Intesa SanPaolo Bank Albania Sh.a.

Consolidated Financial Statements as at
31 December 2009
(with independent auditor's report thereon)

ERNST & YOUNG

Contents

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF INTESA SANPAOLO BANK ALBANIA SH.A.

We have audited the accompanying consolidated financial statements of Intesa San Paolo Bank Albania Sh.a and its subsidiaries which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's 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, the auditor considers 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 policies 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Intesa SanPaolo Bank Albania Sh.a. as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Certified Auditors Sh.p.k. Skopje – Tirana Branch

Ernst + Young Certified Auditors Shpk

17 March 2010

Intesa SanPaolo Bank Albania Sh.a.

Consolidated statement of financial position
As at 31 December

(in '000 Lek)

	Notes	2009	2008
Assets			
Cash and cash equivalents	8	5,742,645	4,497,583
Loans and advances to banks	9	8,686,240	8,215,701
Financial Investments Available-for-sale	10	2,643,232	1,963,807
Financial Investments Held-to-maturity	11	47,016,899	46,065,994
Loans and advances to customers	12	47,490,960	43,415,104
Property and equipments	13	1,862,884	2,027,981
Intangible assets	14	289,771	195,921
Deferred tax assets	19	39,678	39,394
Current tax assets		178,709	150,866
Other assets	15	433,743	553,262
Total Assets		**114,384,761**	**107,125,613**
Liabilities			
Due to banks	16	4,554,716	6,489,442
Due to customers	17	97,427,503	90,399,380
Current accounts		26,161,276	24,216,368
Time deposits		71,266,227	66,183,012
Subordinated debt	18	529,471	481,811
Current tax liabilities		41,346	77,740
Deferred tax liabilities	19	42,187	14,889
Provisions	20	187,786	176,629
Other liabilities	21	610,794	457,528
Total Liabilities		**103,393,803**	**98,097,419**
Equity			
Share capital	22	5,562,518	5,562,518
Share premiums	22	1,383,880	1,383,880
Legal and regulatory reserves	23	1,347,176	1,258,387
Available-for-sale reserve		(889,309)	(1,285,725)
Foreign currency translation reserve		106,952	6,389
Other comprehensive items	24	714,555	714,555
Retained earnings		2,765,186	1,388,190
Total Equity		**10,990,958**	**9,028,194**
Total Liabilities and Equity		**114,384,761**	**107,125,613**

The notes on pages 8 to 73 are an integral part of these consolidated financial statements.

Stefano Farabbi
Chief Executive Officer

Adela Xhemali
Chief Financial Officer

Intesa SanPaolo Bank Albania Sh.a.

Consolidated statement of income and consolidated statement of comprehensive income

For the year ended 31 December

(in '000 Lek)

	Notes	2009	2008
Interest income		7,811,838	7,765,638
Interest expenses		(3,463,147)	(3,562,523)
Net interest income	25	**4,348,691**	**4,203,115**
Fee and commission income		716,027	744,030
Fee and commission expenses		(151,862)	(139,136)
Net fee and commission income	26	**564,165**	**604,894**
Net trading income	27	284,733	312,106
Other operating (expenses)/income, net	28	(176,611)	(131,887)
Operating income		**5,020,978**	**4,988,228**
Net impairment loss on financial assets	12	(771,489)	(437,232)
Personnel expenses	29	(1,010,351)	(929,811)
Operating lease expenses	33	(170,844)	(211,648)
Depreciation and amortization	13,14	(358,036)	(356,103)
Amortization of leasehold improvements	15	(101,972)	(154,034)
Other administration expenses	30	(744,728)	(754,526)
Provisions for risk and expenses	20	(80,813)	-
Total expenses		**(3,238,233)**	**(2,843,354)**
Net income before taxes		**1,782,745**	**2,144,874**
Income tax expense	31	(164,524)	(369,096)
Profit for the period		**1,618,221**	**1,775,778**

	Notes	2009	2008
Profit for the period		**1,618,221**	**1,775,778**
Other comprehensive income			
Net change in fair value of AFS investment securities	24	396,416	(795,223)
Income tax effect		(39,642)	79,522
Other comprehensive income for the period, net of tax		**356,774**	**(715,701)**
Total comprehensive income for the period, net of tax		**1,974,995**	**1,060,077**

The notes on pages 8 to 73 are an integral part of these consolidated financial statements.

Stefano Farabbi
Chief Executive Officer

Adela Xhemali
Adela Xhemali
Chief Financial Officer

Intesa SanPaolo Bank Albania Sh.a.

Consolidated statement of changes in equity

For the year ended 31 December 2009

(in '000 Lek)

	Share capital	Share premiums	Reserves		Valuation Reserves			Profit of the year	Total
	-	-	Retained earnings	Statutory, General and Legal reserve	Available for Sale reserve	Foreign Currency Translation reserve	Comprehensive item		
Balance at 1 January 2008	**4,309,675**	**-**	**(483,605)**	**1,231,421**	**(490,502)**	**28,416**	**714,555**	**900,465**	**6,210,425**
Increase in share capital	446,250	1,383,880	-	-	-	-	-	-	**1,830,130**
Transfer of prior year profit			900,465					(900,465)	-
Appropriation of retained earnings	806,593	-	(833,559)	26,966	-	-	-	-	-
Other Comprehensive Income (Net change in fair value of AFS investment securities)	-	-	-	-	(795,223)	-	-	-	**(795,223)**
Foreign currency translation difference	-	-	29,111	-	-	(22,027)	-	-	**7,084**
Profit for the year	-	-	-	-	-	-	-	1,775,778	**1,775,778**
Balance at 31 December 2008	**5,562,518**	**1,383,880**	**(387,588)**	**1,258,387**	**(1,285,725)**	**6,389**	**714,555**	**1,775,778**	**9,028,194**

Intesa SanPaolo Bank Albania Sh.a.

Consolidated statement of changes in equity
For the year ended 31 December 2009
(in '000 Lek)

	Share capital	Share premiums	Reserves		Valuation Reserves			Profit of the year	Total
			Retained earnings	Statutory, General and Legal reserve	Available for Sale reserve	Foreign Currency Translation reserve	Comprehensive item		
Balance at 1 January 2009	**5,562,518**	**1,383,880**	**(387,588)**	**1,258,387**	**(1,285,725)**	**6,389**	**714,555**	**1,775,778**	**9,028,194**
Increase in share capital									-
Transfer of prior year profit			1,775,778					(1,775,778)	-
Appropriation of retained earnings			(88,789)	88,789					-
Other Comprehensive Income (Net change in fair value of AFS investment securities)					396,416				**396,416**
Foreign currency translation difference			(152,436)			100,563			**(51,873)**
Profit for the year								1,618,221	**1,618,221**
Balance at 31 December 2009	**5,562,518**	**1,383,880**	**1,146,965**	**1,347,176**	**(889,309)**	**106,952**	**714,555**	**1,618,221**	**10,990,958**

The notes on pages 8 to 73 are an integral part of these consolidated financial statements.

Stefano Farabbi
Chief Executive Officer

Adela Xhemali
Adela Xhemali
Chief Financial Officer

Intesa SanPaolo Bank Albania Sh.a.

Consolidated statement of cash flows
For the year ended 31 December
(in '000 Lek)

	2009	2008
Cash flows from/(in) operating activities		
Net income	**1,618,221**	**1,775,778**
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	246,176	253,801
Amortization of intangible assets	92,995	68,729
Depreciation of leasehold improvements	101,972	154,034
Disposals of Intangible Assets	409	-
Disposals of Property and Equipment	18,456	21,564
Amortization of investments HTM-treasury bills	(152,099)	(336,522)
Amortization of investments HTM-other than treasury bills	(112,620)	(436,199)
Amortization of AFS investment securities	934	(9,342)
Impairment on financial assets	771,489	437,232
Decrease (increase) in interest receivable	(121,902)	(7,319)
Increase (decrease) in interest payable	42,621	313,198
Foreign exchange difference	25,598	(38,947)
Changes in operating assets and liabilities		
Change in trading AFS assets	-	-
Changes in loans and advances in banks	(472,227)	4,282,335
Change in loans and advances to customers	(4,746,824)	(4,990,733)
Change in other assets	28,954	(24,727)
Change in deferred tax assets	6,106	(976)
Change in due to banks	(1,932,972)	2,212,009
Change in due to customers	6,977,600	(3,297,301)
Change in other liabilities and provisions	164,424	(40,014)
Change deferred tax liabilities	27,298	(6,339)
Change in current taxes	(64,237)	54,168
Net cash provided by operating activities	**902,150**	**(1,391,349)**
Cash flows from investing activities		
Sale(purchase) of intangible assets	(175,065)	(141,257)
Sale(purchase) of property and equipment	(183,923)	(841,262)
Sale(purchase) of securities available for sale	(283,943)	(155,286)
Sale(purchase) of held to maturity investments	(686,186)	(4,594,584)
Net cash used in investing activities	**(1,329,117)**	**(5,732,389)**

Intesa SanPaolo Bank Albania Sh.a.

Consolidated statement of cash flows

For the year ended 31 December

(in '000 Lek) (continued)

	2009	2008
Cash flows from financing activities		
Increase (decrease) of subordinated debt	53,808	(417,310)
Issue of share capital	-	1,830,130
Net Cash from financing activities	**53,808**	**1,412,820**
Net increase/(decrease) in cash during the year	**1,245,062**	**(3,935,140)**
Cash and cash equivalents at beginning of the year	4,497,583	4,847,434
Effect of merger	-	3,585,289
Cash and cash equivalents at end of period	**5,742,645**	**4,497,583**
Operational cash flows from interest:		
Interest paid	3,417,017	3,249,325
Interest received	7,426,151	7,758,319

During the year 2009 the Bank paid as Corporate Income Tax for current year, a total amount of Lek 225,360 thousand (2008: Lek 294,519 thousand for current and previous years).

The notes on pages 8 to 73 are an integral part of these consolidated financial statements.

These financial statements have been approved by Board of Directors of the Bank on 9 March 2010. After their issuance, any amendment is the power of Bank's shareholders. On behalf of the Bank, these financial statements are signed by:

Stefano Farabbi
Chief Executive Officer

Adela Xhemali
Chief Financial Officer

1. Reporting entity

Intesa Sanpaolo Bank Albania, (hereinafter called the "Bank"),incorporated on May 1998, was authorized to undertake banking activity in Albania according to the law no 8365, "For the Banking system in Albania", dated July 2, 1998 and substituted by law no 9662 "On the Banks in Albania" dated December 18, 2006 enforced on June 2007. The Bank started operations on September 24, 1998.
On 20-21 December 2006, the Albanian-American Enterprise Fund (hereinafter the "AAEF") in its capacity of sole Bank shareholder signed a Share Purchase Agreement (hereinafter the "Purchase Agreement") with Sanpaolo Imi S.p.a. (the "Purchaser"), an entity incorporated under the laws of Republic of Italy, for selling 12,000,000 shares of the Bank with a nominal value of USD 2.2266 equal to an equity portion of 80% of the Bank entire issued capital, for a price of USD 125,520 thousand (the "Purchase Price"). As of 1st of January 2007 Sanpaolo Imi S.p.a. and Banca Intesa S.p.a. created Intesa Sanpaolo S.p.a through the merger of these two banks. On 29 June 2007, the Closing Date as defined in the Purchase Agreement, after the fulfillment of all conditions, the representatives of AAEF and Intesa Sanpaolo S.p.a signed the transfer of shares.

The Bank and Banca Italo Albanese Sh.a. (also known as Banka Italo Shqiptare Sh.a. or BIA) merged by incorporating BIA assets and liabilities with and into the activities of Intesa Sanpaolo Bank Albania. All shareholders approved the terms and conditions of the merger, as previously established in the Merger plan and in the Merger Agreement on 6 November 2007 and its addendum dated 4 December 2007. The share exchange ratio was established by using the adjusted net book value (adjusted net asset value) methodology, based on the shareholders' participation and the respective valuation of each Bank's financial position as at 30 June 2007 as a percentage of the combined valuation of the two banks as at the same date, regardless of the number of shares to be registered.
On 04 August 2009, Intesa Sanpaolo S.p.a (the "Purchaser") in its capacity of the major shareholder of the Bank, signed a Share Purchase agreement with Albanian-American Enterprise Fund, for transfer of the ownership of 1,751,283 nominative shares and on 14 August 2009 both parties signed the Final Declaration by accepting respective fulfillment of the contractual terms, completing therefore this transaction. Shareholders' participation details are presented in Note 22.

