FIRST INVESTMENT BANK - ALBANIA SH.A.

Financial statements for the year ended 31 December 2009
(with independent auditor's report thereon)

KPMG Albania Sh.p.k.
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Independent Auditors' Report

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

Tirana, 19 February 2009

We have audited the accompanying financial statements of First Investment Bank, Albania Sh.a. ("the Bank"), which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 2009, 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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FIRST INVESTMENT BANK - ALBANIA SH.A.

Statement of Comprehensive Income for the year ended 31 December 2009 (single statement approach)

In thousands of ALL

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Interest and similar income		345,751	194,003
Interest expense and similar charges		(117,448)	(66,024)
Net interest income	**7**	**228,303**	**127,979**
Fee and commission income		26,122	13,007
Fee and commission expense		(7,571)	(8,900)
Net fee and commission income	**8**	**18,551**	**4,107**
Net trading income	9	184,197	172,198
TOTAL INCOME FROM BANKING OPERATIONS		**431,051**	**304,284**
Depreciation of property and equipment	18	(53,694)	(35,919)
Amortization of intangible assets	19	(5,703)	(4,518)
General administrative expenses	10	(305,847)	(340,851)
Impairment losses	17	(13,015)	(20,524)
Other expenses, net	11	(15,560)	(138)
		(393,819)	**(401,950)**
PROFIT/(LOSS) BEFORE TAX		**37,232**	**(97,666)**
Income tax expense	**12**	**(1,410)**	**(2,689)**
PROFIT/(LOSS) FOR THE YEAR		**35,822**	**(100,355)**
Other comprehensive income, net of income tax		**-**	**-**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTED TO THE OWNERS		**35,822**	**(100,355)**

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 44.

FIRST INVESTMENT BANK - ALBANIA SH.A.

Statement of Financial Position as at 31 December 2009
In thousands of ALL

In thousands of ALL	Note	As at 31 December 2009	As at 31 December 2008
ASSETS			
Cash and balances with Central Bank	13	131,767	228,605
Restricted balances	14	292,736	198,726
Financial Assets held to maturity	15	381,418	126,689
Loans and advances to banks and financial institutions	16	3,129,251	924,422
Loans and advances to customers	17	1,578,617	1,467,008
Property and equipment	18	255,595	273,191
Intangible assets	19	20,912	20,515
Assets held for sale	20	5,563	-
Other assets	21	71,369	59,744
TOTAL ASSETS		**5,867,228**	**3,298,900**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to banks and other financial institutions	22	95,832	-
Due to customers	23	4,535,450	2,234,983
Other liabilities	24	13,747	9,110
Deferred tax liability	12	4,497	3,087
Total liabilities		**4,649,526**	**2,247,180**
Issued share capital	25	1,304,792	1,174,632
Accumulated losses		(87,090)	(122,912)
Shareholders' equity		**1,217,702**	**1,051,720**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,867,228**	**3,298,900**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 44.

Statement of Cash Flow for the year ended 31 December 2009

In thousands of ALL

In thousands of ALL	Note	Year ended 31 December 2009	Year ended 31 December 2008
Cash flow from operating activities:			
Net profit / (loss) for the period)		**35,822**	**(100,355)**
Non-cash items in the statement of comprehensive income			
Impairment losses	17	13,015	20,524
Depreciation and amortization	18,19	59,397	40,437
Loss on disposal of fixed assets		3,638	-
Interest income		(345,751)	(194,003)
Interest expense		117,448	66,024
Operating cash flows before changes in working capital		***(116,431)***	***(167,373)***
Changes in working capital:			
Increase in loans to customers		(124,381)	(946,436)
Increase in other assets		(11,662)	(13,666)
Increase in obligatory reserve		(94,010)	(103,728)
Increase in due to customers		2,398,474	1,210,253
Increase in other liabilities		6,047	1,349
Interest paid		(119,623)	(41,746)
Interest received		355,216	183,017
Profit tax paid		(40)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES		**2,293,590**	**121,670**
Cash flow used in investing activities:			
Net proceeds from purchase and redemption of assets held to maturity		(270,000)	(40,916)
Purchase of intangible assets		(6,100)	(8,031)
Purchase of property and equipment		(39,736)	(80,780)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(315,836)**	**(129,727)**
Cash flow from financing activities:			
Proceeds from issue of share capital		130,160	121,920
NET CASH FLOWS FROM FINANCING ACTIVITIES		**130,160**	**121,920**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,107,914**	**113,863**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**28**	**1,151,051**	**1,037,188**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**28**	**3,258,965**	**1,151,051**

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 44.

FIRST INVESTMENT BANK - ALBANIA SH.A.

Statement of Changes in Equity for the year ended 31 December 2009

In thousands of ALL

	Share Capital	(Accumulated Losses) / Retained earnings	Total equity
Balance at 1 January 2008	**1,052,712**	**(22,557)**	**1,030,155**
Total comprehensive income for the period			
Profit or loss	-	(100,355)	(100,355)
Other comprehensive income, net of income tax	-	-	-
Total comprehensive income for the year	-	(100,355)	(100,355)
Transaction with owners, recorded directly in equity			
Contribution by owners			
Issued share capital	121,920	-	121,920
Total contributions by and distributions to owners	**121,920**	**-**	**121,920**
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 6 to 44.

