First Investment Bank-Albania Sh.A.

Financial Statements
for the year ended 31 December 2008

(with independent auditors' report thereon)

KPMG

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Independent Auditors' Report

To the shareholders of
First Investment Bank – Albania Sh.A.

Tirana, 25 March 2009

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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Income statement for the year ended 31 December 2008

(In thousands of ALL)

	Note	Year ended 31 December 2008	Period ended 31 December 2007 (restated)
Interest and similar income		194,003	50,987
Interest expense and similar charges		(66,024)	(13,033)
Net interest income	7	**127,979**	**37,954**
Fee and commission income		13,007	2,432
Fee and commission expense		(8,900)	(459)
Net fee and commission income	8	**4,107**	**1,973**
Net trading income	9	**172,198**	**47,216**
TOTAL INCOME FROM BANKING OPERATIONS		**304,284**	**87,143**
Depreciation of plant and equipment	17	(35,919)	(4,379)
Amortization of intangible assets	18	(4,518)	(1,127)
General administrative expenses	10	(340,851)	(99,333)
Impairment losses	16	(20,524)	(3,643)
Other expenses, net	11	(138)	(820)
		(401,950)	**(109,302)**
LOSS BEFORE TAX		**(97,666)**	**(22,159)**
Income tax expense	12	**(2,689)**	**(398)**
NET LOSS		**(100,355)**	**(22,557)**

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 40.

Balance sheet as at 31 December 2008

(In thousands of ALL)

	Note	31 December 2008	31 December 2007 (restated)
ASSETS			
Cash and balances with Central Banks	13	427,331	158,671
Financial Assets held to maturity	14	126,689	85,775
Loans and advances to banks and financial institutions	15	924,422	975,439
Loans and advances to customers	16	1,467,008	530,110
Property and equipment	17	273,191	228,330
Intangible assets	18	20,515	17,002
Other assets	19	59,744	45,607
TOTAL ASSETS		**3,298,900**	**2,040,934**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to customers	20	2,234,983	1,000,452
Other liabilities	21	9,110	9,929
Deferred tax liability	12	3,087	398
TOTAL LIABILITIES		**2,247,180**	**1,010,779**
Issued share capital	22	1,174,632	1,052,712
Accumulated losses		(122,912)	(22,557)
SHAREHOLDERS' EQUITY		**1,051,720**	**1,030,155**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3,298,900**	**2,040,934**

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 40.

Statement of Cash Flow for the year ended 31 December 2008

(In thousands of ALL)

	Note	Year ended 31 December 2008	Period ended 31 December 2007
Cash flow from operating activities			
Net loss for the period		(100,355)	(22,557)
Adjustment for:			
Impairment losses	16	20,524	3,643
Depreciation and amortization	17, 18	40,437	5,506
Interest income		(194,003)	(50,987)
Interest expense		66,024	13,033
		(167,373)	**(51,362)**
Change in loans to customers		(946,436)	(530,402)
Change in other assets		(13,666)	(22,568)
Change in obligatory reserve		(103,728)	(96,922)
Change in due to customers		1,210,253	997,981
Change in other liabilities		1,349	10,327
Interest paid		(41,746)	(10,562)
Interest received		183,017	47,636
Income tax paid	12	-	(23,039)
NET CASH FLOW FROM OPERATING ACTIVITIES		**121,670**	**321,089**
Cash flow from investing activities			
Proceeds from sale of held to maturity		(40,916)	(85,775)
Purchase of intangible assets	18	(8,031)	(18,129)
Purchase of property, plant and equipment	17	(80,780)	(232,709)
NET CASH FLOW FROM INVESTING ACTIVITIES		**(129,727)**	**(336,613)**
Financing activities			
Proceeds from issue of chare capital	22	121,920	1,052,712
NET CASH FLOW FROM FINANCING ACTIVITIES		**121,920**	**1,052,712**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**113,863**	**1,037,188**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**1,037,188**	**-**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**25**	**1,151,051**	**1,037,188**

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 40.

Statement of Changes in Equity for the year ended 31 December 2008

(In thousands of ALL)

	Share Capital	*Retained Earnings/ accumulated losses*	*Total*
Balance at Inception date	-	-	-
Issued share capital	1,000,000	-	1,000,000
Profit for the period	-	27,475	27,475
Correction of error	52,712	(50,032)	2,680
Balance at 31 December 2007	**1,052,712**	**(22,557)**	**1,030,155**
Issued share capital	121,920	-	121,920
Loss for the year	-	(100,355)	(100,355)
Balance at 31 December 2008	**1,174,632**	**(122,912)**	**1,051,720**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 40.

The financial statements have been approved by the Management on 25 March 2009 and signed on its behalf by:

Bozhidar Todorov
Chief Executive Officer

Ardian Kamberi
Executive Director

Edvin Liko
Chief Financial Officer

(In thousands of ALL)

1. General

First Investment Bank - Albania (the Bank) incorporated in the Republic of Albania is a joint stock company established on 1 August 2005 and has its registered office in Tirana, "Deshmoret e Kombit" Blvd.Twin Towers, Tower 2 Floor 14.