The Bank with its principal location in Tirana and registered office at "Ismail Qemali" street, no.27, operates through a network of 36 branches and agencies, located in different cities of Albania: Tirana, Durres, Vlora, Elbasan, Fier, Gjirokastra, Korca, Lushnja, etc, and also in Greece with four branches in Athens, Thessalonika, Peristeri and Piraeus (2008: 37 branches and agencies).

The Bank had 515 employees as at 31 December 2009 (2008: 511).

Upon the final approval from the Bank of Albania, effective 13 October 2008, the Bank's name was changed from American Bank of Albania to Intesa Sanpaolo Bank Albania.

The consolidated financial statements of the Bank as of 31 December 2009 and for the period then ended, comprise also its subsidiary in Greece (i.e. Greek branches) which operates as a separate legal entity.

2. Basis of Preparation

(a) Statement of compliance

In compliance with the local accounting legislation, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for available-for-sale financial instruments, which are measured at fair value.

(c) Functional and presentation currency

The consolidated financial statements are presented in Lek, which is the Bank's functional and presentational currency.
Translation difference comprises all foreign exchange differences arising from translation of foreign operations financial statements into both functional and presentation currency of the Bank. Functional currency of Greek branches is Euro.
Except as indicated, financial information presented in Lek has been rounded to the nearest thousand.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended at 31 December.

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

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

(iii)Merger with entities under common control
Merger of the Bank by incorporation of BIA was accounted at 1 January 2008, as defined in the merger deed. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the group controlling shareholders' consolidated financial statements.

3. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

(a) Going concern

The bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(b) Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded on the statement of financial postion can not be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, and where not available, judgment is required to establish fair values. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The valuation of financial instruments is disclosed in details in the Note 7.

(c) Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.In estimating these cash flows, the bank makes judgments about the borrower's financial situation and the net realisable value of collateral.These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from loan portfolio (such as credit quality, levels of arrears, credit utilisation, etc) and other concentrations of risks and economic data.

The impairment losses on loans and advances are disclosed in more details in Note 12.

(d) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits and future tax planning strategies. Please refer to Note 4 g for more details.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Bank entities.

(a) Foreign currency

(i) Foreign currency transactions
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of transaction.
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the balance sheet date. All respective differences arising are taken to income statement, except the difference arised from shareholders'equity retranslation, which goes directly to equity reserves.
Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations
The assets and liabilities of foreign operations are translated to the functional currency at exchange rates at the reporting date. The income and expenses of the foreign operations are translated to the functional currency at exchange rates at the dates of the transactions.
Foreign currency differences are recognised directly in equity. Effective 1 January 2007, the Bank's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transfered to profit or loss.

(b) Interests

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.
Calculation of effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(c) Fees and commissions

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.
Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees are recognized as the related services are performed.
Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

4. Significant accounting policies (continued)

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all fair value changes and foreign exchange differences.

(e) Dividends

Dividend income is recognized when the right to receive income is to be established. Usually, this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income on other financial instruments at fair value or other operating income based on the underlying classification of the equity instrument.

(f) Lease and Leasehold improvements

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.
Bank has only operating lease agreements, payments of which are recognized in profit or loss on a straight-line basis over the term of the lease. Restructuring costs made in the premises used under these agreements are accounted for other assets and amortized over the term of the lease on a straight-line basis.
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.

(g) Income Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.
Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and
- in respect to taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will be not reversed in the foreseeable future.

4. Significant accounting policies (continued)

(g) Income Tax (continued)

Deferred tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the year when the asset is realized or liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(h) Financial assets and liabilities

(i) Recognition

The Bank initially recognizes loans and advances, deposits and borrowings on the date that they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Classification

See accounting policies 4 (i) (j) (k) and (l).

(iii) De-recognition

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

4. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(iii) De-recognition (continued)

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 which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Bank writes off certain loans when they are determined to be uncollectible (see note 5).

The recovery of a written off item is recorded under the item Other Income/Expenses in income statement (see note 28).

(iv) Off-setting

Financial assets and liabilities are set off and the net amount is 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 realize 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 Bank of similar transactions such as in the Bank's trading activity.

(v) Amortized cost measurement

The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction of impairment.

(vi) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

(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 on the asset that can be estimated reliably.

4. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence of impairment can include default or delinquency by 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 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 loans and advances to customers are classified as substandard; doubtful; loss; restructured according to the definition of Central Bank of Albania, and past due more than 30 days, are subject to individual assessment for specific impairment.

The Bank tests for individual impairment besides the other non performing customers, the ones that at assessment date are shown to be in overdue by more than 30 days. The impairment is measured as a difference between carrying value of the loan, and present value of estimated future cash flows, considering here the cash flows originated by collaterals' recoveries and/or guarantees securing the exposures. In case the result is a loss, the carrying amount of the loan is reduced by the impairment allowance, previously recognized in the income statement.

After the above exercise, the impairment depends on other factors or valuation parameters which are used for calculating the present value of future cash flows, such as: realizable value of collaterals or timing of the expected cash flows.

All the customers with any restructured credit facility are subject to individual impairment testing. They remain under that asssessment for a period of at least 1 year from the restructuring and /or rescheduling date, independently from the payments performed pursuant to the new terms of repayments.

All the loans for which "no objective evidence of impairment is identified", are subject to collective assessment. Collective assessment is based on groups of loans with similar credit risk characteristics, and is estimated considering past historical default rates and relative percentages for loans losses incurred, founded on observable elements at balance sheet date. The valuation also considers the risk of the borrower's country.

Impairment losses on assets are measured at the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

4. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

Where possible the Bank seeks to restructure/renegotiate loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate.

(i) Cash and cash equivalents

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

(j) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(k) Loans and advances to banks and to customers

Loans and advances to banks and to customers 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. Loans and advances are initially measured at amortized cost plus incremental direct transaction costs, using the effective interest method. After initial measurement, they are subsequently measured at amortized costs using effective interest rate, less allowance for impairment. The amortization is included in the interest income in the income statement. The losses arising from impairment are recognized in the income statement in net impairment loss on financial assets. There are no impairments recognized for loans and advances to Banks as detailed in the credit risk disclosures under Note 5.

4. Significant accounting policies (continued)

(l) Investment securities

Investment securities are accounted for depending on their classification, as either held-to-maturity, fair value through profit or loss, or available-for-sale.

(i) Held-to-maturity
Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

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

(ii) Available-for-sale
Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

Other fair value changes are recognized directly in equity until the investment is sold or impaired and the balance in equity is recognized in profit or loss.

(m) Property and equipments

(i) Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs
The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably.

(iii) Depreciation is recognized in profit or loss using straight-line method over the estimated useful life of each part of an item of property and equipment. Land and Fine Arts are not depreciated.

4. Significant accounting policies (continued)

(m) Property and equipments (continued)

Changes in the expected useful life are accounted for by charging the amortization period or method as appropriate and treated as changes in accounting estimate.
The estimated useful lives for the current and comparative periods are as follows:

• Buildings	20 years
• Furniture, fixture and equipments	5 years
• Computer and other IT equipments	4 years

(iv) De-recognition
Property and equipments are derecognized on disposals or when no future economic benefits are expected from their use. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is recognized in "Other operating income" in the income statement in the year the asset is derecognized.

(n) Intangible assets

Software, licenses and trademarks compose intangible assets. Software acquired by the Bank is stated at cost less accumulated amortization.
Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.
Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use. The estimated useful lives for the current and comparative periods are as follows:

• Software	4 years
• Licenses and trademarks	10 years

(o) Impairment of non-financial assets

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

An impairment loss is recognized 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 recognized in profit or loss. Impairment losses in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

4. Significant accounting policies (continued)

(o) Impairment of non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) 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.

Deposits and subordinated liabilities are initially measured at fair value plus directly attributable 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.

(q) Repurchase agreements and reverse repurchase agreements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are generally treated as collaterized financing transactions and are carried at the amounts of cash advanced or received, plus accrued interest.
Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized in the balance sheet or derecognized from the balance sheet, unless control of the contractual rights that comprise these securities is relinquished.
Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense, over the life of each agreement. All the repurchase agreements and reverse agreements are with the Central Bank of Albania.

Cash collateral on reverse repurchases / repurchases agreements

Securities lending and borrowing transactions are usually collaterized by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability. Detailed information has been disclosed in Notes 11 and 16.

4. Significant accounting policies (continued)

(r) Provisions

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

(s) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

(t) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(u) New pronouncements (new standards, amendments/revisions to standards or interpretations) effective for 31 December 2009 year end.

i) The following new interpretations and amendments to standards became mandatory for the first time for the financial year beginning 1 January 2009:

In May 2008, the IASB issued amendments to IFRS **"Improvements to IFRS",** which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. These amendments did not have any impact on the accounting policies, financial position or performance of the Bank.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

IAS 1, "Presentation of Financial Statements" (Revised), was issued in September 2007 and became effective for annual periods beginning on or after 1 January 2009. IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements. The Bank has elected to present comprehensive income in two separate statements: income statement and statement of comprehensive income. The Bank has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in its financial statements.

IFRS 7, "Financial Instruments: Disclosures" (Amended). These amendments were issued in March 2009 and became effective for annual periods beginning on or after 1 January 2009. IFRS 7 has been amended to enhance fair value and liquidity disclosures. With respect to fair value, it now requires disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognized at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. The Bank has presented the amended disclosures and the comparative information has not been provided as permitted by the transition provisions of the amendment.

IAS 23, "Borrowing Costs" (Revised), was issued in March 2007 and became effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank adopted this as a prospective change. Consequently, there were no changes made for borrowing costs incurred to 1 January 2009 that have been expensed.

IAS 32 "Financial Instruments Presentation" and IAS 1, "Presentation of Financial Statement" - Puttable Financial Instruments and Obligations Arising on Liquidation (Amended), were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009 with retrospective application. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. These amendments did not have any impact on the Bank financial statements.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

IFRS 2, "Share-based Payments"-Vesting Conditions and Cancellations (Amended), was issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting
treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment did not have any impact on the financial position or performance of the Bank..

IFRS 8, "Operating Segments", effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about entity's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the entity. Adoption of this Standard did not have any impact on the financial position or performance of the Bank. The Bank determined that the operating segments are the same as the business segments previously identified under IAS 14 "Segment Reporting".

IFRIC 13, "Customer Loyalty Programmes", was issued in June 2007 and became effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. IFRIC 13 did not have any impact on the Bank's financial statements as no such schemes currently exist.

IFRIC 15, "Agreements for the Construction of Real Estate", was issued in July 2008 and became effective for annual periods beginning on or after 1 January 2009 and is to be applied retrospectively. This interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. IFRIC 15 provides also guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 'Construction Contracts' or IAS 18 'Revenue' and, accordingly, when revenue from such construction should be recognized. IFRIC 15 is not relevant to the Bank's operations as the Bank does not provide real estate construction services or develop real estate for sale, consequently it did not have any impact on the Bank's financial statements.

IFRIC 16, "Hedges of a Net Investment in a foreign operation", was issued in July 2008 and became effective for annual periods beginning on or after 1 October 2008.This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Bank's financial statements.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

IFRIC 9 "Reassessment of Embedded Derivatives" (Amended). The amendments are effective for annual periods ending on or after 30 June 2009.They require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly
change the cash flows of the contract. The application of the amendment did not have a significant impact on the Bank's financial statements as no reclassifications were made for instruments that contained embedded derivatives.

IFRIC 18, "Transfers of Assets from Customers", was issued in January 2009 and became effective prospectively for transfers of assets from customers received on or after 1 July 2009 with early application permitted. The Interpretation is applicable for entities that receive contributions of property, plant and equipment from their customers. It provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. IFRIC 18 is not relevant to the Bank's financial statements as the Bank does not normally receive in scope asset contributions from its customers, consequently it did not have any impact on the financial position or performance of the Bank.
ii) The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2009:

"Improvements to IFRS". In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. These amendments will have no impact on the accounting policies, financial position or performance of the Bank, except the following amendments resulting in changes to accounting policies, as described below:

- **IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations":** clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The Bank is being assessing if this amendment will have any impact on the Bank's financial statements.
- **IFRS 8, "Operating Segment Information":** clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does review segment assets and liabilities, the Bank is assessing any impact for information disclosure.
- **IAS 7 "Statement of Cash Flows":** Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

- **IAS 36 "Impairment of Assets":** The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment is assessed to have no impact on the Bank.

IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items (Amended). This was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Bank's financial statements as the Bank has not entered into any such hedges.

IFRS 3, "Business Combinations" (Revised) and IAS 27, "Consolidated and Separate Financial Statements" (Amended), were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009 with prospective application. The revised IFRS 3 introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The amended IAS 27 requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Bank is taking in considerations these changes for its future impacts, however IFRS 3 amendment is not relevant to bank operations.

IFRS 2, Share-based Payment: Group Cash-settled Share-based Payment Transactions (Amended), was issued in June 2009 and become effective for financial years beginning on or after 1 January 2010. The amendment, which supersedes IFRIC 8 and IFRIC 11, clarifies the scope and the accounting for group cash-settled share-based payment transactions. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IFRIC 17, "Distributions of Non-cash Assets to Owners", was issued on 27 November 2008 and became effective for annual periods beginning on or after 1 July, 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Bank expects that this interpretation will have no impact on its financial statements. However, since this interpretation 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.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

IAS 32 "Financial instruments: Presentation": Classification of Rights Issues" (Amended). In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IFRS 9 "Financial Instruments". In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Bank, considering the initial application date is evaluating the impact of the adoption of new Standard.

IAS 27 "Consolidated and Separate Financial Statements" (Amended), effective for annual periods beginning on or after 1 January 2009. This 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.

IAS 24, "Related Parties Disclosures" (Revised), was issued in November 2009 and became effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The revision simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The Bank is considering to adopt the revised IAS 24 from 1 January 2010.

5. Financial Risk Management

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank's Asset and Liability Committee (ALCO), a Local Credit Committee (LCC) and Asset Quality Session (AQS) which are responsible for decision making on their specified areas and they are supported by Treasury Department and Risk Management Division, which are responsible for developing and monitoring the Bank's risk management policies in these areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank is building an advanced framework for the management of financial risks, through implementation of a software solution on Asset Liability Management, introduction of new related methodologies and management standards. It aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Credit Risk

In the normal course of its business, the Bank is exposed to credit risk on its loans and advances to customers and financial institutions, investment securities and other off-balance sheet items.

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and on funds with other financial institutions and other off-balance sheet items. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).
The Bank manages its exposure to credit risk on a regular basis by closely monitoring credit limits, its loan portfolio and concentration of exposure.

5. Financial Risk Management (continued)

Management of credit risk

The Board of Directors of the Bank has delegated responsibility of decision-making to CEO who has established LCC to which authorities are delegated on the credit risk area to the local Credit Committee. The Risk Management Division, reporting to CEO, is responsible for the oversight and management of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorization structure* for the approval and renewal of credit facilities. Authorization limits are allocated to business unit credit officers. Larger facilities require approval by the Head of Credit Risk Management, Local Credit Committee or the Board of Directors as appropriate.
- *Reviewing and assessing credit risk*. Bank Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Bank's risk classifications* in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk classification is used in determining where impairment provisions may be required against specific credit exposures. The current risk- classification framework, adopted in accordance with Bank of Albania regulations, consists of five grades, reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving of the Local Credit Committee and Asset Quality Session. Risk grades are subject to monthly reviews by Credit Risk Management.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries and product types. Monthly reports are provided to the Local Credit Committee on the credit quality of local portfolios and their trend and appropriate corrective action is proposed.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement credit policies and procedures, with credit approval authorities delegated from the Local Credit Committee. The assigned officer for each business unit reports appropriately on all credit related matters to local management, Credit Risk or Local Credit Committee. Each business unit and the Credit Risk Committee are responsible for the quality and performance of credit portfolios and for monitoring and controlling all credit risks in them, including those subject to central approval.

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

Maximum Exposure to Credit Risk without taking account of any collateral and other credit enhancements (gross of any impairment)

The following table shows the current maximum exposure to credit risk for the applicable components of balance sheet:

	Gross Maximum Exposure	
	31 December 2009	**31 December 2008**
Cash Balances with Central Bank (excluding cash on hand)	3,902,454	2,864,865
Due from banks	8,686,240	8,215,701
Loans and advances to customers	49,685,769	44,645,468
Financial assets- available-for-sale	2,643,232	1,963,807
Financial assets- held-to-maturity	47,016,899	46,065,994
Total	**111,934,594**	**103,755,835**
Undrawn credit commitments	4,057,899	4,091,582
Letters of credit	1,771,817	5,860,405
Guarantees in favor of customers	4,998,971	6,500,946
Total credit related commitments	**10,828,687**	**16,452,933**
Total Credit Risk Exposure	**122,763,281**	**120,208,768**

The maximum credit exposure to any client or group of clients as at 31 December 2009 is Lek 1,655,520 thousand (2008: Lek 1,371,372 thousand) before taking account of collateral or other credit enhancements.

Where the financial assets are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees commit the Bank to make payments on behalf of the customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar credit risks, which are mitigated by the same control processes and policies.

Every quarter the Bank assesses the financial commitments for impairment. Subject to individual impairment assessment are commitments granted to non-performing customers or customers with any of credit facilities restructured and/or rescheduled. Exceptions are made to financial commitments which are secured by cash collateral and/or by counter guarantees provided by parent company. Measurement of impairment loss is performed at the same method, as for the loans and advances to the customers (please refer to note 4 h vii).

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

Credit Quality by class of financial assets

The tables below show the credit quality of the financial assets exposed to credit risk, based on the Bank's internal ratings. Past due but not impaired loans are individually tested but their collaterals or any other credit enhancements exceed the risk that the Bank is exposed to. These credit enhancements have a high percentage of recovery, outstanding value and a short recovery time, which directly influence in the non-creation of any impairment allowance for this group of loans.The financial assets in the tables below are gross of impairment allowances for both financial years ended as at 31 December 2009 and 31 December 2008:

31 December 2009	Neither past due nor impaired	Past due but not impaired	Individually Impaired	Total
Cash Balances with Central Bank (excluding cash on hand)	-	-	-	3,902,454
Due from Banks	-	-	-	8,686,240
Loans and advances to customers:				
Commercial lending	28,875,305	5,961,904	6,023,570	40,860,779
Mortgage lending	4,827,897	1,771,441	1,347,912	7,947,250
Consumer lending	722,341	20,883	181,290	924,514
Deferred disbursement fee	(32,123)	(7,469)	(7,182)	(46,774)
Financial Assets-available-for-sale				
Listed companies	-	-	-	1,963,139
Unlisted companies	-	-	-	680,093
Financial Assets-held-to-maturity				
Listed companies	-	-	-	8,731,411
Unlisted companies	-	-	-	38,285,488
Total	**34,393,420**	**7,746,759**	**7,545,590**	**111,934,594**

31 December 2008	Neither past due nor impaired	Past due but not impaired	Individually Impaired	Total
Cash Balances with Central Bank (excluding cash on hand)	-	-	-	2,864,865
Due from Banks	-	-	-	8,215,701
Loans and advances to customers:				
Commercial lending	30,763,219	2,332,001	3,827,374	36,922,594
Mortgage lending	5,844,272	866,421	740,518	7,451,211
Consumer lending	239,512	-	72,942	312,454
Deferred disbursement fee	(33,635)	(2,920)	(4,236)	(40,791)
Financial Assets-available-for-sale				
Listed companies	-	-	-	1,424,197
Unlisted companies	-	-	-	539,610
Financial Assets-held-to-maturity				
Listed companies	-	-	-	8,713,417
Unlisted companies	-	-	-	37,352,577
Total	**36,813,368**	**3,195,502**	**4,636,598**	**103,755,835**

In the past due loans above there are included the loans that are more than 30 days in overdue.

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

Loans and advances to customers are the only class of financial assets resulting past due but not impaired. Respective aging analysis as at 31 December 2009 and 2008 are shown in the tables below:

31 December 2009	31 to 90 days	91 to 180 days	more than 180 days	Total
Loans and advances to customers:				
Commercial lending	3,042,579	823,583	2,095,742	5,961,904
Mortgage lending	647,894	374,105	749,442	1,771,441
Consumer lending	6,590	1,568	12,725	20,883
Deferred disbursement fee	(3,475)	(1,198)	(2,796)	(7,469)
Total	**3,693,588**	**1,198,058**	**2,855,113**	**7,746,759**

31 December 2008	31 to 90 days	91 to 180 days	more than 180 days	Total
Loans and advances to customers:				
Commercial lending	409,845	952,429	969,727	2,332,001
Mortgage lending	553,467	144,276	168,678	866,421
Consumer lending	-	-	-	-
Deferred disbursement fee	(880)	(1,001)	(1,039)	(2,920)
Total	**962,432**	**1,095,704**	**1,137,366**	**3,195,502**

Carrying amount by class of financial assets whose terms have been renegotiated.

The table below shows the carrying amount of renegotiated/rescheduled loans and advances to customers by product:

	31 December 2009	31 December 2008
Commercial lending	942,810	825,874
Mortgage lending	52,919	35,340
Consumer lending	1,288	-
Total	**997,017**	**861,214**

Renegotiated loans in terms of aging analysis fall mainly within the category of above 180 days in delay.

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

Impaired loans and securities
Impaired loans and securities are the ones for which the Bank determines that it is probable that it will be unable to collect all principal and interest due, according to the contractual terms of the agreement(s). The Bank classifies loans and advances to customers in the groups of Standard, Special mention, Substandard, Doubtful and Lost in accordance with Bank of Albania credit risk regulations; meanwhile it performs impairment tests for all loans that show objective evidence for impairment, estimating their discounted future cash flows and comparing them with the respective loans' carrying amount. Loans that do not show objective evidence for individual impairment are assessed collectively for impairment using the Bank's historical default rates and recovery for the groups of loans with similar risk characteristics.

Allowances for impairment
The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.
The table below shows the Net Exposure of Loans and advances to customers after the allowance for impairment in conjunction with the Bank of Albania categories in which this part of the portfolio falls in respectively, as the latter is currently the internal classification of loans and advances to customers apart from the two main groups; individual and collective as stated below:

	Net Exposure to Loans and advances to customers	
	31 December 2009	**31 December 2008**
Individually impaired		
Standard & Special Mention	4,268,755	3,366,341
Substandard	1,826,806	606,672
Doubtful	744,548	297,237
Lost	712,663	370,584
Gross amount	7,552,772	4,640,834
Allowance for impairment	(2,044,337)	(1,077,151)
Carrying amount	**5,508,435**	**3,563,683**
Collectively impaired		
Standard & Special Mention	42,132,997	40,004,634
Gross amount	42,132,997	40,004,634
Allowance for impairment	(150,472)	(153,213)
Carrying amount	**41,982,525**	**39,851,421**
Total carrying amount on Loans and advances to customers	**47,490,960**	**43,415,104**

Separate movements for both individual and collective impairments are presented in note 12.

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

While, set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired loans by risk classification:

	Individually Impaired Loans and advances to customers	
	Gross	**Net**
31 December 2009		
Standard & Special mention	4,268,755	3,403,454
Substandard	1,826,806	1,389,935
Doubtful	744,548	460,117
Lost	712,663	254,929
Total	**7,552,772**	**5,508,435**
31 December 2008		
Standard & Special mention	3,366,341	2,818,512
Substandard	606,672	473,120
Doubtful	297,237	74,675
Lost	370,584	197,376
Total	**4,640,834**	**3,563,683**

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when the Bank's Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position, such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

As stated in the note 4, the estimated cash flows derived from the collaterals and/or guarantees securing the exposures are being considered as future cash flows of the credit lines. Some of the valuation parameters used for that calculation are:

- Realizable value of collaterals, which is estimated by reducing the appraised collateral value with a "discount factor". The latest takes into account the characteristics of the similar groups of collaterals. It presumes the average recoverable value of specific collateral, based on our experience on the collateral's recovering process.

-Timing of the expected cash flow, which represent the expected recovery time (in years) of a specific type of collateral.

The recovery costs are deducted from estimated future cash flows.

Collateral generally is not held over loans and advances to financial institutions, except when securities are held as part of reverse repurchase and securities borrowing activity. Usually, collateral is not held against investment securities, and no such collateral was held at 31 December 2009 or 2008. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are also updated for some of the loans which are individually assessed as impaired. An estimate of the fair value of collaterals and other security enhancements held against financial assets is shown below:

	Collaterals of Loans and advances to customers 31 December 2009		Collaterals of Loans and advances to customers 31 December 2008	
	Gross	**Net**	**Gross**	**Net**
Against individually impaired				
Property	9,966,149	4,864,019	5,886,366	3,212,771
Cash	93,045	87,733	84,145	81,828
Pledge & Guarantees	1,502,783	556,683	676,810	269,084
Total	**11,561,977**	**5,508,435**	**6,647,321**	**3,563,683**

The gross amount of collaterals includes the value of collaterals before testing the individually impaired loans. The net amount shows the present value of the same collaterals under this test.