Statement of Changes in Equity for the year ended 31 December 2009 (continued)

In thousands of ALL

	Share Capital	(Accumulated Losses) / Retained earnings	Total equity
Balance at 1 January 2009	**1,174,632**	**(122,912)**	**1,051,720**
Total comprehensive income for the period			
Profit or loss	-	35,822	35,822
Other comprehensive income, net of income tax	-	-	-
Total comprehensive income for the year	-	35,822	35,822
Transaction with owners, recorded directly in equity			
Contribution by the owners			
Issued share capital	130,160	-	130,160
Total contributions by and distributions to owners	**130,160**	**-**	**130,160**
Balance at 31 December 2009	**1,304,792**	**(87,090)**	**1,217,702**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 44.

The financial statements have been approved by the Management on 19 February 2010 and signed on its behalf by:

Bozhidar Todorov

Chief Executive Officer

Ardian Kamberi

Executive Director

Edvin Liko

Chief Financial Officer

Notes to the financial statements

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"), on 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 to EUR 8,474,559. The Bank is a subsidiary of First Investment Bank A.D. (hereinafter the "Parent"), an entity incorporated 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, 2009 was as follows:

Shareholders	% 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 ALL 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 clients;

Notes to the financial statements
In thousands of ALL

1. General (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 hold 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 in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

Notes to the financial statements

In thousands of ALL

2. Basis of preparation (continued)

e) Changes in accounting policies

(i) Presentation of financial statements

Effective 1 January 2009 the Bank has changed its accounting policy in respect of presentation of financial statements. The Bank applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented to conform with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on the earnings per share.

3. Significant accounting policies

a) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

b) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

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.

Notes to the financial statements
In thousands of ALL

3. Significant accounting policies (continued)

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.

f) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they 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.

Notes to the financial statements

In thousands of ALL

3. Significant accounting policies (continued)

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 and o)

(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.

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 whom 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 derecognising 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).

Notes to the financial statements

In thousands of ALL

3. Significant accounting policies (continued)

g) Financial assets (continued)

(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) Amortized cost measurement

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

(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.

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 on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

3. Significant accounting policies (continued)

g) Financial assets (continued)

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 and the 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 modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment 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 modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial 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.

3. Significant accounting policies (continued)

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 profit or loss over the period of the borrowings using the effective yield method.

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.

Notes to the financial statements

In thousands of ALL

3. Significant accounting policies (continued)

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.

o) Deposits and subordinated liabilities

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

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

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Deposits and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

p) 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.

3. Significant accounting policies (continued)

q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements:

- Amendments to IFRS 2 *Share-based Payment* - Group Cash-settled Share-based Payment Transactions. The amendments to the Standard require that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets to recognize the goods or services received in its financial statements. Previously group cash-settled share-based payment transactions were not addressed directly in IFRS 2. The amendments will be mandatory for the Bank's 2010 financial statements and is not relevant to the Bank's operations as the Bank has not put in place any share based payments plan for its personnel or directors.

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

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

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

- IFRS 9 Financial Instruments, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if its is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of assets held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date.

The standard requires that derivatives embedded in contracts with a host that is a financial asset with the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its as to whether it should measured at amortised cost or fair value.

Notes to the financial statements
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3. Significant accounting policies (continued)

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Bank is currently in the process of evaluating the potential effect of this standard.

- Revised IAS 24 *Related Party Disclosure* (effective for annual periods beginning on or after 1 January 2011) introduces amendment that exempts government-related entities from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.

The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Revised IAS 24 is not relevant to the Bank's financial statements as the Bank is not a government-related entity and the revised definition of a related party is not expected to result in new relationships requiring disclosure in the 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.

- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Bank's financial statements as the Bank has not issued such instruments at any time in the past.

- 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.

3. Significant accounting policies (continued)

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

- IFRS for Small and Medium-sized Entities (The IFRS for SMEs does not contain an effective date; instead, it will take effect from a date determined by the national regulator in each jurisdiction). The IFRS for SMEs is intended to facilitate financial reporting by small and medium-sized entities (SMEs) that want to use international standards by providing an accounting standard suitable for them. It is a simplified and slimmed-down version of full IFRSs and is available for entities that do not have public accountability. It will be up to the national regulators and legislators to decide who is permitted or required to prepare IFRS for SMEs in each jurisdiction.

IFRS for SMEs simplifies the recognition and measurement requirements compared to full IFRSs in some areas and excludes topics not considered relevant for SMEs and removes the more complex option in certain areas in which full IFRSs allow more than one accounting option. An entity follows either the requirements of the IFRS for SMEs in full or else uses full IFRSs. The only exception is that an entity applying the IFRS for SMEs can choose for financial instruments to apply either the provisions of the IFRS for SMEs, or the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement and the disclosure requirements of the IFRS for SMEs. IFRS for SMEs is not relevant as the Bank is considered an entity with public accountability and is therefore excluded from applying IFRS for SMEs.