The Bank has a general banking license issued by the Bank of Albania (herein after “BoA"), 6 July 2007, according to which it is allowed to conduct all banking transactions permitted by the Albanian legislation. The Bank is primarily involved in corporate and retail banking. The inception of the Share capital incurred on 6 June 2007 (hereinafter “Inception Date”) and amounted EUR 8,474,559. The Bank is a subsidiary of First Investment Bank A.D. (hereinafter the “Parent”), an entity incorporate in Bulgaria as a financial institution which owns 99.99% of the Bank shares. The Bank received a full banking license on 26 June 2007 and started its business operations as a new entity on September 1, 2007. The shareholders structure of the parent as at December 31, 2008 was as follows:

	% of issued share capital
Mr. Ivailo Dimitrov Mutafchiev	28.94
Mr. Tzeko Todorov Minev	28.94
Legnano Enterprise Limited Cyprus	7.68
Domenico Ventures Limited, British Virgin Islands	9.72
Rafaela Consultants Limited, British Virgin Islands	9.72
Other shareholders (shareholders holding shares subject to free trade on Bulgarian Stock Exchange – Sofia)	15.00
Total	100.00

The Bank took over the activity, assets and liabilities, rights and obligations from First Investment Bank – Tirana Branch (“the Branch”), which operated as a foreign branch of the Parent in Albania since February 1999. The take over of activity was based on a transfer agreement (hereinafter the “The Transfer Agreement”) between parties dated 6 November 2006, construed in conformity with the laws of the Republic of Albania. Such agreement foresaw a transfer at book value of assets and liabilities as at August 31, 2007. The start of the business operations for the Bank coincided with making effective such transfer of assets and liabilities. The legal consequence of this transfer for the Branch was the revoking of its banking license and commencing of liquidation procedures, in conformity with the Albanian law. On 9 September 2007 and on 14 September 2007 two respective addendums to the Transfer Agreement were signed where both parties agreed that based on the transfer of the activity a right emerged for the Bank in the Amount of Lek 143,502,561 or EUR 1,161,588. Both parties agreed that the Branch would pay to the Bank such amount prior to 30 November 2007. The activities that were agreed to be transferred were as follows:

- all the loan contracts with clients;
- all the contracts of current accounts with clients;
- all the deposits contract with the clients;

1. General (continued) (continued)

- all lease contracts;
- all employment contracts with employee guarantee that there no legal disputes;
- all long terms assets which have a monetary value;
- all financial assets;
- goodwill and any intangible assets and rights that were generated from Branch activity.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

b) Basis of measurement

The Bank does not engage in activities whose end result, in accordance with IFRS 7 and IAS 39 is presenting balance sheet items as derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets. Financial and non financial assets and liabilities are stated at amortized cost or historical cost convention.

c) Functional and presentation currency

The financial statements are presented in Albanian Lek (ALL) rounded to the nearest thousand, which is the Bank’s functional currency.

Rationale for the Management to choose ALL as the functional currency for the Bank is due to the fact that the Bank operates in an environment whose prices, in the judgment of Management, are driven by the domestic currency ALL. Costs and contracts are driven by ALL, even if their formal denomination is in different currencies.

d) Use of estimated and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5.

3. Significant accounting policies

a) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rates at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

b) Interest

Interest income and expense is recognized in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense include the amortization 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.

c) Fees and commission

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liabilities are included in the measurement of the effective interest rate.

Other fees and commissions income and expenses arises on financial services operated by the Bank and is recognized when the corresponding service is provided or received.

d) Net trading income

Net trading income comprises mainly gains less losses related to realized and unrealized foreign exchange differences.

e) Lease payments made

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

3. Significant accounting policies (continued)

f) Income tax expense

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

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

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

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

g) Financial assets

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

See accounting policies 3. (h,i,j, k)

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability. The bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

3. Significant accounting policies (continued)

g) Financial assets (continued)

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

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

The Bank writes off certain loans when they are determined to be uncollectible (see note 3.g.vii).

(iv) Offsetting

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

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

(v) Amortised cost measurement

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

(vi) Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

3. Significant accounting policies (continued)

g) Financial assets (continued)

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(vii) Identification and measurement of impairment

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

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

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

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

3. Significant accounting policies (continued)

g) Financial assets (continued)

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

h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid investments with maturity of three months or less.

i) Loans and advances to customers

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

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

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

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

j) Investments

Debt investments that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity assets.

k) Borrowings

Borrowings are short term therefore they are recognized at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Interest expense is recognized in the income statement over the period of the borrowings using the effective yield method.

3. Significant accounting policies (continued)

l) Property and equipment

Items of property and equipment are stated in the balance sheet at their acquisition cost less accumulated depreciation. Useful life is estimated based on Management expectations on the serviceability of assets.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost or valuation of fixed assets over their expected useful lives. The following are the useful lives:

Leasehold improvements	4-5 years
Fittings, fixtures and installations	10 years
Machinery and Equipment	5 – 10 years
Other office equipment and machinery	10 years
Other tangible assets	10 years

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

m) Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortization and any impairment losses. Amortization is calculated on a straight-line basis over the expected useful life of the asset. The following are the useful lives:

Patents, copyrights and trademarks	5 Years
Software & other intangible assets	5 Years

n) Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

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

3. Significant accounting policies (continued)

o) Provisions

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

p) Restatement of prior year's comparatives

Prior year's comparatives have been restated for the following:

(i) Revaluation of Share Capital paid in foreign currency

During 2008 the management found that the Paid up Capital incepted from the Parent Bank in a foreign currency was not recognized at the proper rate of exchange. The rate of exchange originally used was not as at the date of transaction but an approximate one. Therefore, 2007 comparatives financial information have been adjusted accordingly as if the exchange rate at the date of transaction was used.

(ii) Recalculation of deferred tax assets and liabilities

The above mentioned correction also resulted in the need to correct the 2007 deferred tax, accordingly the management has adjusted the 2007 financial statements in respect of deferred tax assets and liabilities.