The table below shows the total amount of collaterals for the loans assessed under the category of collectively impaired. These collaterals do not undergo the same testing procedures as for the above group, hence only their gross value is presented. The information on the table below provides information on how much the collectively impaired loans and advances to customers are secured against their respective collaterals.

	Collaterals of Loans and advances to customers	
Against Collectively Impaired	**31 December 2009**	**31 December 2008**
Property	57,748,157	48,719,900
Debt Securities	1,309	12,202
Equity	286,482	127,514
Cash	523,878	407,427
Pledge and Guarantees	5,581,808	5,432,541
Total	**64,141,634**	**54,699,584**

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

It is the Bank's policy to dispose of the assets possessed through the recovering process.
The amounts collected from the proceeds are used to reduce or liquidate the carrying amount of the non performing loans.
In case of collateral properties under the ownership of the Bank, their conversion into cash is the first aim of the Bank, which performs a good and proper marketing on the sale. If there is no satisfying offer collected, the bank practice is to keep having the asset in its inventories for sale until receiving the best offer.
Depending on the Bank operations need and the suitability of the asset to fulfill those needs, management decides to take use of it, consequently a reclassification into operational fixed assets of the Bank is done.
The nature and the respective amounts of the collateral properties inventory as of 31 December 2009 are disclosed in the note 15.

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

	Loans and advances to customers	
Concentration by sector	**31 December 2009**	**31 December 2008**
Real Estate	296,520	277,864
Manufacturing	6,512,066	6,102,352
Wholesale	8,935,923	8,373,709
Construction	7,082,572	6,636,963
Services	7,900,176	7,403,127
Other	4,787,636	4,486,417
Corporate	**35,514,893**	**33,280,432**
Mortgage	7,687,423	6,505,434
Consumer	4,288,644	3,629,238
Retail	**11,976,067**	**10,134,672**
Carrying amount	**47,490,960**	**43,415,104**
Concentration by location		
Albania	46,334,004	42,444,956
Greece	1,156,956	970,148
Carrying amount	**47,490,960**	**43,415,104**

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

	Loans and advances to banks	
Concentration by sector	**31 December 2009**	**31 December 2008**
Bank	8,686,240	8,215,701
Carrying amount	**8,686,240**	**8,215,701**
Concentration by location		
Albania	8,686,240	8,215,701
Greece	-	-
Carrying amount	**8,686,240**	**8,215,701**

	Investment securities	
Concentration by sector	**31 December 2009**	**31 December 2008**
Sovereign	40,532,573	39,339,225
Bank	9,127,558	8,675,834
Equity	-	14,742
Carrying amount	**49,660,131**	**48,029,801**
Concentration by location		
Albania	43,821,220	42,188,780
Greece	5,839,911	5,841,021
Carrying amount	**49,660,131**	**48,029,801**

Concentration by location for loans and advances is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. An analysis of investment securities based on agency Moody's ratings, where applicable, is as follows:

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

	Investment securities	
Sovereign	**31 December 2009**	**31 December 2008**
Rated Aaa	412,598	367,893
Rated Aa2	1,693,607	1,589,789
Rated Aa3	286,794	197,883
Rated A2	-	-
Rated A3	-	266,149
Rated Baa1/*+	321,895	-
Rated B1	37,324,315	36,459,760
Rates non available	493,364	457,751
	40,532,573	**39,339,225**
Bank		
Rated Aaa	2,446,586	2,978,810
Rated Aaa /*	-	448,037
Rated Aa1 /*	-	538,447
Rated Aa2	-	347,380
Rated Aa2/*-	535,548	881,359
Rated Aa3	737,956	495,690
Rated A1	1,362,222	981,011
Rated A2	-	1,030,093
Rated A2/*-	1,380,291	-
Rated A3	162,975	192,033
Rated Baa1	1,645,782	-
Rated Baa2	578,577	508,632
Rated B1	277,621	274,342
Rates non available	-	-
	9,127,558	**8,675,834**
Equities		
Rate A1	-	14,742
Total carrying amount	**49,660,131**	**48,029,801**

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honor its obligations to deliver cash, securities or other assets as contractually agreed. The settlement risk with banking counterparties is included within a system of limits for all the transactions with such counterparties and is subject to daily monitoring.

5. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is defined as the possibility that an institution is unable to meet its payment obligations due to its incapacity to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty of easily unwinding positions in financial assets without negatively and significantly affecting their price due to the inadequate market depth or temporary market disruptions.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank defines the guidelines for liquidity risk management and the contingency liquidity plan which are subject to review and approval by ALCO. There are departments ensuring the appropriate application of liquidity policy being the Treasury Department, responsible for liquidity management, and the Risk Management Division, responsible for monitoring indicators and verifying the adherence of the limits.

The Bank monitors liquidity on a daily basis in order to manage its obligations when they fall due and activate emergency procedures in case of escalation. Furthermore, it prepares on regular basis liquidity scenarios, based on the historical trend of its own liquidity situation and also on other situations provided by the Group guidelines, such as market or firm specific crisis situations.

For liquidity ratio purposes required by the Group, net liquid assets are considered as including cash and cash equivalents, investment grade debt securities, for which there is an active and liquid market, and eligible securities less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Central Bank of Albania.

The Bank's internal policy provides that the Bank shall keep not less than 7% of total customer deposit liabilities in any one foreign currency in cash and immediately available balances with approved correspondent banks and local regulations provide for it to keep 10% of its customer deposits as an obligatory reserve with the Central Bank. The Bank can invest a maximum of 75% of its customer deposits and free funds in any one currency in "Investment Grade Bonds".
Bank's short term liquidity ratios are periodically monitored by the Group with reference to Group internal limits and guidelines. The short term liquidity ratios have been well within limits during all the year 2009.

In addition Bank's structural liquidity ratios are calculated by the Group with reference to Bank of Italy liquidity regulations and methodology, with results well within the limits required.

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management - Liquidity Risk (continued)

The table enclosed shows the liquidity situation of the Bank as currently monitored by the Bank's management, as at 31 December 2009 and 31 December 2008, considering the undiscounted cash flow out of the Bank for all financial assets and liabilities, according to contractual maturity and not reflecting any earlier repayment or retention history assumptions.

31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
ASSETS (CASH FLOW IN)	**44,566,378**	**4,430,050**	**15,245,001**	**40,160,666**	**11,674,119**	**116,076,214**
Net Cash	1,840,191	-	-	-	-	1,840,191
Minimum reserve requirements	8,707,529	-	-	-	-	8,707,529
Advances to banks	918,344	-	-	-	-	918,344
Held to Maturity Investments securities- Treasury Bills	11,475,290	-	-	-	-	11,475,290
Other Held-to-maturity and Available-for-sale Investment Securities – Active Market	8,333,028	-	-	-	-	8,333,028
Other Held-to-maturity and Available-for-sale Investment Securities – Non Active market	570	1,142,230	4,077,749	22,686,511	2,028,309	29,935,369
Loans to banks	2,972,417	-	-	-	-	2,972,417
Loans and advances to customers (gross performing loans)	10,319,009	3,287,820	11,167,252	17,474,155	9,645,810	51,894,046

31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
LIABILITIES (CASH FLOW OUT)	**(51,597,896)**	**(14,997,579)**	**(34,948,569)**	**(1,223,114)**	**(1,075,731)**	**(103,842,889)**
Deposits from banks and customers- Current accounts	(33,770,626)	-	-	-	-	(33,770,626)
Current accounts with banks	(757,960)	-	-	-	-	(757,960)
Current accounts with customers	(33,012,666)	-	-	-	-	(33,012,666)
Deposits from banks	(3,747,309)	(16,465)	(16,086)	(15,708)	-	(3,795,568)
of which: cash on repo and on securities lent	(3,066,891)	-	-	-	-	(3,066,891)
Deposits from customers- Time deposits	(14,079,960)	(14,973,346)	(34,924,757)	(1,145,812)	(512,855)	(65,636,730)
Subordinated debt	-	(7,768)	(7,726)	(61,594)	(562,876)	(639,964)
TOTAL GAP	**(7,031,518)**	**(10,567,529)**	**(19,703,568)**	**38,937,552**	**10,598,388**	**12,233,325**

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management – Liquidity Risk (continued)

31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
ASSETS (CASH FLOW IN)	**41,485,024**	**5,478,253**	**17,444,083**	**34,192,514**	**13,472,042**	**112,071,916**
Net Cash	1,632,718	-	-	-	-	1,632,718
Minimum reserve requirements	8,221,991	-	-	-	-	8,221,991
Advances to banks	960,184	-	-	-	-	960,184
Held to Maturity Investments securities- Treasury Bills	12,318,603	-	-	-	-	12,318,603
Other Held-to-maturity and Available-for-sale Investment Securities – Active Market	11,280,358	-	-	-	-	11,280,358
Other Held-to-maturity and Available-for-sale Investment Securities – Non Active market	-	-	3,294,619	18,410,756	2,711,240	24,416,615
Loans to banks	1,153,033	762,781	-	-	-	1,915,814
Loans and advances to customers (gross performing loans)	5,918,137	4,715,472	14,149,464	15,781,758	10,760,802	51,325,633

31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
LIABILITIES (CASH FLOW OUT)	**(51,319,841)**	**(15,300,078)**	**(29,426,371)**	**(1,597,797)**	**(968,096)**	**(98,612,183)**
Deposits from banks and customers- Current accounts	(30,861,124)	-	-	-	-	(30,861,124)
Current accounts with banks	(559,140)	-	-	-	-	(559,140)
Current accounts with customers	(30,301,984)	-	-	-	-	(30,301,984)
Deposits from banks	(5,805,469)	(15,454)	(16,134)	(47,382)	-	(5,884,439)
of which: cash on repo and on securities lent	(5,094,531)	-	-	-	-	(5,094,531)
Deposits from customers- Time deposits	(14,653,247)	(15,267,894)	(29,393,779)	(1,417,573)	(397,911)	(61,130,404)
Subordinated debt	-	(16,730)	(16,458)	(132,842)	(570,185)	(736,215)
TOTAL GAP	**(9,834,817)**	**(9,821,825)**	**(11,982,288)**	**32,594,717**	**12,503,946**	**13,459,733**

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Liquidity risk (continued)

The information provided relates to cash flows deriving from financial liabilities, therefore it considerably differs from face of balance sheet. The analysis does not include non financial liabilities and equity and comprises cash flows of contractual interest.

The table below shows contractual maturity of the Bank's contingent liabilities and commitments.

31 December 2009	**1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**>5Years**	**Total**
Commitments	4,057,899	-	-	-	-	**4,057,899**
Guarantees	6,770,788	-	-	-	-	**6,770,788**
31 December 2008						
Commitments	4,091,582	-	-	-	-	**4,091,582**
Guarantees	70,307	257,735	2,546,398	8,923,230	563,681	**12,361,351**

The Bank expects only a small part of the commitments to be demanded within one month and guarantees to be closed at maturity date. Refer also to note 32 Commitment and contingencies.

Reconciliation between contingent liabilities and commitments maturity table and note 32 Commitment and contingencies is as follows:

	31 December 2009	**31 December 2008**
Commitments	**4,057,899**	**4,091,582**
Un-drawn credit facilities	4,057,899	4,091,582
Guarantees	**6,770,788**	**12,361,351**
Letters of credit	1,771,817	5,860,405
Guarantees in favor of customers	4,998,971	6,500,946

Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risks

The Bank did not separate the exposure to market risk between trading and non-trading portfolios until 1 January 2007. Upon application of IFRS as the accounting framework, the Bank separated its bond portfolio in accordance with IAS 39 as either Trading, Held to Maturity or Available for Sale portfolio. Therefore, the positions arising from the different portfolios have been jointly monitored.

5. Financial Risk Management (continued)

Exposure to foreign exchange rate risk

"Foreign exchange risk" is defined as the possibility that foreign exchange rate fluctuations produce significant changes, both positive and negative, in the Bank's aggregated balance sheet. The key sources of exchange rate risk lie in:

- Foreign currency loans and deposits held by corporate and retail customers;
- Investment securities in foreign currencies;
- Conversion into domestic currency of assets, liabilities and income of the foreign subsidiary;
- Trading of foreign banknotes;
- Collection and/or payment of interest, commissions, dividends, administrative costs, etc in foreign currencies.