- Amendment to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 is not relevant to the Bank's financial statements as the Bank does not have any defined benefit plans with minimum funding requirements.

- IFRIC 17 *Distributions of Non-cash Assets to Owners.* This Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognized in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognized in profit or loss.

As the interpretation becomes mandatory for the Bank's 2010 financial statements and will be applicable prospectively, it will have no impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

Notes to the financial statements

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3. Significant accounting policies (continued)

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

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are *consideration paid* in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The Bank did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Bank's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

- IAS 17, *Leases* (effective for annual periods beginning on or after 1 January 2010). IAS 17 is amended to delete paragraph 14, which stated that a lease of land with an indefinite economic life is normally classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. Under the amendments, a land lease with a lease term of several decades or longer may be classified as a finance lease, even if at the end of the lease term title will not pass to the lessee, because in such arrangements substantially all risks and rewards are transferred to the lessee and the present value of the residual value of the leased asset is considered negligible. The amendment to IAS 17 is not relevant to the Bank's financial statements as the Bank does not have any lease of land.

Notes to the financial statements
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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 2009 the thirty largest non-financial institution depositors represent 40% (2008: 41 %) 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 2009

	Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More Than 1 year	Maturity not defined	Total
Financial Assets						
Cash and balances With Central Bank	131,767	-	-	-	-	131,767
Restricted balances					292,736	292,736
Financial Assets held to maturity	-	195,243	186,175	-	-	381,418
Loans and advances to banks and financial institutions	3,129,251	-	-	-	-	3,129,251
Loans and advances to customers	25,622	79,840	266,502	1,206,653	-	1,578,617
Other assets	-	-	-	-	76,932	76,932
Total	**3,286,640**	**275,083**	**452,677**	**1,206,653**	**369,668**	**5,590,721**
Financial Liabilities						
Due to banks and other financial institutions	95,832	-	-	-	-	95,832
Due to customers	2,161,015	1,464,701	909,734	-	-	4,535,450
Other liabilities	-	-	-	-	13,747	13,747
Total	**2,256,847**	**1,464,701**	**909,734**	**-**	**13,747**	**4,645,029**
Net liquidity gap	**1,029,793**	**(1,189,618)**	**(457,057)**	**1,206,653**	**355,921**	**945,692**

Notes to the financial statements

In thousands of ALL

4. Risk Management Disclosures (continued)

a) Liquidity risk (continued)

Maturity table as at 31 December 2008

	Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More Than 1 year	Maturity not defined	Total
Financial Assets						
Cash and balances with Central Bank	228,605	-	-	-		228,605
Restricted balances	-	-	-	-	198,726	198,726
Financial Assets held to maturity	-	79,026	47,663	-	-	126,689
Loans and advances to banks and financial institutions	924,422	-	-	-	-	924,422
Loans and advances to customers	51,358	62,573	194,440	1,156,669	1,968	1,467,008
Other assets	-	-	-	-	59,744	59,744
Total	**1,204,385**	**141,599**	**242,103**	**1,156,669**	**260,438**	**3,005,194**
Financial Liabilities						
Due to banks and other financial institutions	-	-	-	-	-	-
Due to customers	50,428	305,687	746,844	21,686	1,110,338	2,234,983
Other liabilities	-	-	-	-	9,110	9,110
Total	**50,428**	**305,687**	**746,844**	**21,686**	**1,119,448**	**2,244,093**
Net liquidity gap	**1,153,957**	**(164,088)**	**(504,741)**	**1,134,983**	**(859,010)**	**761,101**

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 reprise 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 reprising 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 reprising 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.

Notes to the financial statements

In thousands of ALL

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 2009 is ALL +8.8/-8.8 Million (2008: ALL +7.1/-7.1 Million). 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 the effective interest rates as indicated at 31 December 2009 and the periods in which financial liabilities and assets reprise.

				Fixed Rate Instruments			
	Total	**Weighted avg. effective IR**	**Floating rate instruments**	**<=1 month**	**1-3 months**	**3 months 1 year**	**More than 1 year**
Financial Assets							
Cash and balances with Central Bank	131,767	2.00%	131,767	-	-	-	-
Restricted balances	292,736	2.00%	292,736	-	-	-	-
Financial Assets held to maturity	381,418	9.08%	-	-	95,355	286,063	-
Loans and advances to banks and financial institutions	3,129,251	6.00%	-	3,129,251	-	-	-
Loans and advances to customers	1,578,617	10.57%	473,629	46,914	34,459	143,654	879,961
Non-interest earning assets	76,932	-	-	-	-	-	-
Total	**5,590,721**	**6.78%**	**898,132**	**3,176,165**	**129,814**	**429,717**	**879,961**
Financial Liabilities							
Due to banks and other financial institutions	95,832	1.55%	-	95,832	-	-	-
Due to customers	4,535,450	4.00%	1,039,753	909,734	1,655,537	921,355	9,071
Non-interest bearing liabilities	13,747	-	-	-	-	-	-
Total	**4,645,029**	**3.93%**	**1,039,753**	**1,005,566**	**1,655,537**	**921,355**	**9,071**
REPRICING / DURATION GAP	**945,692**	**2.85%**	**(141,621)**	**2,170,599**	**(1,525,723)**	**(491,638)**	**870,890**