For a detailed reconciliation of the restatement of the prior years comparatives, refer to 22 below.

3. Significant accounting policies (continued)

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

▪ IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Bank's 2009 financial statements and will be applicable retrospectively. The Bank management does not believe this will impact the Bank's operations.

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

▪ Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Bank's operations:

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

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

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

▪ Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Bank's 2009 financial statements, is expected to have an impact on the presentation of the financial statements as the Bank plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements.

3. Significant accounting policies (continued)

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

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional requirements, the Bank will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Since the Bank has no such qualifying assets, this will have no impact on prior periods in the Bank's 2009 financial statements.

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

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

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

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

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that:
  - net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
  - the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
  - on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

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

4. Risk Management Disclosures

Below is a discussion of the various risks the Bank is exposed to as a result of its non-trading activities and the approach taken to manage those risks.

a) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank strategy.

As at 31 December 2008 the thirty largest non-financial depositors represent 41% (2007: 30.22%) of total deposits from other customers.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment.

Maturity table as at 31 December 2008

In thousands of ALL	Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	226,631	-	-	-	200,700	427,331
Financial Assets held to maturity	-	79,026	47,663	-	-	126,689
Loans and advances to banks and financial institution	924,422	-	-	-	-	924,422
Loans and advances to customers	51,358	62,573	194,440	1,156,669	1,968	1,467,008
Property and equipment	-	-	-	-	273,191	273,191
Intangible assets	-	-	-	-	20,515	20,515
Other assets	-	-	-	-	59,744	59,743
Total Assets	**1,202,411**	**141,599**	**242,103**	**1,156,669**	**556,118**	**3,298,900**
Liabilities						
Due to other customers	349,117	279,401	474,441	21,686	1,110,338	2,234,983
Other liabilities	-	-	-	-	9,110	9,110
Deferred tax liability	-	-	-	-	3,087	3,087
Total Liabilities	**349,117**	**279,401**	**474,441**	**21,686**	**1,122,535**	**2,247,180**
Net liquidity gap	**853,294**	**(137,802)**	**(232,338)**	**1,134,983**	**(566,417)**	**1,051,720**

4. Risk Management Disclosures (continued)

a) Liquidity risk (continued)

Maturity table as at 31 December 2007

In thousands of ALL	Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	61,749	-	-	-	96,922	158,671
Financial Assets held to maturity	-	-	85,775	-	-	85,775
Loans and advances to banks and financial institution	975,439	-	-	-	-	975,439
Loans and advances to customers	75,098	265	8,753	421,783	24,211	530,110
Property and equipment	-	-	-	-	228,330	228,330
Intangible assets	-	-	-	-	17,002	17,002
Other assets	-	-	-	-	45,607	45,607
Total Assets	**1,112,286**	**265**	**94,528**	**421,783**	**412,072**	**2,040,934**
Liabilities						
Due to other customers	202,459	279,073	324,315	30,729	163,876	1,000,452
Other liabilities	-	-	-	-	9,929	9,929
Deferred tax liability	-	-	-	-	398	398
Total Liabilities	**202,459**	**279,073**	**324,315**	**30,729**	**174,203**	**1,010,779**
Net liquidity gap	**909,827**	**(278,808)**	**(229,787)**	**391,054**	**237,869**	**1,030,155**

b) Market risk

Interest rate risk

The Bank evaluates the Interest rate risk as the risk that its income from interest bearing assets might vary due to unexpected changes of core interest rates in the market. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bank of Albania repo rate, the LIBOR and EURIBOR, although these indices tend to move in high correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Bank measures the impact of a change in the market rates on net interest income.

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Interest rate risk (continued)

The interest rate risk on the Bank's net interest income one year forward following a change of +100bp/-100bp as at 31 December 2008 is ALL -49.3/+49.3 Mill (2007: ALL –10.9/+10.9 Mill). An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as shown in the following table where indicated the effective interest rates at 31 December 2008 and the periods in which financial liabilities and assets reprice.

In thousands of ALL	Total	Weighted avg. effective IR	Floating rate instruments	Fixed Rate Instruments		
				<=1 month	1-3 months	3 months-1 year
Assets						
Cash and balances with Central Banks	427,331	0.03	63,605	363,726	-	-
Financial Assets held to maturity	126,689	0.08	-	-	29,738	96,951
Loans and advances to banks and financial institution	924,422	0.06	12,038	912,384	-	-
Loans and advances to customers	1,467,008	0.09	440,143	43,597	32,023	817,747
Non-interest earning assets	353,450		353,450	-	-	-
Total Assets	**3,298,900**	**0.06**	**869,236**	**1,319,707**	**61,761**	**914,698**
Liabilities						
Due to other customer	2,234,983	0.02	1,068,201	346,174	280,692	488,735
Other liabilities	9,110	-	9,110	-	-	-
Deferred tax liability	3,087	-	3,087	-	-	-
Total Liabilities	**2,247,180**	**0.02**	**1,080,398**	**346,174**	**280,692**	**488,735**
REPRICING / DURATION GAP	**1,051,720**	**0.04**	**(211,162)**	**973,533**	**(218,931)**	**425,963**

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Interest rate risk (continued)

The following table indicates the effective interest rates at 31 December 2007 and the periods in which financial liabilities and assets reprice:

In thousands of ALL	**Total**	**Weighted avg. effective IR**	**Floating rate instruments**	**Fixed Rate Instruments**		
				<=1 month	**1-3 months**	**3 months-1 year**
Assets						
Cash and balances with Central Banks	158,671	0.02	63,698	94,973	-	-
Financial Assets held to maturity	85,775	0.08	-	-	-	85,775
Loans and advances to banks and financial institution	975,439	0.06	-	975,439	-	-
Loans and advances to customers	530,110	0.09	24,211	6,560	164,310	311,808
Non-interest earning assets	290,939	0.00	290,939	-	-	-
Total Assets	**2,040,934**	**0.06**	**378,848**	**1,076,972**	**164,310**	**397,583**
Liabilities						
Due to other customer	1,000,452	0.03	163,877	202,458	279,073	324,315
Other liabilities	9,929	0.00	9,929	-	-	-
Deferred tax liability	398	0.00	398	-	-	-
Total Liabilities	**1,010,779**	**0.03**	**173,829**	**202,458**	**279,073**	**324,315**
REPRICING / DURATION GAP	**1,030,155**	**0.03**	**(204,644)**	**874,514**	**(114,763)**	**73,268**

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank is exposed to currency risk through transactions in foreign currencies and on financial instruments that are denominated in a foreign currency.

The Bank’s equity is denominated in EUR. In accordance with IAS 21 the Bank recognizes any change in the functional currency value of its EUR subscribed and paid-in capital through the income statement.

The Bank’s transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the presentation currency of the Bank.

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Currency risk (continued)

As at 31 December 2008 the exposures were as follows:

In thousands of ALL	**ALL**	**USD**	**EUR**	**OTHERS**	**TOTAL**
ASSETS					
Cash and balances with Central Banks	273,654	23,003	124,966	5,708	427,331
Financial Assets held to maturity	126,689	-	-	-	126,689
Loans and advances to banks and financial institution	42,038	96,837	774,615	10,932	924,422
Loans and advances to customers	169,219	15,937	1,281,844	8	1,467,008
Property, plant and equipment	260,127	-	13,064	-	273,191
Intangible assets	20,515	-	-	-	20,515
Other assets	38,174	2,356	19,214	-	59,744
TOTAL ASSETS	**930,416**	**138,133**	**2,213,703**	**16,648**	**3,298,900**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Due to other customer	1,051,309	141,061	1,031,079	11,534	2,234,983
Other liabilities	7,785	1	1,324	-	9,110
Deferred tax liability	3,087	-	-	-	3,087
TOTAL LIABILITIES	**1,062,181**	**141,062**	**1,032,403**	**11,534**	**2,247,180**
Issued share capital	-		1,174,632	-	1,174,632
Accumulated losses	(122,912)		-	-	(122,912)
SHAREHOLDERS' EQUITY	**(122,912)**	**-**	**1,174,632**	**-**	**1,051,720**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**939,269**	**141,062**	**2,207,035**	**11,534**	**3,298,900**

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Currency risk (continued)

As at 31 December 2007 the exposures were as follows:

In thousands of ALL	ALL	USD	EUR	OTHERS	TOTAL
ASSETS					
Cash and balances with Central Banks	61,203	22,417	67,005	8,046	158,671
Financial Assets held to maturity	85,775	-	-	-	85,775
Loans and advances to banks and financial institution	27,578	109,291	802,682	35,888	975,439
Loans and advances to customers	33,304	3,709	493,097	-	530,110
Property, plant and equipment	162,143	1,310	64,877	-	228,330
Intangible assets	17,002	-	-	-	17,002
Other assets	31,496	2,564	11,547	-	45,607
TOTAL ASSETS	**418,501**	**139,291**	**1,439,208**	**43,934**	**2,040,934**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Due to other customer	485,396	134,822	340,648	39,586	1,000,452
Other liabilities	9,817	-	112	-	9,929
Deferred tax liability	398	-	-	-	398
TOTAL LIABILITIES	**495,611**	**134,822**	**340,760**	**39,586**	**1,010,779**
Issued share capital	-	-	1,052,712	-	1,052,712
Accumulated losses	(22,557)	-	-	-	(22,557)
SHAREHOLDERS' EQUITY	**(22,557)**	**-**	**1,052,712**	**-**	**1,030,155**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**473,054**	**134,822**	**1,393,472**	**39,586**	**2,040,934**

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank manages foreign currency risk in line with policy that sets limits on currency positions and dealer limits.

(In thousands of ALL)

4. Risk Management Disclosures (continued)

c) Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. These exposures as at 31 December 2008 are as follows:

(In '000 ALL)	**Gross exposure**	**Allowance for impairment**	**Net exposure**
Collectively impaired			
-Standard	1,333,693	(12,993)	1,320,700
-Special mention	40,185	(1,820)	38,365
-Substandard	8,015	(2,741)	5,274
-Doubtful	1,395	(874)	521
-Lost	-	-	-
	1,383,288	(18,428)	1,364,860
Individually impaired			
-Standard	**-**	**-**	-
-Special mention	38,338	(3,018)	35,320
-Substandard	54,765	(2,123)	52,642
-Doubtful	16,411	(2,225)	14,186
-Lost	536	(536)	-
	110,050	(7,902)	102,148
Total	**1,493,338**	**(26,330)**	**1,467,008**

The exposures as at 31 December 2007 are as follows:

(In '000 ALL)	**Gross exposure**	**Allowance for impairment**	**Net exposure**
Collectively impaired	**535,424**	**(5,315)**	**530,110**
-Standard	535,424	(5,315)	530,110
Individually impaired	**405**	**(405)**	**-**
-Lost	405	(405)	-
Total	**535,829**	**(5,719)**	**530,110**

In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (see note 23). Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by location and type of customer in relation to the Bank's investments, loans and advances, commitments to extend credit and guarantees issued.