The Bank's exposure to exchange rate risk is monitored on a daily basis by Market and Operational Risk Department ensuring compliance with internal and regulatory limits. Internal regulations set limits for each open currency position, global open position, maximum loss and Value at Risk ("VaR"), meanwhile banking system regulations limits refer to a maximum of 20% of open position in each currency and 30% of overall open currency position on consolidated basis.

The estimation methodologies of VaR calculation introduced in the internal procedures are based on variance-covariance value at risk methodology. A simulation was done on two years historical currency position data in order to judge on the accuracy of the model performed back testing and decided the aforementioned limits. The current daily calculations are performed applying decay weights on each of the currency positions with a time window of 125 days and a decay factor of 0.992, in line with the Group Guidelines. In addition, variance – covariance matrixes are calculated for each day in order to consider the correlation between the different foreign currencies. The VaR, estimated at 99% confidence level and 1 day holding period, was Lek 1 Million as of 31 December 2009, with an average of Lek 1.4 Million during the year (2008: Lek 5.3 Million and average Lek 1.4 Million).

The effectiveness of VaR calculations was monitored daily via back testing comparing the estimates of value at risk with the losses calculated for back testing and, even though the model does not predict precisely the amount of daily profit or loss, the results evidenced a VaR level to be breached only once during 2009 (five breaches during 2008).

Financial assets denominated in foreign currencies are disclosed in each relevant note to the financial statements.

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

ASSETS	LEK	USD	EUR	OTHER	TOTAL
Cash and cash equivalents	954,650	1,075,197	3,085,803	626,995	5,742,645
Loans and advances to banks	3,131,764	1,860,611	3,693,864	-	8,686,240
Loans and advances to customers	5,086,394	6,512,219	35,892,036	311	47,490,960
Available for Sale Investment Securities	277,621	2,118,912	-	246,699	2,643,232
Held to Maturity Investment Securities	37,324,315	6,954,459	2,261,325	476,800	47,016,899
Property and Equipment	1,791,887	413	70,584		1,862,884
Intangible Assets	211,539		78,233		289,771
Current tax assets	178,709	-	-	-	178,709
Deferred tax assets	39,678				39,678
Other assets	200,327	67,852	165,221	343	433,743
Total Assets (1)	**49,196,884**	**18,589,664**	**45,247,065**	**1,351,148**	**114,384,761**
LIABILITIES					
Due to Banks	3,753,300	76,107	725,309	-	4,554,716
Due to customers	32,682,709	18,170,179	45,233,181	1,341,434	97,427,503
Subordinated debt			529,471		529,471
Provisions	81,867	92,123	13,796		187,786
Other liabilities	317,957	26,487	265,438	912	610,794
Current tax liabilities	41,346				41,346
Deferred tax liabilities	42,187				42,187
Net Equity	10,990,958				10,990,958
Total Liabilities (2)	**47, 910,324**	**18,364,896**	**46,767,195**	**1,342,346**	**114,384,761**
Net FX Position at 31 December 2009 (1)-(2)	**1,286,560**	**224,768**	**(1,520,130)**	**8,802**	**-**
Off balance sheet Assets	2,346,150	10,963,580	100,779,325	9,276	114,098,332
Off balance sheet Liabilities	2,184,132	11,126,818	100,766,909	20,473	114,098,332
Net Off BSH FX Position at 31 December 2009	**162,018**	**(163,238)**	**12,416**	**(11,197)**	**-**
Total Net FX Position at 31 December 2009	**2,632,290**	**(1,122,045)**	**(1,507,714)**	**(2,532)**	**-**
Balance sheet Assets as at 31 December 2008	**47,899,270**	**17,839,526**	**40,484,365**	**902,452**	**107,125,613**
Balance sheet Liabilities as at 31 December 2008	**46,639,780**	**19,771,702**	**39,458,231**	**1,255,900**	**107,125,613**
Net Off BSH FX Position at 31 December 2008	**112,941**	**1,958,120**	**(2,251,062)**	**180,001**	**-**
Total Net FX Position at 31 December 2008	**1,372,431**	**25,944**	**(1,224,928)**	**(173,447)**	**-**

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Exposure to interest rate risk

The principal Interest Rate risk to which Bank's portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. This risk arises primarily from securities portfolios, retail and corporate banking. Interest rate risk is managed principally through periodic monitoring of interest rate spreads between bank's assets and liabilities and also preparing related scenario analysis on interest rates for decision making purposes.

The method used to measure Interest Rate risk of the Bank's balance sheet is the sensitivity analysis. Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the interest rates. In respect of interest rate risk, an adverse movement is defined as a parallel and uniform shift of ±25 basis points of the interest rate curve. This measure highlights the effect of variations in market interest rates on the portfolio being measured without assuming future changes in the mix of assets and liabilities. The sensitivity of equity is calculated by revaluing the available-for-sale securities portfolio. The Bank's financial assets and liabilities have variable interest rate or have a re-pricing date of less than one year except for certain non Albanian investment securities which have coupon rate between 4 - 7% for USD denominated securities, between 3.72-6.00% for EURO denominated securities and between 5 -6.00% for GBP denominated securities.

Interest rate risk generated by the Bank's balance sheet, as measured through shift sensitivity analysis of ± 25 basis points, registered in 2009 a value of Lek -176 million at year end (December 2008: Lek -274 Million). The table below shows the currency breakdown of the shift sensitivity for the year end 2009.

Shift sensitivity 31 December 2009	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	+25 b.p. / -25 b.p.	(9,381)/ 9,381	(9,381)/ 9,381	-
EUR	+26 b.p. / -26 b.p.	(9,755)/ 9,755	(9,755)/ 9,755	-
USD	+25 b.p. / -25 b.p.	(87,782)/ 87,782	(78,338)/ 78,338	(9,443)/ 9,443
USD	+26 b.p. / -26 b.p.	(91,226)/ 91,226	(81,407)/ 81,407	(9,818)/ 9,818
LEK	+25 b.p. / -25 b.p.	(69,720)/ 69,720	(69,720)/ 69,720	-
LEK	+26 b.p. / -26 b.p.	(72,498)/ 72,498	(72,498)/ 72,498	-
Other (GBP & CHF)	+25 b.p. / -25 b.p.	(9,568)/ 9,568	(4,610)/ 4,610	(4,958)/ 4,958
Other (GBP & CHF)	+26 b.p. / -26 b.p.	(9,946)/ 9,946	(4,792)/ 4,792	(5,154)/ 5,154

Operational risks

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events and it includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract responsibilities or other disputes; strategic and reputation risks are not included.

5. Financial Risk Management (continued)

Operational risks (continued)

The Bank's Management Board approved the guidelines on the overall operational risk management framework adopting a policy and an organizational process for measuring, managing and controlling operational risk.

The Bank's Risk Management Division is responsible for the identification, assessment, management and mitigation of its operational risks, the verification of mitigation effectiveness and reporting to the Bank Senior Management and Group Risk Management with the aim of assessing the potential economic impact of particularly serious operational events.

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

Capital management policy of the Bank aims to maintain a strong capital base in order to ensure future business development.

Regulatory Capital

The Bank's lead regulator, Central Bank of Albania, sets and monitors capital requirements for the Bank. The Greek subsidiary is directly supervised by its local regulators.

The Bank's policy is to maintain the capital base within limits, capitalizing all activity earnings so as to sustain future development of the business recognizing contemporary the impact of the level of capital on shareholders' return. 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.

Capital Adequacy Ratio

In implementing current capital requirements Bank of Albania requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets and off balance sheet items, at a minimum level of 12%. During financial year 2009 the Bank has achieved an adequacy ratio well above the minimum required and as of 31 December 2009 it amounted to 17.2 %.

The modified capital adequacy ratio, which represents the ratio of base capital to risk-weighted assets and off balance sheet items, is another limit set by Banks' supervisory authority at a percentage of 6%. Even this ratio, during the year 2009 has followed same tendency to much higher levels compared to the regulatory limit and as of the 31 December 2009 it amounted to 16.2%.

Throughout the period, there were no material changes in the Bank's management of capital and a compliance with all externally imposed capital requirements was achieved.

(amounts in '000 Lek, unless otherwise stated)

6. Bank Operations in Albanian and Greek Branches

As of 31 December 2009, the Bank's Operations in Albanian and Greek Branches are as follows:

	Albania	Greece	Intra-group transactions	Consolidated
Assets				
Cash and cash equivalents	9,233,522	5,171,611	(8,662,488)	5,742,645
Loans and advances to banks	8,686,240	-		8,686,240
Loans and advances to customers	46,334,004	1,156,956		47,490,960
Financial Investments Available-for-sale	2,356,435	286,797		2,643,232
Financial Investments Held-to-maturity	41,464,785	5,552,114		47,016,899
Property and equipments	1,829,035	33,849		1,862,884
Intangible assets	283,874	5,897		289,771
Deferred tax assets	39,678			39,678
Current tax assets	178,709			178,709
Other assets	315,006	118,737		433,743
Total Assets	**110,721,288**	**12,325,961**	**(8,662,488)**	**114,384,761**
Liabilities				
Deposits from banks	9,002,620	4,214,584	(8,662,488)	4,554,716
Deposits from customers	90,611,342	6,816,161		97,427,503
Current accounts	25,781,009	380,267		26,161,276
Time deposits	64,830,333	6,435,894		71,266,227
Subordinated debt	529,471			529,471
Current tax liabilities	41,346			41,346
Deferred tax liabilities	42,187			42,187
Provisions	154,342	33,444		187,786
Other liabilities	472,427	138,367		610,794
Total Liabilities	**100,853,735**	**11,202,556**	**(8,662,488)**	**103,393,803**
Equity				
Share capital				6,946,398
Other comprehensive item				714,555
Retained earnings				2,765,187
Available-for-sale reserves				(889,309)
Legal and regulatory reserves				1,347,176
Foreign currency translation reserve				106,952
Total Equity				**10,990,958**

The amount of Lek 8,662,488 thousand represents intra-group placements between Head Office in Albania and Branches in Greece as of 31 December 2009.

(amounts in '000 Lek, unless otherwise stated)

6. Bank Operations in Albanian and Greek Branches (continued)

As of 31 December 2008, the Bank's Operations in Albanian and Greek Branches are as follows:

	Albania	Greece	Intra-group transactions	Consolidated
Assets				
Cash and cash equivalents	8,240,743	2,115,795	(5,858,955)	4,497,583
Loans and advances to banks	8,215,701	-	-	8,215,701
Loans and advances to customers	42,444,956	970,148	-	43,415,104
Financial Investments Available-for- sale	1,765,915	197,892		1,963,807
Financial Investments Held-to-maturity	40,422,865	5,643,129	-	46,065,994
Property and equipments	1,927,796	100,185		2,027,981
Intangible assets	183,347	12,574		195,921
Deferred tax assets	39,394	-		39,394
Current tax assets	150,866	-		150,866
Other assets	359,398	193,864		553,262
Total Assets	**103,750,981**	**9,233,587**	**(5,858,955)**	**107,125,613**
Liabilities				
Deposits from banks	8,369,835	3,978,562	(5,858,955)	6,489,442
Deposits from customers	86,362,882	4,036,498		90,399,380
Current accounts	23,690,989	525,379		24,216,368
Time deposits	62,671,893	3,511,119		66,183,012
Subordinated debt	481,811	-		481,811
Current tax liabilities	77,740	-		77,740
Deferred tax liabilities	14,889	-		14,889
Provisions	176,629			176,629
Other liabilities	395,581	61,947		457,528
Total Liabilities	**95, 702,740**	**8,077,006**	**(5,858,955)**	**98,097,419**
Equity				
Share capital				6,946,398
Other comprehensive item				714,555
Retained earnings				1,388,190
Available-for- sale reserves				(1,285,725)
Legal and regulatory reserves				1,258,387
Foreign currency translation reserve				6,389
Total Equity				**9,028,194**

The amount of Lek 5,858,955 thousand represents intra-group placements between Head Office in Albania and Branches in Greece as of 31 December 2008.