Notes to the financial statements

In thousands of ALL

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Interest rate risk (continued)

The following table indicates the effective interest rates at 31 December 2008 and the periods in which financial liabilities and assets reprise:

	Total	Weighted avg. effective IR	Floating rate instruments	Fixed Rate Instruments			
				<=1 month	1-3 months	3 months 1 year	More than 1 year
Financial Assets							
Cash and balances with Central Bank	228,605	2.80%	228,605	-	-	-	-
Restricted balances	198,726	2.80%	198,726	-	-	-	-
Financial Assets held to maturity	126,689	8.00%	-	-	29,738	96,951	-
Loans and advances to banks and financial institutions	924,422	6.00%	12,038	912,384	-	-	-
Loans and advances to customers	1,467,008	9.10%	440,143	43,597	32,023	133,498	817,747
Non-interest earning assets	59,744	-	-	-	-	-	-
Total	**3,005,194**	**6.40%**	**879,512**	**955,981**	**61,761**	**230,449**	**817,747**
Financial Liabilities							
Due to banks and other financial institutions							
Due to other customers	2,234,983	2.00%	1,093,236	354,287	287,270	495,588	4,602
Non-interest bearing liabilities	9,110	-	-	-	-	-	-
Total	**2,244,093**	**1.99%**	**1,093,236**	**354,287**	**287,270**	**495,588**	**4,602**
REPRICING / DURATION GAP	**761,101**	**4.41%**	**(213,724)**	**601,694**	**(225,509)**	**(265,139)**	**813,145**

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 transactional exposures give rise to foreign currency gains and losses that are recognized in the profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the presentation currency of the Bank.

Notes to the financial statements

In thousands of ALL

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Currency risk (continued)

As at 31 December 2009 the exposures were as follows:

	ALL	USD	EUR	OTHER	TOTAL
Financial Assets					
Cash and balances with Central Bank	43,588	21,598	45,881	20,700	131,767
Restricted balances	120,187	30,438	142,111	-	292,736
Financial Assets held to maturity	381,418	-	-	-	381,418
Loans and advances to banks and financial institutions	163,275	332,140	2,626,999	6,837	3,129,251
Loans and advances to customers	252,100	27,700	1,298,786	31	1,578,617
Other assets	42,585	8,441	25,906	-	76,932
Total	**1,003,153**	**420,317**	**4,139,683**	**27,568**	**5,590,721**
Financial Liabilities					
Due to banks and other financial institutions	-	95,832	-	-	95,832
Due to other customers	1,455,818	315,829	2,743,815	19,988	4,535,450
Other liabilities	11,016	-	2,731	-	13,747
Total	**1,466,834**	**411,661**	**2,746,546**	**19,988**	**4,645,029**
Net Currency position	**(463,681)**	**8,656**	**1,393,137**	**7,580**	**945,692**

As at 31 December 2008 the exposures were as follows:

	ALL	USD	EUR	OTHER	TOTAL
Financial Assets					
Cash and balances with Central Bank	198,400	8,499	15,998	5,708	228,605
Restricted balances	75,254	14,504	108,968	-	198,726
Financial Assets held to maturity	126,689	-	-	-	126,689
Loans and advances to banks and financial institutions	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
Other assets	38,174	2,356	19,214	-	59,744
Total	**649,774**	**138,133**	**2,200,639**	**16,648**	**3,005,194**
Financial Liabilities					
Due to banks and other financial institutions					
Due to other customers	1,051,309	141,061	1,031,079	11,534	2,234,983
Other liabilities	7,785	1	1,324	-	9,110
Total	**1,059,094**	**141,062**	**1,032,403**	**11,534**	**2,244,093**
Net Currency position	**(409,320)**	**(2,929)**	**1,168,236**	**5,114**	**761,101**

Notes to the financial statements
In thousands of ALL

4. Risk Management Disclosures (continued)

b) Market risk (continued)

Currency risk (continued)

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

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 2009 are as follows:

	Gross exposure	Allowance for Impairment	Net exposure
Collectively impaired			
-Standard	1,354,881	(14,310)	1,340,571
-Watch	144,768	(1,528)	143,240
-Substandard	26,220	(277)	25,943
-Doubtful	37,593	(398)	37,195
-Lost	-	-	-
Total collectively	**1,563,462**	**(16,513)**	**1,546,949**
Individually impaired			
-Standard	-	-	-
-Watch	-	-	-
-Substandard	13,799	(624)	13,175
-Doubtful	14,325	(2,200)	12,125
-Lost	26,352	(19,984)	6,368
Total individually	**54,476**	**(22,808)**	**31,668**
Total	**1,617,938**	**(39,321)**	**1,578,617**

Notes to the financial statements

In thousands of ALL

4. Risk Management Disclosures (continued)

c) Credit risk (continued)

The exposures as at 31 December 2008 are as follows:

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

In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (see note 26).

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.

