649	36,856,736	129,952,723	1,519,082	193,725,179
Loans and advances to customers	268,730,686	15,408,432	30,429,376	11,235,765	11,838,223	337,642,482
Total	**528,325,034**	**135,591,543**	**347,662,816**	**145,574,296**	**13,357,305**	**1,170,510,994**
Liabilities						
Customer deposits	428,507,955	213,831,714	433,118,753	51,089,530	-	1,126,547,952
Due to banks	2,214,031	-	-	-	-	2,214,031
Total	**430,721,986**	**213,831,714**	**433,118,753**	**51,089,530**	**-**	**1,128,761,983**

Interest rate sensitivity

The sensitivity analysis below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The following is a stipulation of effects of changes in interest rate in the net profit, assuming all the other variables are held constant:

	30 June 2008	*31 December 2007*
Interest rate increases by 2%	1,740,392	2,803,021
Interest rate increases by 1.5%	1,305,294	2,102,266
Interest rate increases by 1%	870,196	1,401,510
Interest rate decreases by 1%	(870,196)	(1,401,510)
Interest rate decreases by 1.5%	(1,305,294)	(2,102,266)
Interest rate decreases by 2%	(1,740,392)	(2,803,021)

34. Segmental reporting

As at 30 June 2008, the Bank's geographical segments are as follows:

	Albania	Kosova	Consolidated
Assets			
Cash and balances with Central Bank	138,244,650	8,715,146	146,959,796
Placement and balances with banks	243,735,658	-	243,735,658
Treasury bills	302,066,462	-	302,066,462
Investment securities available-for-sale	13,116,087	-	13,116,087
Investment securities held-to-maturity	204,263,709	-	204,263,709
Loans and advances to customers	389,361,644	236,605	389,598,249
Property and equipment	13,426,910	1,025,703	14,452,613
Intangible assets	671,994	-	671,994
Non - current assets held for sale	813,839	-	813,839
Other assets	5,889,236	65,414	5,954,650
Total assets	**1,311,590,189**	**10,042,868**	**1,321,633,057**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	1,218,177,063	6,954,989	1,225,132,052
Due to banks	12,416,466	-	12,416,466
Due to third parties	1,827,817	-	1,827,817
Deferred tax liabilities	134,739	-	134,739
Accruals and other liabilities	6,747,868	18,970	6,766,838
Total liabilities	**1,239,303,953**	**6,973,959**	**1,246,277,912**
Shareholders' equity			
Share capital			63,400,000
Translation difference			410,141
Fair Value Reserve			145,876
Retained earnings			2,211,868
Net profit for the period			9,187,260
Total shareholders' equity			75,355,145
Total liabilities and shareholders' equity			**1,321,633,057**

An amount of USD 4,324,468, which represents intra-group transactions between Head Office in Albania and Kosova Branch as at 30 June 2008, has been eliminated during consolidation.

34. Segmental reporting (continued)

As at 30 June 2008, the Bank's geographical segments are as follows:

	Albania	Kosova	Consolidated
Interest			
Interest income	45,963,074	107,969	46,071,043
Interest expense	(23,897,405)	(99,548)	(23,996,953)
Net interest margin	**22,065,669**	**8,421**	**22,074,090**
Non-interest income, net			
Fees and commissions, net	2,472,761	22,838	2,495,599
Foreign exchange revaluation gain (loss), net	(831,192)	58,681	(772,511)
Profit from FX trading activities, net	1,219,586	-	1,219,586
Other income (expense), net	(9,681)	15	(9,666)
Total non-interest income, net	**2,851,474**	**81,534**	**2,933,008**
Operating expenses			
Personnel	(5,095,499)	(159,656)	(5,255,155)
Administrative	(5,229,634)	(224,813)	(5,454,447)
Depreciation and amortization	(1,472,781)	(61,143)	(1,533,924)
Total operating expenses	**(11,797,914)**	**(445,612)**	**(12,243,526)**
Impairment of loans	(2,584,447)	-	(2,584,447)
Profit before taxes	**10,534,782**	**(355,657)**	**10,179,125**
Income tax	(991,865)	-	(991,865)
Net profit for the period	**9,542,917**	**(355,657)**	**9,187,260**