4. Risk Management Disclosures (continued)

c) Credit risk (continued)

Total on balance sheet economic sector credit risk concentrations and their respective impairment allowances are presented in the table below:

In thousands of ALL	**As at 31 December 2008**	**As at 31 December 2007**
Trade	271,727	191,190
Private Individuals	499,977	184,807
Transport logistics	231,278	77,050
Industry	301,562	69,425
Services	182,285	8,833
Finance	6,509	4,524
	1,493,338	**535,829**
Trade	(5,303)	(1,569)
Private Individuals	(13,866)	(2,169)
Transport logistics	(2,282	(672)
Industry	(3,000)	(1,211)
Services	(1,830)	(53)
Finance	(49)	(45)
Less allowance for impairment	(26,330)	(5,719)
Net Credit Risk	**1,467,008**	**530,110**

The amounts reflected in the tables represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank's obligations. The extent of collateral held for guarantees and letters of credit is 100 percent.

Collateral for loans, guarantees, and letters of credit is usually in the form of cash, mortgage inventory, listed investments, or other property.

4. Risk Management Disclosures (continued)

c) Credit risk (continued)

The table below shows a breakdown of total credit extended to customers by the Bank and their respective impairment allowances, other than financial institutions, by type of collateral:

	in thousands of ALL **2008**	*in thousands of ALL* **2007**
Mortgage	1,148,669	439,105
Guarantee	140,074	9,089
Pledge of goods	69,858	44,170
Pledge of machines	106,421	33,484
Money deposit	11,115	3,873
Other collateral	17,201	6,108
	1,493,338	**535,829**
Mortgage	(20,143)	(4,002)
Guarantee	(3,983)	(563)
Pledge of goods	(765)	(446)
Pledge of machines	(1,230)	(611)
Money deposit	(112)	(81)
Other collateral	(97)	(16)
Less allowances for impairment	(26,330)	(5,719)
Total	**1,467,008**	**530,110**

d) Capital management

Regulatory capital

The Bank's lead regulator, BoA sets and monitors capital requirements. In implementing current capital requirements, the Bank is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets. Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank calculates requirements for credit risk for its exposures based on capital adequacy regulations established by the BoA. Exposures are taken into account using their balance sheet amount. Off-balance-sheet credit related commitments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 50%, 100%, 150%) depending on the class of exposure. Various credit risk mitigation techniques are used, for example collateralized transactions and guarantees. The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital (core capital), which includes ordinary share capital, share premium, statutory reserve, other general reserves, retained earnings from prior years and minority interests after deductions for goodwill, intangible assets and unrealized loss from available for sale investments.
- Tier 2 capital (supplementary capital), which includes qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.

4. Risk Management Disclosures (continued)

d) Capital management (continued)

The following limits are applied to elements of the capital base: Qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. 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 recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

Capital Ratios

The Bank has complied with all externally imposed capital requirements throughout the period. According to the requirements of BoA the capital adequacy ratio as at 31 December 2008 is 33.45% (31 December 2007: 106.45%).

5. Use of estimates and judgments

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

(i) Impairment losses on loans and advances

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

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

Because it started operations only on September 3rd 2007, the Bank can not only rely on historical information for analyzing past loss events and draw conclusions on future performance of loan portfolio, when assessing the allowance for collectively impaired loans. To this end, Management uses estimates based on available market information, benchmarks and indicators of impairment for assets with credit risk characteristics similar to the ones composing its portfolio.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(g)(vi).

(i) Calculation of corporate income tax

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

(In thousands of ALL)

6. Financial assets and liabilities

Accounting classification and fair values

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

At 31 December 2008	Note	Held to Maturity	Loans and Receivables	Other amortised cost	Total carrying amount	Fair Value
Cash and balances with Central Banks	13	-	-	427,331	427,331	427,331
Financial Assets held to maturity	14	126,689	-	-	126,689	126,370
Loans and advances to banks and financial institutions	15	-	924,422	-	924,422	924,422
Loans and advances to customers	16	-	1,467,608	-	1,467,608	1,467,608
Due to customers	20	-	-	2,234,983	2,234,983	2,259,295
At 31 December 2007		**Held to Maturity**	**Loans and Receivables**	**Other amortized cost**	**Total Carrying Amount**	**Fair Value**
Cash and balances with Central Banks	12			158,671	158,671	158,671
Financial Assets held to maturity	13	85,775		-	85,775	85,558
Loans and advances to banks and financial institutions	14		975,439	-	975,439	975,439
Loans and advances to customers	15		530,110	-	530,110	530,110
Due to customers	19		-	1,000,452	1,000,452	962,702

The fair value of cash and cash equivalents, loan and advances to banks is approximately equal to the carrying value given, because of their short-term maturity. The fair value of loans and advances to customers is approximately equal to their carrying value due to fact that the main part of the loan portfolio carries floating interest rates which reflect the changes in the market conditions.

7. Net interest income

In thousands of ALL	Year ended 31 December 2008	Period ended 31 December 2007
Interest and similar income		
Interest and similar income arises from:		
Accounting with and placements to banks and financial institutions	82,297	32,340
Loans to corporate clients	68,968	13,659
Loans to individual and households	31,195	3,378
Income from securities transactions	11,543	1,610
	194,003	**50,987**
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Deposits from other customers	(56,402)	(12,622)
Deposits from banks	(9,622)	(411)
	(66,024)	**(13,033)**
Net interest income	**127,979**	**37,954**

8. Net fee and commission income

In thousands of ALL	Year ended 31 December 2008	Period ended 31 December 2007
Fee and commission income		
Cards business	5,288	1,563
Payments and transactions	1,316	426
Letters of credit and guarantees	1,436	336
Customer accounts	4,727	60
Other	240	47
	13,007	**2,432**
Fee and commission expense		
Correspondent accounts	(2,909)	(194)
Card business	(6,691)	(265)
Total	**(8,900)**	**(459)**
Net fee and commission income	**4,107**	**1,973**

9. Net Trading Income

Net trading income comprises foreign exchange gains and other operating income.