Notes to the financial statements
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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:

	As at 31 December 2009	As at 31 December 2008
Trade	191,749	201,631
Private individuals	591,713	499,977
Communication	6,057	-
Construction	317,845	287,209
Tourism	161,482	149,587
Agriculture	8,322	8,072
Transportation	110,272	137,618
Industry	119,331	102,894
Services	105,498	101,690
Finance	5,669	4,660
Gross credit risk	**1,617,938**	**1,493,338**
Trade	(2,027)	(4,604)
Private individuals	(22,885)	(13,866)
Communication	(64)	-
Construction	(3,355)	(2,854)
Tourism	(1,705)	(1,507)
Agriculture	(87)	-
Transportation	(6,768)	(1,657)
Industry	(1,256)	(1,028)
Services	(1,114)	(783)
Finance	(60)	(31)
Less allowance for impairment	**(39,321)**	**(26,330)**
Net Credit Risk	**1,578,617**	**1,467,008**

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 at least 100 percent.

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

Notes to the financial statements
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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, up to a maximum of the outstanding liability:

	As at 31 December 2009	As at 31 December 2008
Money deposits	35,324	11,115
Mortgage	1,380,995	1,192,022
Guarantee	75,292	96,721
Pledge of machines	38,829	106,421
Pledge of receivables	52,114	69,858
Other collateral	35,384	17,201
Gross credit risk	**1,617,938**	**1,493,338**
Money deposits	(373)	(112)
Mortgage	(21,131)	(20,579)
Guarantee	(10,295)	(3,547)
Pledge of machines	(6,015)	(1,230)
Pledge of receivables	(1,135)	(765)
Other collateral	(372)	(97)
Less allowance for impairment	**(39,321)**	**(26,330)**
Net Credit Risk	**1,578,617**	**1,467,008**

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%, and 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.

Notes to the financial statements

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4. Risk Management Disclosures (continued)

d) Capital management (continued)

Regulatory capital (continued)

- Tier 2 capital (supplementary capital), which includes qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.

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 2009 is 50.01% (31 December 2008: 33.45 %) compared to a minimum of 12% stipulated by the Bank of Albania.

Notes to the financial statements

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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 profit or loss, 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 rely only 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) Valuation of financial instruments

The Bank's accounting policy on fair value measurement is discussed in accounting policy 3(g).

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:'

-Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

-Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

-Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and based on a current yield curve appropriate for the remaining term to maturity. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

Notes to the financial statements
In thousands of ALL

5. Use of estimates and judgments (continued)

(ii) Valuation of financial instruments (continued)

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

As at 31 December 2009 and 2008 all financial instruments are measured at amortized cost and the respective fair values have been disclosed in note 6. Fair values as at 31 December 2009 and 2008 have been measured based on Level 2 hierarchy.

(iii) Calculation of corporate income tax

Starting from 1 January 2008 the Bank has applied as its statutory accounting framework the International Financial Reporting Standards. Accordingly, the application of International Financial Reporting Standards provides 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 the Bank's financial position, or results of operations.

Notes to the financial statements

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 Bank's financial assets and financial liabilities:

As at 31 December 2009

	Note	Held to Maturity	Loans and Receivables	Other amortised cost	Total carrying amount	Fair Value
Cash and balances with Central Bank	13	-	-	131,767	131,767	131,767
Restricted balances	14	-	-	292,736	292,736	292,736
Financial Assets held to maturity	15	381,418	-	-	381,418	383,361
Loans and advances to banks and financial institutions	16	-	3,129,251	-	3,129,251	3,129,251
Loans and advances to customers	17	-	1,578,617	-	1,578,617	1,578,617
Due to banks and other financial institutions	22	-	-	95,832	95,832	95,832
Due to customers	23	-	-	4,535,450	4,535,450	4,604,387

As at 31 December 2008

	Note	Held to Maturity	Loans and Receivables	Other amortised cost	Total carrying amount	Fair Value
Cash and balances with Central Bank	13	-	-	228,605	228,605	228,605
Restricted balances	14	-	-	198,726	198,726	198,726
Financial Assets held to maturity	15	126,689	-	-	126,689	126,370
Loans and advances to banks and financial institutions	16	-	924,422	-	924,422	924,422
Loans and advances to customers	17	-	1,467,608	-	1,467,608	1,467,608
Due to banks and other financial institutions	22	-	-	-	-	-
Due to customers	23	-	-	2,234,983	2,234,983	2,259,295

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.

Notes to the financial statements

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7. Net interest income

	Year ended 31 December 2009	Year ended 31 December 2008
Interest and similar income		
Interest and similar income arises from:		
Accounting with and placements with banks and financial institutions	152,456	82,297
Loans to corporate clients	114,334	68,968
Loans to individual and households	55,674	31,195
Income from securities transactions	23,287	11,543
	345,751	**194,003**
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Deposits from customers	(109,855)	(56,402)
Deposits from banks	(7,593)	(9,622)
	(117,448)	**(66,024)**
Net interest income	**228,303**	**127,979**

Included within various line items under interest income for the year ended 31 December 2009 is a total of ALL 4,040 thousand (2008: ALL 1,359 thousand) accrued on individually impaired loans.