(amounts in '000 Lek, unless otherwise stated)

6. Bank Operations in Albanian and Greek Branches (continued)

As of 31 December 2009, the Bank's Operations in Albanian and Greek Branches are as follows:

	Albania	**Greece**	**Intra-group transactions**	**Consolidated**
Total interest income	7,475,334	408,632	(72,128)	7,811,838
Total interest expenses	(3,222,495)	(312,780)	(72,128)	(3,463,147)
Net interest income	**4,252,839**	**95,852**	**-**	**4,348,691**
Fee and commission income	701,161	14,866		716,027
Fee and commission expense	(146,651)	(5,211)		(151,862)
Net fee and commission income	**554,510**	**9,655**		**564,165**
Net trading income	288,528	(3,795)		284,733
Other operating income, net	(141,011)	(35,600)		(176,611)
Operating income	**4,954,866**	**66,112**		**5,020,978**
Net impairment loss on financial assets	(738,775)	(32,714)		(771,489)
Personnel costs	(889,083)	(121,268)		(1,010,351)
Operating lease expenses	(145,877)	(24,967)		(170,844)
Depreciation and amortization	(333,970)	(24,066)		(358,036)
Depreciation on leasehold improvements	(60,257)	(41,715)		(101,972)
Other administration costs	(661,215)	(83,513)		(744,728)
Provisions for risk and expenses	(80,813)	-		(80,813)
Total expenses	**(2,909,990)**	**(328,243)**		**(3,238,233)**
Net income before taxes	**2,044,876**	**(262,131)**		**1,782,745**
Income tax expense	(164,524)	-		(164,524)
Profit for the period	**1,880,352**	**(262,131)**		**1,618,221**

The balance of Lek 72,128 thousand represents intra-group interest income and expenses on the placements between Head Office Albania and Branches in Greece for the period ended 31 December 2009.

(amounts in '000 Lek, unless otherwise stated)

6. Bank Operations in Albanian and Greek Branches (continued)

As of 31 December 2008, the Bank's Operations in Albanian and Greek Branches are as follows:

	Albania	Greece	Intra-group transactions	Consolidated
Interest income	7,427,847	457,249	(119,458)	7,765,638
Interest expenses	(3,386,004)	(295,977)	(119,458)	(3,562,523)
Net interest income	**4,041,843**	**161,272**	**-**	**4,203,115**
Fee and commission income	728,900	15,130		744,030
Fee and commission expense	(134,506)	(4,630)		(139,136)
Net fee and commission income	**594,394**	**10,500**		**604,894**
Net trading income	318,937	(6,831)		312,106
Other operating income, net	(125,129)	(6,758)		(131,887)
Operating income	**4,830,045**	**158,183**		**4,988,228**
Net impairment loss on financial assets	(436,400)	(832)		(437,232)
Personnel costs	(803,389)	(126,422)		(929,811)
Operating lease expenses	(153,507)	(58,141)		(211,648)
Depreciation and amortization	(336,153)	(19,950)		(356,103)
Amortization of leasehold improvement	(59,716)	(94,318)		(154,034)
Other expenses	(641,872)	(112,654)		(754,526)
Total expenses	**(2,431,037)**	**(412,317)**		**(2,843,354)**
Net income before taxes	**2,399,008**	**(254,134)**		**2,144,874**
Income tax expense	(369,096)	-		(369,096)
Profit for the period	**2,029,912**	**(254,134)**		**1,775,778**

The balance of Lek 119,458 thousand represents intra-group interest income and expenses on the placements between Head Office Albania and Branches in Greece for the period ended 31 December 2008.

(amounts in '000 Lek, unless otherwise stated)

7. Fair Value of Financial Instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The analysis of financial instruments recorded at fair value by hierarchy level is presented below:

31 December 2009	Level 1	Level 2	Level 3	Total
Financial investments Available for sale				
Quoted investments				
Governments debt securities	286,794			**286,794**
Other debt securities	1,676,345	402,472		**2,078,817**
Equities				
Unquoted investments				
Debt securities				
Equities				
Total	**1,963,139**	**402,472**		**2,365,611**

31 December 2008	Level 1	Level 2	Level 3	Total
Financial investments Available for sale				
Quoted investments				
Governments debt securities	197,892			**197,892**
Other debt securities	1,211,498	265,332		**1,476,830**
Equities		14,742		**14,742**
Unquoted investments				
Debt securities				
Equities				
Total	**1,409,390**	**280,074**		**1,689,464**

(amounts in '000 Lek, unless otherwise stated)

7. Fair value of Financial Instruments (continued)

Accounting classification and fair values:

31 December 2009	Note	Trading	Held-to-maturity	Loans and Receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair Value
Cash and cash equivalents	8	-	-	5,742,645	-	-	5,742,645	5,742,645
Loans and advances to banks	9	-	-	8,686,240	-	-	8,686,240	8,686,240
Loans and advances to customers:	12	-	-	47,490,960	-	-	47,490,960	47,490,960
Investment securities								
Measured at fair value	10	-	-	-	2,365,611	-	2,365,611	2,365,611
Measured at amortised cost	11	-	47,016,899	-	277,621	-	47,294,520	46,712,797
TOTAL		**-**	**47,016,899**	**61,919,845**	**2,643,232**	**-**	**111,579,976**	**110,998,253**
Due to banks	16	-	-	-	-	4,554,716	4,554,716	4,554,716
Due to customers	17	-	-	-	-	97,427,503	97,427,503	98,639,422
Subordinated liabilities	18	-	-	-	-	529,472	529,472	529,472
TOTAL		**-**	**-**	**-**	**-**	**102,511,691**	**102,511,691**	**103,723,610**

Available-for-sale and Held-to-maturity Albanian Government securities are fixed and floating rate bonds with coupon of 1Year Treasury Bills plus spread. The measurement of the Fair Value for these bonds is performed using the mark to market model valuation technique, by discounting all future cash flows deriving from such instruments. The rest of the available-for-sale and held-to-maturity foreign securities denominated in foreign currencies represent Banks and Financial Institutions bonds. Their fair value is provided from an International Rating Agency (Moody's rating).

Loans and advances to customers have a book value, which is also their fair value as the whole portfolio is based on floating interest rates and they are re-priced on quarterly, semiannually and yearly basis. The fair value of Time Deposits from customers is re-priced using the net present value. The interest rates applied are the market interest rates published from Central Bank of Albania. These rates are an estimate of the market rates (refer also to Note 4 on Accounting Policies on fair value measurement). The fair value of current accounts, savings accounts is considered to approximate their carrying amount.

(amounts in '000 Lek, unless otherwise stated)

7. Financial Assets and Liabilities (continued)

Accounting classification and fair values (continued)

31 December 2008	Note	Trading	Held-to-maturity	Loans and Receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair Value
Cash and cash equivalents	8	-	-	4,497,583	-	-	4,497,583	4,497,583
Loans and advances to banks	9	-	-	8,215,701	-	-	8,215,701	8,215,701
Loans and advances to customers	12	-	-	43,415,104	-	-	43,415,104	43,415,104
Investment securities								
Measured at fair value	10	-	-	-	1,689,464	-	1,689,464	1,689,464
Measured at amortised cost	11	-	46,065,994	-	274,343	-	46,340,337	44,444,799
TOTAL		**-**	**46,065,994**	**56,128,388**	**1,963,807**	**-**	**104,158,189**	**102,262,651**
Due to banks	16	-	-	-	-	6,489,442	6,489,442	6,489,442
Due to customers	17	-	-	-	-	90,399,380	90,399,380	77,115,379
Subordinated liabilities	18	-	-	-	-	481,811	481,811	481,811
TOTAL		**-**	**-**	**-**	**-**	**97,370,633**	**97,370,633**	**84,086,632**

The measurement of the Fair Value for Available-for-sale and Held-to-maturity Albanian Government securities for December 2008 is performed using the mark to market model valuation technique, the same method used in 2009, by discounting all future cash flows deriving from such instruments.

(amounts in '000 Lek, unless otherwise stated)

8. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2009 and 31 December 2008 can be detailed as follows:

	31 December 2009	31 December 2008
Cash and balances with banks	2,646,424	1,950,062
Unrestricted balances with central bank	539,647	642,840
Money market placements	2,556,574	1,904,681
Total	**5,742,645**	**4,497,583**

9. Loans and advances to banks

Loans and advances to banks as of 31 December 2009 and 31 December 2008 are composed as follows:

	31 December 2009	31 December 2008
Compulsory reserve	8,686,240	8,206,928
Correspondent banks deposits	-	8,773
Total	**8,686,240**	**8,215,701**

10. Financial Investments Available-for-sale

Financial Investments Available-for-sale as of 31 December 2009 and 31 December 2008 can be detailed as follows:

	31 December 2009	31 December 2008
Albanian Government:	**277,621**	**274,342**
Listed Companies:	**1,963,139**	**1,424,197**
- Banks & Financial Institutions	1,676,342	1,211,571
- EU Government	286,797	197,884
- Other International Institutions	-	14,742
Unlisted Companies:	**402,472**	**265,268**
- Banks & Financial Institutions	402,472	265,268
Total	**2,643,232**	**1,963,807**

The Bank reviews its debts securities classified as available-for-sale investments at each balance sheet date to asses whether there is any objective evidence that they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances to customers.

Based on the impairment testing performed on Available -for- sale securities, management judgment is that the events occurred after the initial recognition of those securities do not represent a reason for existence of objective evidence for any impairment. The considerable decrease of the market prices has been a negative impact to the overall financial system, but it is not necessarily an evidence of impairment. Taking into consideration the latest news from the market, management of the Bank believes that none of the securities is estimated to be in serious financial difficulties, which may lead them to be impaired.

(amounts in '000 Lek, unless otherwise stated)

11. Financial Investments Held-to-maturity

Financial Investments Held-to-maturity as of 31 December 2009 and 31 December 2008 can be detailed as follows:

	31 December 2009	31 December 2008
Foreign Government and others:	**2,921,487**	**3,430,425**
- International Institution	-	748,844
- US and EU government	2,921,487	2,681,581
Listed companies: Banks	**5,809,924**	**5,282,992**
Unlisted companies: Banks	**961,173**	**892,817**
Albanian Government bonds	**37,324,315**	**36,459,760**
Total	**47,016,899**	**46,065,994**

As at 31 December 2009, Albanian Held-to-Maturity investments securities of Lek 3,639,130 thousand (2008: Lek 5,280,000 thousand) have been pledged as collateral for Reverse REPO Agreements. These transactions are conducted under terms that are usual to the customary to standard lending, and securities borrowing and lending activities as well as requirements determined by Central Bank of Albania. As of 31 December 2009, the average yield of Held to Maturity investment securities pledged as collateral for the Reverse REPO Agreements amounts to 9.24% (2008: 7.93%)

12. Loans and advances to customers

Loans and advances to customers are composed as follows:

	31 December 2009	31 December 2008
Loans to customers	29,639,548	24,708,586
Overdrafts to customers	20,092,995	19,977,673
Gross amount	**49,732,543**	**44,686,259**
Deferred disbursement fee	(46,774)	(40,791)
Allowance for impairment	(2,194,809)	(1,230,364)
Total	**47,490,960**	**43,415,104**

(amounts in '000 Lek, unless otherwise stated)

12. Loans and advances to customers (continued)

Movement in the allowance for impairment losses on loans and advances to customers is as follows:

	31 December 2009	31 December 2008
Specific Allowance for impairment		
Balance at 1 January	**1,077,151**	**202,216**
Impairment loss for the year		
Charge for the year	1,742,936	1,561,779
Recoveries	(888,325)	(655,707)
Effect of movements in foreign exchange	113,678	2,551
Write-offs	(1,103)	(33,688)
Balance at 31 December	**2,044,337**	**1,077,151**
Collective Allowance for impairment		
Balance at 1 January	**153,213**	**69,340**
Impairment loss for the year		
Charge for the year	170,719	183,570
Recoveries	(225,827)	(109,716)
Effect of movements in foreign exchange	52,367	10,019
Write-offs	-	-
Balance at 31 December	**150,472**	**153,213**
Total Allowance for Impairment	**2,194,809**	**1,230,364**

Charge for the year ending 31 December 2008, for both individual and collective impairment allowances, includes respectively amounts of Lek 423,391 thousand and Lek 119,303 thousand, received on merger, from former BIA balances as at 1 January 2008.
In the total impairment costs presented in statement of income for the year ending 31 December 2009, the amount of Lek 28,013 thousand refers to other commitments, stated under the Note 20.