In thousands of ALL	Year ended 31 December 2008	Period ended 31 December 2007
Foreign exchange rate income	168,324	45,345
Other operating incomes	3,874	1,871
	172,198	**47,216**

10. General administrative expenses

In thousands of ALL	**Year ended 31 December 2008**	**Period ended 31 December 2007**
Personnel Costs	124,476	44,122
Building rent expense	70,998	21,993
Administration, consultancy and other costs	67,736	16,487
Advertising	51,840	9,871
Telecommunication	25,801	6,860
General administrative expenses	**340,851**	**99,333**

At 31 December 2008, the Bank employed a total of 106 (2007: 88 employees) staff and senior management.

11. Other expenses, net

In thousands of ALL	**Period ended 31 December 2008**	**Period ended 31 December 2007**
Other expenses	138	820
Other expenses, net	**138**	**820**

Other expenses include individually small expense items incurred in the due course of business.

12. Income tax expense

In thousands of ALL	**Year ended 31 December 2008**	**Period ended 31 December 2007 (RESTATED)**
Current tax:		
Current year	-	-
Adjustments of previous year	-	-
Deferred tax expense:		
Origination and reversal of temporary differences	2,689	774
Reduction in Tax rate	-	(375)
Total income Tax expenses	**2,689**	**398**

Based on Albanian tax regulations, the Bank paid during 2008 a prepaid tax of ALL nil (2007: ALL 23,039). This prepaid tax can only be offset against income tax expense, if any, after future Tax Office inspections. The following is a reconciliation of effective tax rate:

	2008	**Effective tax rate**	**2007 (RESTATED)**	**Effective tax rate**
Loss for the period	**(100,355)**	**-**	**(22,557)**	**-**
Total income tax	2,689	-	398	-
Loss excluding income tax expense	**(97,666)**		**(22,159)**	
Income tax using the Bank's domestic tax rate	(9,766)	10%	(4,432)	20.0%
Reduction in tax rate	-	-	(375)	1.7%
Non-deductible expenses	1,212	1.3%	707	(3.1%)
Current year losses for which no deferred tax asset was recognized	12,118	(12.4%)	67	(0.3%)
Change in unrecognized temporary differences	(875)	(1.0%)	4,431	(20.0%)
Total tax expense	**2,689**	**(2.7%)**	**398**	**(1.8%)**

Recognized deferred tax liabilities as at 31 December 2008 are attributable to the following:

		2008			**2007 (RESTATED)**	
thousands of ALL	Assets	Liabilities	Net	Assets	Liabilities	Net
Loans and advances to customers	-	1,368	(1,368)	-	23	(23)
Accumulated depreciation	-	1,719	(1,719)	-	375	(375)
Net tax assets (liabilities)	**-**	**3,087**	**(3,087)**	**-**	**398**	**(398)**

At 31 December 2008 and 2007 deferred tax assets have not been recognized in respect of the following items:

thousands of ALL	**2008**	**2007 (RESTATED)**
Loans and advances to customers	1,172	148
Share capital	168	2,068
Tax losses	12,118	33
	13,458	**2,249**

Tax losses can be carried forward up to 3 years. The deductible temporary differences do not expire under the current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Bank can utilize the benefits therefrom.

13. Cash and balances with Central Banks

In thousands of ALL	As at 31 December 2008	As at 31 December 2007
Cash on hand		
- in Albanian Lek	30,428	13,499
- in foreign currencies	27,661	47,030
Gold bullion	1,975	1,949
Current account with Central Bank	168,541	1,220
Statutory reserve	198,726	94,973
	427,331	**158,671**

14. Financial assets held to maturity

The Bank holds a portfolio of debt instruments consisting of 12 months Treasury Bills issued by the Albanian Government in local currency. The Bank has the intent and ability to hold to maturity.

In thousands of ALL			As at 31 December 2007
Initial maturity	**Face value**	**Discount**	**Net book value**
12 months	90,000	(4,225)	85,775
TOTAL	**90,000**	**(4,225)**	**85,775**

In thousands of ALL			As at 31 December 2008
Initial maturity	**Face value**	**Discount**	**Net book value**
12 months	130,000	(3,311)	126,689
TOTAL	**130,000**	**(3,311)**	**126,689**

15. Loans and advances to banks and financial institutions

(a) Analysis by type

In thousands of ALL	As at 31 December 2008	As at 31 December 2007
Current accounts with banks	117,446	174,656
Placement with banks	806,976	800,783
Total	**924,422**	**975,439**

(b) Geographical analysis

In thousands of ALL	As at 31 December 2008	As at 31 December 2007
Domestic banks and financial institutions	79,630	90,534
Foreign banks and financial institutions	844,792	884,905
Total	**924,422**	**975,439**

16. Loans and advances to customers

In thousands of ALL	**As at 31 December 2008**	**As at 31 December 2007**
Retail customer	499,385	174,055
- Consumer loans	156,971	52,735
- Mortgage loans	342,414	121,320
Small and medium enterprises	993,953	361,774
Less allowance for impairment	(26,330)	(5,719)
	1,467,008	**530,110**