34. Segmental reporting (continued)

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

	Albania	Kosova	Consolidated
Assets			
Cash and balances with Central Bank	147,898,667	8,779,235	156,677,902
Placement and balances with banks	218,311,284	-	218,311,284
Treasury bills	251,938,823	-	251,938,823
Investment securities available-for-sale	12,215,324	-	12,215,324
Investment securities held-to-maturity	193,725,179	-	193,725,179
Loans and advances to customers	337,642,482	-	337,642,482
Property and equipment	13,303,775	805,797	14,109,572
Intangible assets	755,009	-	755,009
Non - current assets held for sale	487,377	-	487,377
Due from third parties	10,483,713	-	10,483,713
Other assets	3,315,655	14,364	3,330,019
Total assets	**1,190,077,288**	**9,599,396**	**1,199,676,684**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	1,120,637,245	5,910,707	1,126,547,952
Due to banks	2,214,031	-	2,214,031
Deferred tax liabilities	78,463	-	78,463
Accruals and other liabilities	6,254,449	14,857	6,269,306
Total liabilities	**1,129,184,188**	**5,925,564**	**1,135,109,752**
Shareholders' equity			
Share capital			44,700,000
Translation difference			1,503,706
Reserves			-
Retained earnings			1,107,471
Net profit for the year			17,255,755
Total shareholders' equity			**64,566,932**
Total liabilities and shareholders' equity			**1,199,676,684**

An amount of USD 3,536,770, which represents intra-group transactions between Head Office in Albania and Kosova Branch as at 31 December 2007, has been eliminated during consolidation.

Since the segment in Kosovo started its full activity by September 2007, the results of the Bank as at 30 June 2007 comprise only these of the Albanian segment.

35. Related party transactions

In accordance with IAS 24 *"Related Party Disclosures"*, a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Identity of related parties

The Bank has related party relationships with its shareholders, directors and executive officers.

Transactions with shareholders

The Bank had only one placement transaction with its shareholders during 2008, which contractual details are as follows:

Related party	Currency	Amount	Interest rate	Value date	Maturity date
CalikBank	USD	8,000,000	4.42%	22 April 2008	22 April 2009

Transactions with directors and executive officers

The remuneration of directors and executive officers is included in personnel expenses. It can be detailed as follows:

	Six-month period ended 30 June 2008	*Year ended 31 December 2007*
Directors	20,000	42,336
Executive officers	635,222	1,541,002
	655,222	**1,583,338**

36. Contingencies and commitments including off-balance sheets items

Guarantees

	30 June 2008	*31 December 2007*
Guarantees in favour of customers	19,349,921	15,823,265
Guarantees received from credit institutions	4,582,536	1,431,200
Letters of credit issued to customers	10,922,652	3,242,086

Guarantees and letters of credit issued in favour of customers are counter guaranteed by other financial institutions or fully cash collateralised.

At present the Bank is operating as an agent for the Government in the administration and implementation of certain loans to state owned entities utilising credit lines received from international donors. These donors have received individual guarantees from the government of Albania to cover the reimbursement of their lines of credit.

36. Contingencies and commitments including off-balance sheets items (continued)

Other

	30 June 2008	*31 December 2007*
Undrawn credit commitments (credit cards and overdrafts)	15,960,428	13,193,276
Outstanding cheques of non-resident banks	74,703	165,334
Spot foreign currency contract	22,661,619	17,105,398
Collaterals for loan portfolio	968,058,872	762,681,571

Legal

In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 30 June 2008.

Lease commitments

Such commitments for the period ended 30 June 2008 and year ended 31 December 2007 are composed as follows:

	30 June 2008	*31 December 2007*
Not later than 1 year	974,011	627,865
Later than 1 year and not later than 5 years	3,602,801	2,176,507
Later than 5 years	2,792,246	1,669,868
Total	**7,369,058**	**4,474,240**

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2008 with a maximum duration of ten years.

The Bank had 44 rented buildings as of 30 June 2008, in which are included the rented space dedicated to off site disaster recovery and the buildings of Prishtina and Prizren branches in Kosova.

The Bank may cancel these leases upon giving three months notice.

37. Post balance sheet events

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