(amounts in '000 Lek, unless otherwise stated)

13. Property and Equipments

Property and Equipments as of 31 December 2009 and 31 December 2008 are as follows:

	Land and Building	IT and Electrical Equipments	Furniture and Fine Art Works	Other non Electrical Assets	Advances for equipments	Total
Cost						
Balance as at 1 January 2008	**462,341**	**747,670**	**146,140**	**203,707**	**71,584**	**1,631,442**
Additions during period	1,164,479	323,666	59,303	101,551	30,181	1,679,180
Disposals	-	(28,320)	(14,267)	(27,581)	-	(70,168)
Effect of movements in foreign exchange	-	1,407	389	337	-	2,133
Balance as at 31 December 2008	**1,626,820**	**1,044,423**	**191,565**	**278,014**	**101,765**	**3,242,587**
Additions during period	-	80,170	5,985	35,012	-	121,167
Disposals		(10,370)	(3,287)	(7,814)	(22,529)	(44,000)
Effect of movements in foreign exchange		10,310	2,725	2,654	-	15,689
Balance as at 31 December 2009	**1,626,820**	**1,124,533**	**196,988**	**307,866**	**79,236**	**3,335,443**

Apart from new investments, additions during period ending 31 December 2008, include an amount of Lek 680,073 thousand, received on merger, from former BIA balances as at 1 January 2008.
Disposals for period ending 31 December 2008 include an amount of Lek 13,334 thousand, due to write offs of assets items of former BIA as per accounting policies standartization.

There is no pledge on Property and Equipments.

The assessment of the Bank for the reporting period concluded that there is no indication that any asset may be impaired.

As of 31 December 2009 the Bank had no contractual commitments on Property and Equipments.

(amounts in '000 Lek, unless otherwise stated)

13. Property and Equipments (continued)

	Land and Building	IT and Electrical Equipment	Furniture and Fine Art Works	Other non Electrical Assets	Advances for equipment	Total
Accumulated Depreciation						
Balance as at 1 January 2008	**57,851**	**432,147**	**99,622**	**117,766**	**-**	**707,386**
Depreciation charge for the year	197,457	218,389	51,216	73,560	-	540,622
Disposals	-	(19,292)	(933)	(15,044)	-	(35,269)
Effect of movements in foreign exchange	-	1,218	384	265	-	1,867
Balance as at 31 December 2008	**255,308**	**632,462**	**150,289**	**176,547**	**-**	**1,214,606**
Depreciation charge for the year	81,341	126,306	16,359	41,033	-	265,039
Disposals	-	(9,557)	(2,190)	(6,709)	-	(18,456)
Effect of movements in foreign exchange	-	7,317	2,479	1,574	-	11,370
Balance as at 31 December 2009	**336,649**	**756,528**	**166,937**	**212,445**	**-**	**1,472,559**
Carrying amount						
At 1 January 2008	**404,490**	**315,523**	**46,518**	**85,941**	**71,584**	**924,056**
At 31 December 2008	**1,371,512**	**411,961**	**41,276**	**101,467**	**101,765**	**2,027,981**
At 31 December 2009	**1,290,171**	**368,006**	**30,051**	**95,416**	**79,236**	**1,862,884**

Depreciation charge for period ending 31 December 2008 includes an amount of Lek 253,244 thousand, received on merger, from former BIA balances as at 1 January 2008.

Depreciation charge for period ending 31 December 2008 includes also an adjustment done in the financial result of the year 2008 for the amount of 35,516 thousand , due to the change of accounting policies regarding classification of some assets received from former BIA and recalculation of depreciation with Bank's rates.

As at 31 December 2009 the fully depreciated items represent an amount of Lek 963,439 thousand (2008: Lek 524,857 thousand).

(amounts in '000 Lek, unless otherwise stated)

14. Intangible Assets

Intangible assets as of 31 December 2009 and 31 December 2008 are as follows:

	Software and Licenses	Advances for Software	Total
Cost			
Balance as at 1 January 2008	**311,231**	**-**	**311,231**
Additions during period	152,154	7,128	159,282
Disposals	-	-	-
Effect of movements in foreign exchange	783	-	783
Balance as at 31 December 2008	**464,168**	**7,128**	**471,296**
Additions during period	174,695	16,965	191,660
Disposals	(6,200)	-	(6,200)
Effect of movements in foreign exchange	5,907	-	5,907
Balance as at 31 December 2009	**638,570**	**24,093**	**662,663**
Depreciation and Impairment Losses			
Balance as at 1 January 2008	**194,968**	**-**	**194,968**
Depreciation charge for the year	79,516	-	79,516
Disposals	-	-	-
Effect of movements in foreign exchange	893	-	893
Balance as at 31 December 2008	**275,377**	**-**	**275,377**
Depreciation charge for the year	92,995	-	92,995
Disposals	(409)		(409)
Effect of movements in foreign exchange	4,929		4,929
Balance as at 31 December 2009	**372,892**		**372,892**
Carrying amount			
At 1 January 2008	**116,263**	**-**	**116,263**
At 31 December 2008	**188,791**	**7,128**	**195,919**
At 31 December 2009	**265,678**	**24,093**	**289,771**

Additions during period ending 31 December 2009 represent investments in licenses and software, mainly in relation to the upgrade of the core banking system.
Additions and Depreciation charge during period ending 31 December 2008, include respectively the amounts of Lek 22,770 thousand and Lek 10,539 thousand, received on merger, from former BIA balances as at 1 January 2008.
Depreciation charge for period ending 31 December 2008 includes also an adjustment done in the financial result of the year 2008 for the amount of Lek 247 thousand , due to the change of accounting policies regarding recalculation of depreciation with Bank's rates for software assets received from former BIA.
As at 31 December 2009 the fully depreciated items represent an amount of Lek 163,804 thousand (2008: Lek 182,955 thousand).

As of 31 December 2009, the Bank had contractual commitments on software, for an amount of Lek 12,922 thousand, again in relation to the upgrade of the core banking system.

(amounts in '000 Lek, unless otherwise stated)

15. Other Assets

Other assets as of 31 December 2009 and 31 December 2008 are as follows:

	31 December 2009	31 December 2008
Leasehold improvements	214,722	258,676
Prepayments	54,986	51,358
Non current assets, held for sale	49,953	52,985
Sundry debtors	70,741	29,294
Cheques for collection	20,950	88,029
ATM & POS transactions	19,760	31,656
Unrealized Loss on Foreign Exchange contracts	320	40,780
Others	2,311	484
Total	**433,743**	**553,262**

The movement of leasehold improvements item during the reporting period is presented as follows:

	31 December 2009	31 December 2008
At beginning of the period	**258,676**	**225,556**
Additions during period	12,611	200,342
Decreases:	**(69,977)**	**(169,323)**
Amortization of the period	(69,977)	(154,034)
Transfers	-	(15,289)
Effect of movements in foreign exchange	13,412	2,101
At end of the period	**214,722**	**258,676**

Additions during period ending 31 December 2008, include an amount of Lek 87,381 thousand, received on merger, from former BIA balances as at 1 January 2008.
In the amortization of the year 2008 it is included a total impact of equivalent of Lek 92,987 thousand from the terminated agreement for one of the Bank's premises in Greece, with no impacts during 2009.
Leasehold improvements charges include also an amount of Lek 31,995 thousand provisioned for the Greek branches restructuring as disclosed in the Note 20.

Non current assets held for sale include collateral values of some unrecoverable loans. Out of the total amount of Lek 49,953 thousand, as of 31 December 2009: Buildings (including land where they were constructed) amount to Lek 48,863 thousand and electronic devices amount to 1,090 thousand (2008: Buildings (including land where they were constructed) Lek 41,887 thousand; Lands Lek 11,098 thousand). The Bank has the ownership on these assets and its intention is to sell them.

Sundry debtors as of the end of reporting period has a significant difference from previous year due to a considerable amount prepaid to tax authorities as withholding tax, to be reimbursed for the amount of Lek 47,622 thousand.

(amounts in '000 Lek, unless otherwise stated)

16. Due to banks

Due to banks as of 31 December 2009 and 31 December 2008 are as follows:

	31 December 2009	31 December 2008
Due to Central Bank	**47,257**	**70,683**
Correspondent banks		
Current accounts:		
Resident	51,027	53,434
Non-resident	706,384	504,848
	757,411	**558,282**
Deposits		
Resident	680,082	433,329
Non-resident	-	272,379
Foreign exchange differences	(2,057)	46,780
	678,025	**752,488**
Repurchase Agreements	**3,072,023**	**5,107,989**
Total	**4,554,716**	**6,489,442**

The amount of Lek (2,057) thousand (December 2008: Lek 46,780 thousand) represents the difference between the placements placed in Greece from Head Office and the balance of borrowings of Greece branches from Head Office as of 31 December 2009. Foreign exchange differences are related to the Intra-Group transactions.

Repurchase agreements as of 31 December 2009 and as of 31 December 2008 are comprised as follows:

	31 December 2009			
Maturity	**Interest Rate**	**Nominal value**	**Accrued interest**	**Book value**
07 Jan 2010	5.25%	1,785,230	257	1,785,487
07 Jan 2010	5.25%	687,132	99	687,231
07 Jan 2010	5.25%	171,206	25	171,231
21 Jan 2010	5.77%	423,323	4,751	428,074
		3,066,891	**5,132**	**3,072,023**

	31 December 2008			
Maturity	**Interest Rate**	**Nominal value**	**Accrued interest**	**Book value**
5 Jan 2009	6.25%	2,508,995	2,578	2,511,573
5 Jan 2009	6.25%	957,629	984	958,613
5 Jan 2009	6.25%	1,234,341	1,268	1,235,609
12 Feb 2009	6.60%	398,662	3,532	402,194
Total		**5,099,627**	**8,362**	**5,107,989**

The Bank has placed as collateral Treasury Bills for an amount of Lek 3,639,130 thousand (2008: Lek 5,280,000 thousand) as previously described in note 11.

(amounts in '000 Lek, unless otherwise stated)

17. Due to customers

Due to customers as of 31 December 2009 and 31 December 2008 are composed as follows:

	31 December 2009			31 December 2008		
Current accounts	**Local Currency**	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Retail	2,385,609	5,200,656	7,586,265	2,430,880	4,636,917	7,067,797
Corporate	7,085,290	11,489,721	18,575,011	7,643,454	9,505,117	17,148,571
	9,470,899	**16,690,377**	**26,161,276**	**10,074,334**	**14,142,034**	**24,216,368**
Deposits						
Retail	21,596,495	43,950,714	65,547,209	20,652,759	37,983,029	58,635,788
Corporate	1,615,316	4,103,702	5,719,018	1,304,834	6,242,390	7,547,224
	23,211,811	**48,054,416**	**71,266,227**	**21,957,593**	**44,225,419**	**66,183,012**
Total	**32,682,710**	**64,744,793**	**97,427,503**	**32,031,927**	**58,367,453**	**90,399,380**

Balances due to customers by maturity and currency type are as follows:

	31 December 2009			31 December 2008		
	Local Currency	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Current Accounts	**9,470,899**	**16,690,377**	**26,161,276**	**10,074,334**	**14,142,034**	**24,216,368**
Deposits						
On demand	1,297,806	5,554,441	6,852,247	1,284,984	4,790,732	6,075,716
One month	5,517,346	9,268,971	14,786,317	4,846,768	11,860,841	16,707,609
Three months	4,037,439	10,204,253	14,241,692	4,778,889	10,036,030	14,814,919
Six months	4,047,020	8,283,786	12,330,806	3,564,046	6,091,875	9,655,921
Nine months	4,713,958	8,138,666	12,852,624	4,224,346	6,865,253	11,089,599
Twelve months	2,665,618	5,874,753	8,540,371	2,305,673	3,771,096	6,076,769
Twenty four months	698,663	325,830	1,024,493	765,078	522,004	1,287,082
Other	233,960	403,717	637,677	187,809	287,588	475,397
	23,211,810	**48,054,417**	**71,266,227**	**21,957,593**	**44,225,419**	**66,183,012**
Total	**32,682,709**	**64,744,794**	**97,427,503**	**32,031,927**	**58,367,453**	**90,399,380**

(amounts in '000 Lek, unless otherwise stated)

17. Due to customers (continued)

For current accounts and time deposits the annual published interest rates applicable for the various fixed terms were:

2009	**LEK (%)**	**USD (%)**	**EUR (%)**
Current accounts and demand deposits	3.50 – 3.50	0.60 – 1.00	2.05 – 2.20
Time deposits – 1 month	2.50 – 3.75	0.10 – 2.30	1.00 – 4.70
Time deposits – 3 months	4.00 – 5.20	0.80 – 2.50	2.50 – 4.80
Time deposits – 6 months	5.00 – 7.60	1.10 – 2.70	3.00 – 4.90
Time deposits – 12 months	6.00 – 8.20	1.25 – 2.80	3.00 – 5.00
Time deposits – 24 months	7.00 – 8.50	1.65 – 2.65	3.75 – 4.90
2008	**LEK (%)**	**USD (%)**	**EUR (%)**
Current accounts and demand deposits	3.50 – 4.00	0.80 – 2.75	2.05 – 2.90
Time deposits – 1 month	3.00 – 4.50	0.60 – 4.20	1.85 – 4.70
Time deposits – 3 months	4.00 – 5.00	0.80 – 4.30	2.85 – 4.80
Time deposits – 6 months	5.00 – 6.30	1.15 – 4.40	3.15 – 4.90
Time deposits – 12 months	6.00 – 7.20	1.25 – 4.40	3.25 – 5.00
Time deposits – 24 months	7.00 – 7.20	1.65 – 3.90	3.75 – 4.40

Different from the published rates, Bank's management has offered preferential rates to the VIP customers.