8. Net fee and commission income

	Year ended 31 December 2009	Year ended 31 December 2008
Fee and commission income		
Cards business	9,577	5,288
Payments and transactions	2,988	1,316
Letters of credit and guarantees	1,129	1,436
Customer accounts	11,923	4,727
Other	505	240
	26,122	**13,007**
Fee and commission expense		
Correspondent accounts	(5,551)	(2,209)
Card business	(2,020)	(6,691)
	(7,571)	**(8,900)**
Net fee and commission income	**18,551**	**4,107**

Notes to the financial statements
In thousands of ALL

9. Net Trading Income

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

	Year ended 31 December 2009	Year ended 31 December 2008
Foreign exchange rate income	183,187	168,324
Other operating income	1,010	3,874
Total	**184,197**	**172,198**

10. General administrative expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Personnel Costs	117,273	124,476
Building rent expense	78,488	70,998
Legal and other professional consultancies	6,043	7,085
Maintenance and repair	19,359	16,572
Utilities	6,229	4,629
External services and supplies	34,748	41,591
Advertising and PR	30,181	56,292
Telephone and other data communication	13,526	19,208
Total	**305,847**	**340,851**

At 31 December 2009, the Bank employed a total of 100 (2008: 106 employees) staff and senior management.

11. Other expenses, net

Other expenses amount to ALL 15,560 thousand (2008: ALL 138 thousand) and include individually small expense items incurred in the course of business.

12. Income tax expense

	Year ended 31 December 2009	Year ended 31 December 2008
Current tax:		
Current year	-	-
Adjustments of previous year	-	-
Deferred tax expense:		
Origination and reversal of temporary differences	(1,410)	(2,689)
Total income tax expenses	**(1,410)**	**(2,689)**

Notes to the financial statements

In thousands of ALL

12. Income tax expense (continued)

Based on Albanian tax regulations, the Bank paid a prepaid profit tax during 2009 of ALL 40 thousand (2008: ALL nil). This prepaid tax can only be offset against income tax expense, if any, after future Tax Office inspections.

	Year ended 31 December 2009	Year ended 31 December 2008
Profit/(Loss) for the period	**37,232**	**(97,666)**
Non-deductible expenses	12,241	12,303
Personnel expenses	*5,349*	*8,090*
Other expenses	*6,892*	*4,213*
Loan provision	(31,293)	(13,455)
Amortization and depreciation expense	21,683	(13,441)
Profit/(Loss) of the period after non-deductible expenses	39,863	(112,259)
Losses carried forward	(134,913)	(22,654)
Tax Losses	**(95,050)**	**(134,913)**
Income tax @ 10%	-	-
Tax Losses carried forward	**(95,050)**	**(134,913)**

The following is a reconciliation of effective tax rate:

	2009	Effective Tax rate	2008	Effective Tax rate
Profit/(Loss) for the period	**35,822**	**-**	**(100,355)**	-
Total income tax	1,410	-	2,689	-
Profit/(loss) excluding income tax expense	**37,232**		**(97,666)**	
Income tax using the Bank's domestic tax rate	3,723	10.00%	(9,766)	10.0%
Non-deductible expenses	1,224	3.2%	1,230	1.3%
Origination/(reversal) of unrecognised deferred tax asset on tax losses carried forward	(3,986)	(10.7)%	11,225	(11.5%)
Change in unrecognized temporary differences	449	(1.2%)	-	-
Total tax expense	**1,410**	**3.8%**	**2,689**	**(2.7%)**

Notes to the financial statements

In thousands of ALL

12. Income tax expense (continued)

Recognized deferred tax liabilities as at 31 December 2009 and 2008 are attributable to the following:

	2009			2008		
	Assets	Liabilities	**Net**	Assets	Liabilities	**Net**
Loans and advances to customers	-	(4,497)	(4,497)	-	(1,368)	(1,368)
Accumulated depreciation	-	-	-	-	(1,719)	(1,719)
Net tax assets (liabilities)	**-**	**4,497**	**(4,497)**	**-**	**(3,087)**	**(3,087)**

At 31 December 2009 and 2008 deferred tax assets have not been recognized in respect of the following items:

	Year ended 31 December 2009	**Year ended 31 December 2008**
Accumulated depreciation	449	-
Tax losses	9,505	13,491
Total	**9,954**	**13,491**

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.

	Year ended 31 December 2009	**Year ended 31 December 2008**
Tax loss from 2007 - expires 31 December 2010	-	22,654
Tax loss from 2008 - expires 31 December 2011	95,050	112,259
Total	**95,050**	**134,913**

As at 31 December 2009 a portion of tax losses carried forward has been settled against tax profit for the year ended 31 December 2009 amounting Lek 39,863.