Loans and advances to customers composed by sector as at 31 December 2008 and 2007 are as follows:

In thousands of ALL	**31 December 2008**		
	Gross amount	Impairment allowance	Carrying Amount
Retail customer	499,385	(13,865)	485,520
- Consumer loans	156,971	(3,689)	153,282
- Mortgage loans	342,414	(10,176)	332,238
Small and medium enterprises	993,953	(12,465)	981,488
	1,493,338	(26,330)	1,467,008

	31 December 2007		
	Gross amount	Impairment allowance	Carrying Amount
Retail customer	174,055	(2,268)	171,787
- Consumer loans	52,735	-	52,735
- Mortgage loans	121,320	(2,268)	119,052
Small and medium enterprises	361,774	(3,451)	358,323
	535,829	(5,719)	530,110

Impairment allowances as at 31 December 2008 and 2007 are as follows:

In thousands of ALL	**As at 31 December 2008**	**As at 31 December 2007**
Specific impairment allowance	(7,904)	(405)
Collective impairment allowance	(18,426)	(5,314)
Write offs	-	-
	(26,330)	**(5,719)**

16. Loans and advances to customers (continued)

Changes in allowance for impairment for periods ended 31 December 2008 and 2007 are as follows:

In thousands of ALL	**2008**	**2007**
Specific allowance for impairment		
Balance at 1 January	(405)	(11)
Impairment loss for the year/period		
Charge of the year/period	(7,441)	(394)
Recoveries	-	-
Effect on foreign currency movements	(58)	-
Effect of discounting	-	-
Write-offs	-	-
Balance at 31 December	(7,904)	(405)
Collective allowance for impairment		
Balance at 1 January	(5,314)	(2,006)
Impairment Loss for the year		
Charge of the year	(13,955)	(3,646)
Recoveries	872	397
Effect on foreign currency movements	(29)	(59)
Effect of discounting		-
Write-offs		-
Balance at 31 December	(18,426)	(5,314)
Total allowance for impairment	**(26,330)**	**(5,719)**

17. Property and equipment

In thousands of ALL	Leasehold improvements	Fittings, fixtures & installations	Motor Vehicles	Machinery, office and Electronic Equipment	Computer and IT system	Office equipment and other	Fixed assets in progress	Total
Cost								
At 1 January 2007	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions	57,490	23,455	12,556	27,440	22,530	20,760	68,478	232,709
Transfer	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 1 January 2008	**57,490**	**23,455**	**12,556**	**27,440**	**22,530**	**20,760**	**68,478**	**232,709**
Additions	9,985	1,536	-	4,403	25,493	1,382	37,981	80,780
Transfer	14,060	1,857	4,645	35,294	121,08	9,902	(77,866)	-
At 31 December 2008	**81,535**	**26,848**	**17,201**	**67,137**	**60,131**	**32,044**	**28,593**	**313,489**
Accumulated Depreciation								
At 1 January 2007	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Charge for the period	(376)	(782)	(419)	(777)	(1,335)	(690)	-	(4,379)
At 1 January 2008	**(376)**	**(782)**	**(419)**	**(777)**	**(1,335)**	**(690)**	**-**	**(4,379)**
Charge for the period	(13,923)	(2,597)	(1,565)	(5,340)	(9,732	(2,760)		(35,919)
At 31 December 2008	**(14,299)**	**(3,379)**	**(1,984)**	**(6,117)**	**(11,067)**	**(3,450)**	**-**	**(40,298)**
Net book value								
At 31 December 2007	**57,114**	**22,673**	**12,137**	**26,663**	**21,195**	**20,070**	**68,478**	**228,330**
At 31 December 2008	**67,236**	**23,469**	**15,217**	**61,020**	**49,064**	**28,594**	**28,593**	**273,191**

Change in estimates

During the year ended 31 December 2008 the Bank conducted a review of its rented premises which resulted in changes to the expected usage of its leasehold improvements previously capitalized as assets. The useful lives of leasehold improvements which management previously estimated that could have longer service lives than the remaining duration were revised to match the lease contract duration. As a result the expected useful lives of these assets decreased and their estimated residual values increased. The effect of these changes on depreciation expense in current and future periods is as follows:

	2008	**2009**	**2010**	**2011**	**2012**	**Later**
Increase/(decrease) in depreciation expense	12,466	19,300	19,300	6,908	2,935	(61,291)

Other

Fixed assets in progress include all costs incurred for reconstruction and refurbishing the new branches to be opened. Upon final approval of opening new branches, such costs will be booked in the appropriate fixed assets accounts and will be amortized accordingly. Leasehold improvements include the costs incurred when opened the existing branches.

Comparative:

The opening position as of 1 January 2007 is shown since the bank was a legal entity at this time. However operations did not commence until 3 September 2007, which is why elsewhere in the financial statements, 2007 is referred to as “period” rather than year.