Notes to the financial statements

In thousands of ALL

13. Cash and balances with Central Bank

	As at 31 December 2009	As at 31 December 2008
Cash on hand		
in Albanian lek	36,431	30,428
in foreign currencies	85,958	27,661
	122,389	58,089
Gold bullion	2,053	1,975
Central Bank		
current accounts	7,325	3,541
term deposits	-	165,000
Total	**131,767**	**228,605**

14. Restricted balances

	As at 31 December 2009	As at 31 December 2008
Statutory reserve	292,736	198,726
Total	**292,736**	**198,726**

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

15. Financial assets held to maturity

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

			As at 31 December 2009
Initial maturity	**Face value**	**Discount**	**Net book value**
12 months	400,000	(18,582)	381,418
Total	**400,000**	**(18,582)**	**381,418**

			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**

Notes to the financial statements
In thousands of ALL

16. Loans and advances to banks and financial institutions

(a) Analysis by type

	As at 31 December 2009	As at 31 December 2008
Current accounts with banks	78,853	117,446
Placement with banks	3,050,398	806,976
Total	**3,129,251**	**924,422**

(b) Geographical analysis

	As at 31 December 2009	As at 31 December 2008
Domestic banks and financial institutions	308,007	79,630
Foreign banks and financial institutions	2,821,244	844,792
Total	**3,129,251**	**924,422**

17. Loans and advances to customers

	As at 31 December 2009	As at 31 December 2008
Retail customers	596,985	499,385
Consumer loans	*169,301*	*156,971*
Mortgage loans	*427,684*	*342,414*
Small and medium enterprises	1,020,953	993,953
Less allowance for impairment	(39,321)	(26,330)
Net loans and advances to customers	**1,578,617**	**1,467,008**

Loans and advances to customers composed by sector as at 31 December 2009 are as follows:

	31 December 2009		
	Gross amount	Impairment allowance	Carrying amount
Retail customer	596,985	(22,941)	574,044
Consumer loans	*169,301*	*(11,871)*	*157,430*
Mortgage loans	*427,684*	*(11,070)*	*416,614*
Small and medium enterprises	1,020,953	(16,380)	1,004,573
Total	**1,617,938**	**(39,321)**	**1,578,617**

Notes to the financial statements
In thousands of ALL

17. Loans and advances to customers (continued)

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

	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
Total	**1,493,338**	**(26,330)**	**1,467,008**

Impairment allowances as at 31 December 2009 and 2008 are as follows:

	As at 31 December 2009	**As at 31 December 2008**
Specific impairment allowance	(22,808)	(7,904)
Collective impairment allowance	(16,513)	(18,426)
Total	**(39,321)**	**(26,330)**

Changes in allowance for impairment for years ended 31 December 2009 and 2008 are as follows:

	2009	**2008**
Specific impairment allowance		
Balance at January 1	(7,904)	(405)
(Impairment loss) / recoveries for the year	(14,904)	(7,499)
charge of the year	*(17,038)*	*(7,441)*
recoveries	*2,134*	*-*
effect on foreign currency movements	*-*	*(58)*
Write-offs	-	-
Balance at December 31	(22,808)	(7,904)
Collective impairment allowance		
Balance at January 1	(18,426)	(5,314)
(Impairment loss) / recoveries for the year	1,889	(13,112)
charge of the year	*(3,505)*	*(13,955)*
recoveries	*5,394*	*872*
effect on foreign currency movements	*-*	*(29)*
Write-offs	24	-
Balance at December 31	(16,513)	(18,426)
Total allowance for impairment	**(39,321)**	**(26,330)**

Notes to the financial statements

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18. Property and equipment

	Leasehold improvements	Fittings, fixtures & installations	Motor Vehicles	Machinery, office and Electronic Equipment	Computer and IT system equipment	Office equipment and other	Fixed assets in progress	**Total**
Cost								
Balance 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	12,108	9,902	(77,866)	-
Balance at 31 December 2008	**81,535**	**26,848**	**17,201**	**67,137**	**60,131**	**32,044**	**28,593**	**313,489**
Additions	1,874	9,082	-	9,445	909	75	18,351	39,736
Disposals	(3,836)	-	-	-	-	-	-	(3,836)
Transfer	28,880	1,640	-	4,092	-	7,685	(42,297)	-
Balance at 31 December 2009	**108,453**	**37,570**	**17,201**	**80,674**	**61,040**	**39,804**	**4,647**	**349,389**
Accumulated Depreciation								
Balance 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)	(2,762)	-	(35,919)
Balance at 31 December 2008	**(14,299)**	**(3,379)**	**(1,984)**	**(6,117)**	**(11,067)**	**(3,452)**	**-**	**(40,298)**
Charge for the period	(24,075)	(3,629)	(1,720)	(8,407)	(12,065)	(3,798)		(53,694)
Disposals	198	-	-	-	-	-		198
Balance at 31 December 2009	**(38,176)**	**(7,008)**	**(3,704)**	**(14,524)**	**(23,132)**	**(7,250)**	**-**	**(93,794)**
Net book value								
As at 1 January 2008	**57,114**	**22,673**	**12,137**	**26,663**	**21,195**	**20,070**	**68,478**	**228,330**
As at 31 December 2008	**67,236**	**23,469**	**15,217**	**61,020**	**49,064**	**28,592**	**28,593**	**273,191**
As at 31 December 2009	**70,277**	**30,562**	**13,497**	**66,150**	**37,908**	**32,554**	**4,647**	**255,595**

Notes to the financial statements

In thousands of ALL

18. Property and equipment (continued)

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 the existing branches opened.

19. Intangible assets

	Patents, copyrights and trademarks	Software and other intangible assets	**Total**
Cost			
Balance at 1 January 2008	**6,400**	**11,729**	**18,129**
Additions	826	7,205	8,031
Balance at 31 December 2008	**7,226**	**18,934**	**26,160**
Additions	-	6,100	6,100
Balance at 31 December 2009	**7,226**	**25,034**	**32,260**
Accumulated amortization			
Balance at 1 January 2008	**(427)**	**(700)**	**(1,127)**
Charge for the period	(1,404)	(3,114)	(4,518)
Balance at 31 December 2008	**(1,831)**	**(3,814)**	**(5,645)**
Charge for the period	(1,445)	(4,258)	(5,703)
Balance at 31 December 2009	**(3,276)**	**(8,072)**	**(11,348)**
Net book value			
As at 1 January 2008	**5,973**	**11,029**	**17,002**
As at 31 December 2008	**5,395**	**15,120**	**20,515**
As at 31 December 2009	**3,950**	**16,962**	**20,912**

20. Assets held for sale

Other assets held for sale represent properties acquired through a collateral execution during 2009, which the Bank intends to sell within one year.

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21. Other assets

	As at 31 December 2009	As at 31 December 2008
Prepaid taxes	38,410	23,560
Prepayments	16,840	23,172
Guarantee deposits paid	2,509	1,382
Other	13,610	11,630
Total	**71,369**	**59,744**

Prepaid taxes are composed of the following:

	As at 31 December 2009	As at 31 December 2008
Prepaid income tax	10,040	10,000
Withholding tax	21,684	6,874
Other	6,686	6,686
Total	**38,410**	**23,560**

Prepaid withholding tax is related to interest income the Bank has generated in countries with which the Republic of Albania has signed agreements for Avoidance of Double Taxation.

22. Due to banks and other financial institutions

	As at 31 December 2009	As at 31 December 2008
Money markets deposits with maturity up to two weeks		
With resident banks	95,832	-
Total	**95,832**	**-**

23. Due to customers

	As at 31 December 2009	As at 31 December 2008
Retail customers	2,826,004	1,065,559
payable on demand	*491,156*	*222,473*
term deposits	*2,334,408*	*842,654*
other clients account	*440*	*432*
Corporate customers	1,709,446	1,169,424
payable on demand	*277,593*	*443,110*
term deposits	*309,684*	*299,043*
other clients account	*1,122,169*	*427,271*
Total	**4,535,450**	**2,234,983**

Notes to the financial statements
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24. Other liabilities

	As at 31 December 2009	As at 31 December 2008
Fiscal administration	997	1,817
Social charges payable	1,466	1,700
Other creditors	411	538
Taxes payable	1,058	1,314
Accruals for expenses	5,833	2,264
Suppliers	3,982	1,477
Total	**13,747**	**9,110**

25. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2009

As at 31 December 2009 the registered share capital of the Bank is Euro 10,474,576.26 or ALL equivalent 1,304,792 thousand (2008: Euro 9,474,576.26 or ALL equivalent 1,174,632 thousand) divided into 1,236,000 ordinary shares with par value each of Euro 8.47457626 or ALL 1,055.66 (2008: 1,118,000 ordinary shares).

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 31 December 2009 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
“First Investment Bank AD Sofia”	1,235,998	99.999838
"First Financial Brokerage House Ltd" Sofia	1	0.000081
Vitosha Ventures A.D	1	0.000081
Total	**1,236,000**	**100%**

Notes to the financial statements
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26. 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 each counterpart failed completely to perform as contracted.

	As at 31 December 2009	As at 31 December 2008
Bank guarantees	371,328	267,984
Commitments given to customers	174,679	168,708
Letter of credit	994,683	199,529
Contingent liabilities	-	4,703
Total	**1,540,690**	**640,924**

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 2009 guarantees and letters of credit are fully collateralized.

b) Lease commitments

	As at 31 December 2009	As at 31 December 2008
Up to 1 year	72,804	62,993
Above 1 year and less than 5 years	209,689	168,795
Above 5 years	176,462	94,570
Total	**458,955**	**326,358**

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.

Notes to the financial statements
In thousands of ALL

27. 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:

	As at 31 December 2009	**As at 31 December 2008**
Loans and advances	2,796,536	810,550
Accounts receivables	7,736	-
Interest income	144,023	74,323
Interest expense	(3)	(24)
Commission income	255	2
Commission expense	(118)	(1,284)
Other income net	15,581	-

The key management personnel of the Bank received remuneration of ALL 15,108 thousand (2008: ALL 16,800 thousand) for the year ending 31 December 2009. Managers received other benefits amounting to ALL 2,608 (2008: ALL 2,735) thousand for the year ending 31 December 2009.

28. Cash and cash equivalents

In thousands of ALL	**As at 31 December 2009**	**As at 31 December 2008**
Cash on hand (note 13)	122,389	58,089
Current accounts	86,178	285,987
central bank (note 13)	*7,325*	*168,541*
correspondent banks (note 16)	*78,853*	*117,446*
Loans and advances to banks and financial institutions with maturity less than 90 days (note 16)	3,050,398	806,975
Total	**3,258,965**	**1,151,051**

29. Post balance sheet events

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