18. Intangible asset

In thousands of ALL	Patents, copyrights and trademarks	Software and other intangible assets	Total
Cost			
As at 1 January 2007	**-**	-	-
Additions	6,400	11,729	18,129
As at 31 December 2007	**6,400**	**11,729**	**18,129**
Additions	826	7,205	8,031
Disposals	-	-	-
As at 31 December 2008	**7,226**	**18,934**	**26,160**
Accumulated amortization			-
As at 1 January 2007	**-**	**-**	
Charge for the period	(427)	(700)	(1,127)
Disposals	**-**	**-**	**-**
As at 31 December 2007	**(427)**	**(700)**	**(1,127)**
Charge for the period	(1,404)	(3,114)	(4,518)
Disposals	-	-	
As at 31 December 2008	**(1,831)**	**(3,814)**	**(5,645)**
Net book value			
As at 31 December 2007	**5,973**	**11,029**	**17,002**
As at 31 December 2008	**5,395**	**15,120**	**20,515**

19. Other assets

In thousands of ALL	**As at 31 December 2008**	**As at 31 December 2007**
Prepaid profit tax	23,560	23,039
Prepayments	23,172	19,222
Guarantee deposits paid	1,382	20
Cheques for collection	-	5
Other	11,630	3,321
	59,744	**45,607**

20. Due to customers

In thousands of ALL	**As at 31 December 2008**	**As at 31 December 2007**
Retail customer	1,065,559	812,265
-payable on demand	222,905	67,791
-term deposits	842,654	744,474
Corporate customer	1,169,424	188,187
-payable on demand	865,454	93,902
-term deposits	303,970	94,285
Total	**2,234,983**	**1,000,452**

21. Other liabilities

In thousands of ALL	**As at 31 December 2008**	**As at 31 December 2007**
Fiscal administration	1,817	73
Social charges payable	1,700	1,487
Other creditors	538	2,252
Taxes payable	1,314	1,119
Accruals for expenses	2,264	4,079
Suppliers	1,477	919
	9,110	**9,929**

(In thousands of ALL)

22. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2007

As at 31 December 2008 the registered share capital of the Bank is Euro 9,474,576.26 or ALL equivalent 1,174,632 thousand) (2007: Euro 8,474,576 or ALL equivalent 1,052,712 thousand) divided into 1,118,000 ordinary shares with par value each of Euro 8.47457626 or ALL 1,050.56 (2007: 1,000,000 ordinary shares).

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 31 December 2008 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
“First Investment Bank AD Sofia”	1,117,998	99.999821
"First Financial Brokerage House Ltd" Sofia	1	0.000895
"First Insurance Brokerage Company" AD Sofia	1	0.000895
Total	**1,118,000**	**100**

(c) Reconciliation of the restatement of prior year comparative information

	Balance as at 31 December 2007		Profit/(Loss) for the period ending 31 December 2007	Shareholders' Equity as of 31 December 2007
	Deferred Tax Liability	Share Capital		
As previously reported	**3,078**	1,000,000	27,475	1,027,475
Correction of the share capital	-	52,712	(52,712)	-
Correction of the deferred tax liabilities and assets	(2,680)	-	2,680	2,680
Restated	**398**	**1,052,712**	**(22,557)**	**1,030,155**

23. Commitments and contingent liabilities

a) Memorandum items

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the balance sheet date if counterpart failed completely to perform as contracted.

Off balance sheet

In thousands of ALL	**As at 31 December 2008**	**As at 31 December 2007**
Bank guarantees	267,984	27,499
Commitments given to customers	168,708	17,928
Letter of credit	199,529	14,022
Contingent liabilities	4,703	4,703
	640,924	**64,152**

These commitments and contingent liabilities have off balance-sheet credit risk because only organization fees and accruals for probable losses are recognized in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

As at the balance sheet date there are no significant commitments and contingencies which require additional disclosure. At 31 December 2008 the extent of collateral held for guarantees and letters of credit is 100% percent (2007: 100 percent).

b) Lease commitments

In thousands of ALL	**As at 31 December 2008**	**As at 31 December 2007**
Up to 1 year	62,993	63,462
Above 1 year and less than 5 years	168,795	139,211
Above 5 years	94,570	27,768
	326,358	**230,441**

The Bank is entitled to renew the existing lease contracts at terms previously agreed with the owners, although is under no legal obligation to do so

24. Related Parties

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control. A number of banking transactions are entered into with the related party First Investment Bank A.D. (Bulgaria) in the normal course of business. This related party qualifies as parent company of the Bank. Such transactions include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates. The outstanding balances at the end of respective periods are as follows:

In thousands of ALL

	2008	**2007**
Deposits with the parent company	810,550	874,874
Interest income	74,323	30,697
Interest expense	(24)	(1)
Commission income	(2)	(1)
Commission expenses	1,284	-

The key management personnel of the Bank received remuneration of ALL16,800 thousand (2007: ALL 6,257 thousand) for the year ending 31 December 2008. Managers received other benefits amounting ALL 2,735 (2007: ALL 1,033) thousand for the year ending 31 December 2008.

23 Cash and cash equivalent

In thousands of ALL	As at 31 December 2008	As at 31 December 2007
Cash on hand (note 13)	58,089	60,529
Current accounts	285,987	175,876
-Central Bank (note 13)	168,541	1,220
-Correspondent banks (note 15)	117,446	174,656
-Term deposits with banks with maturity less than three years (note 15)	806,975	800,783
Total cash and cash equivalents	**1,151,051**	**1,037,188**

24 Post balance sheet events

a) Tax Legislation

Effective from 1 January 2009 the Albanian Parliament approved Law No.10072 dated 09.02.2009 on Some Amendments to Law No.8438 dated 28.12.1998 on Income Tax which is expected to be published and enacted. With these amendments, the Republic of Albania will incorporate any impact due to the introduction of the International Financial Reporting Standards or the National Accounting Standards as the basis for the underlying records when an entity is subject to corporate income tax.

b) Increase in Share Capital

On 16 February 2009 the General Assembly of Shareholders approved the increase of Bank Share Capital with Euro 1 Mill and accordingly approved the related changes to the Bank by-laws.

c) Other

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