18. Subordinated debt

The balance of subordinated debt as of 31 December 2009 and 31 December 2008 is as follows:

	31 December 2009	**31 December 2008**
Subordinated Debt	524,248	470,440
Accrued Interest	5,223	11,371
Total	**529,471**	**481,811**

The subordinated debt of EUR 3,800,000, transferred to the Bank upon the merger with former BIA, relates to an agreement signed on 23 February 2007 between San Paolo IMI BANK IRELAND and former BIA.

The final maturity of the debt is on 28 February 2017 and it is payable on 28 February and 28 August at semi-annual installments. The debt bears an interest of EURIBOR 6M +180 b.p per annum until 28 February 2012. After that date the margin will be increased by 0.60 cent per annum.

(amounts in '000 Lek, unless otherwise stated)

19. Deferred Tax

Recognized deferred tax assets and liabilities are attributable to the following:

	31 December 2009			31 December 2008		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax asset	**39,678**	**-**	**39,678**	**39,394**	**-**	**39,394**
Tangible and intangible assets	39,678	-	39,678	37,314	-	37,314
Other assets	-	-	-	2,080	-	2,080
Loans and advances to customer	-	-	-	-		
Translation effect	-	-	-	-	-	-
Deferred tax liability	**-**	**(42,187)**	**(42,187)**	**-**	**(14,889)**	**(14,889)**
Loans and advances to customers		(42,187)	(42,187)	-	(14,889)	(14,889)
Net deferred tax assets/(liabilities)	**39,678**	**(42,187)**	**(2,509)**	**39,394**	**(14,889)**	**24,505**

Movements in temporary differencies during the year are as follows:

31 December 2009	Opening balance	Effect of merger	Recognized in profit or loss	Closing balance
Tangible and intangible assets	37,314	-	2,365	39,679
Other assets	2,080	-	(2,080)	-
Loans and advances to customers	(14,889)	-	(27,299)	(42,188)
Translation effect	-	-	-	-
Total	**24,505**	**-**	**(27,014)**	**(2,509)**
31 December 2008				
Tangible and intangible assets	31,475	-	5,838	37,313
Other assets	3,934	-	(1,853)	2,081
Loans and advances to customer	(16,733)	(925)	2,769	(14,889)
Translation effect	364	-	(364)	-
Total	**19,040**	**(925)**	**6,390**	**24,505**

There are no impacts in the equity for deferred tax in both financial years ended.

20. Provisions

Movements in provisions during the year are as follows:

31 December 2009	Tax Litigation	Other Litigations	Other Provisions	Total
At beginning of the period	**122,982**	**26,141**	**27,505**	**176,629**
Additions during period	-	88,886	42,995	131,880
Decreases (used and unused amounts)	(77,076)	(12,179)	(39,013)	(128,269)
Effect of movements in foreign exchange	-	4,588	2,957	7,546
At end of the period	**45,906**	**107,436**	**34,444**	**187,786**

Tax litigation decreases as disclosed also in the Note 31, refers mainly to reversal of income tax penalties in respect of prior years liability. Other litigations increases/decreases include the net charges for the year of Lek equivalent 80,813 thousand, and the usage of prior year reserves as per the sale of two collaterals received on written off loans which were held for sale, at the amount of Lek 4,016 thousand. Other provisions represent provisions for restructuring of Greece branches and other Bank commitments as described also under the Notes 12 and 15.

(amounts in '000 Lek, unless otherwise stated)

21. Other liabilities

Other liabilities as of 31 December 2009 and 31 December 2008 are composed as follows:

	31 December 2009	31 December 2008
Invoices to be received	358,919	107,704
Sundry creditors	61,528	196,999
Suspense accounts	79,933	63,180
Bank cheques issued and payments in transit	50,009	1,547
Other tax liabilities	41,912	48,278
Due to third parties	15,916	11,268
Other accrued expenses/deferred income	2,577	28,552
Total	**610,794**	**457,528**

Other tax liabilities represent December 2009 monthly liabilities, calculated on personnel compensations and interests paid to individual customers for the matured deposits and Treasury Bills. Such obligations have been settled in the consequent month, January 2010.

(amounts in '000 Lek, unless otherwise stated)

22. Share capital and premiums

The Bank initially started its activity with a share capital of USD 3,000,000. As of 31 December 2006, it amounted to USD 33,400,000 and as allowed by the Bank of Albania, was registered in USD. All shares, with a par value of 2.2266 USD, were fully paid by sole shareholder at the time, Albanian-American Enterprise Fund.

At the Extraordinary Shareholders' Assembly dated June 29, 2007, it was resolved that 80% of the shares of the Bank be owned by Intesa Sanpaolo S.p.a., and the remaining 20% of the shares by Albanian-American Enterprise Fund.

During August 2007, the share capital of the Bank was converted into Albanian Lek, at an equivalent of Lek 3,001,851 thousand, comprising 15,000,000 shares at Lek 200.12 each.

Following the merger with former BIA, the share capital acquired as of 31 December 2007 amounted to Lek 1,307,824,110 comprising at that time 155 fully paid shares at Lek 8,437,574.90 each. Its conversion from USD to LEK was performed during October-November 2007.

On 29 April 2008, at the Extraordinary Shareholders' Assembly, it was decided to increase the capital of the Bank through the capitalization of the undistributed retaining earnings of year 2007, including the ones of former BIA.

On 16 May 2008, at the Extraordinary Shareholders' Assembly, it was decided to increase the capital through issuance of 1,250,000 new shares amounting to EUR 15,000,000 (Lek equivalent 1,830,130 thousand). The new shares were issued at a nominal value of Lek 357 per share amounting to Lek 446,250 thousand. In addition, a share premium was issued for the amount of Lek 1,383,880 thousand at a value per share of Lek 1,107 thousand.

Detailed information regarding share capital and premiums as of 31 December 2009 and 31 December 2008 is presented below:

(amounts in original units)	Number of Shares	Nominal Value	Premium Paid	Total Shares Value
Share Capital at 1 January 2008	**15,000,000**	**200.12**	-	**3,001,851,000**
After merger	14,331,282	300.72	-	4,309,675,110
Capital increase from retained earnings	14,331,282	357.00	-	5,116,267,674
Issuance of new shares	1,250,000	357.00	-	446,250,000
Share Capital at 31 December 2008	**15,581,282**	**357.00**	-	**5,562,517,674**
Premiums paid on new shares	**1,250,000**	**-**	**1,107.10**	**1,383,880,000**
Intesa Sanpaolo S.p.A.	1,152,750	-	1,107.10	1,276,214,136
European Bank for Reconstruction and Development	97,250	-	1,107.10	107,665,864
Share Capital, Premiums at 31 December 2008	**15,581,282**	**357.00**	**1,107.10**	**6,946,397,674**
Share Capital, Premiums at 31 December 2009	**15,581,282**	**357.00**	**1,107.10**	**6,946,397,674**

All the Bank's shares have same rights; there are no preferences, restrictions or other differences, despite the fact of premiums paid by major shareholders.

(amounts in '000 Lek, unless otherwise stated)

22. Share capital and premiums (continued)

On 04 August 2009, Intesa Sanpaolo S.p.a (the "Purchaser") in its capacity of the major shareholder of the Bank, executing the option included in the original agreement, signed a Share Purchase agreement with Albanian-American Enterprise Fund, for transfer of the ownership of 1,751,283 nominative shares. This transaction was approved on 07 August from the Ordinary Shareholders' Assembly of the Bank.

According to the agreement and legal framework in Albania, on 14 August 2009 the transfer of the ownership was recorded in the shares register of the Bank and the new shares certificate was issued. On the same date 14 August 2009, as reported also in the Note1, both parties accepted the respective fulfillment of the contractual terms, completing therefore this transaction.

Consequent to these events, capital structure has changed as below presented:

(amounts in original units)	Number of Shares	Nominal Value	Total Shares Value	Participation %
Share Capital at 31 December 2008	**15,581,282**	**357.00**	**5,562,517,674**	**100.00%**
Intesa Sanpaolo S.p.A.	12,401,373	357.00	4,427,290,161	79.59%
Albanian-American Enterprise Fund	1,751,283	357.00	625,208,031	11.24%
European Bank for Reconstruction and Development	1,212,224	357.00	432,763,968	7.78%
Società Italiana per le Imprese all'Estero S.p.A.	216,402	357.00	77,255,514	1.39%
Share Capital at 31 December 2009	**15,581,282**	**357.00**	**5,562,517,674**	**100.00%**
Intesa Sanpaolo S.p.A.	14,152,656	357.00	5,052,498,192	90.83%
European Bank for Reconstruction and Development	1,212,224	357.00	432,763,968	7.78%
Società Italiana per le Imprese all'Estero S.p.A.	216,402	357.00	77,255,514	1.39%

(amounts in '000 Lek, unless otherwise stated)

23. Legal and regulatory reserves

Effective the year 2001, the Bank has created two reserves through an appropriation from earnings: The regulatory reserve is required by banking local supervisory regulations while the legal reserve is required by commercial companies' local legislation.

The regulatory reserve is calculated as 20% of annual profit after tax, whereas the legal reserve is calculated as 5% of annual profit after tax.

	31 December 2009	31 December 2008
Regulatory reserve	1,125,837	1,125,837
Legal reserve	221,339	132,550
Total	**1,347,176**	**1,258,387**

24. Other valuation reserves

Comprehensive items

The balance of Lek 714,555 thousand for both periods ending 31 December 2009 and 2008 represents the differences resulted from share capital conversion from USD to LEK. Out of this balance, the amount of Lek 297,666 thousand is received as of 1 January 2008 from the merge with former BIA, as raised by the same denomination currency change of the share capital.

Available for sale reserves

Available for sale reserve represents the changes in the fair value of the available for sale securities, The changes during the financial year ended as at 31 December 2009 amounted for Lek 396,416 thousand during (2008: Lek (795,223) thousand).

Foreign currency translation reserves

As described also in the note 4 a ii, translation reserves comprises differences arising from the foreign exchange movements of the other reserves and of the retained earnings (losses) of Greek branches including revaluation differences raised from the consolidation of their current period profits and losses. During the financial year ended as at 31 December 2009 the movements amounted for Lek 100,563 thousand (2008: Lek (22,027) thousand).

25. Net Interest income

	31 December 2009	31 December 2008
Interest income		
Loans and advances to customers	3,540,285	3,621,318
Financial Investments Held-to-maturity	3,845,583	3,383,007
Loans and advances to banks	258,717	652,571
Financial Investments Available-for-sale	167,253	107,938
Cash and cash equivalents	-	804
Total interest income	**7,811,838**	**7,765,638**
Interest expenses		
Time deposits	2,831,701	3,068,732
Deposits from banks	329,842	156,673
Current accounts	281,525	295,922
Subordinated loan	20,079	41,196
Total interest expenses	**3,463,146**	**3,562,523**
Net interest income	**4,348,691**	**4,203,115**

(amounts in '000 Lek, unless otherwise stated)

26. Net fee and commission income

	31 December 2009	31 December 2008
Collection and payment services	247,387	287,149
Active current accounts	186,945	186,025
Active ATMs and POSs	154,140	116,456
Guarantees given	83,730	94,242
Unused/advanced liquidated credit lines	23,117	49,059
Arrangement fees and others	20,708	11,099
Fee and commission income	**716,027**	**744,030**
Active ATMs and POSs	132,718	122,087
Banking services-foreign branches	13,357	15,098
Collection and payment services	1,472	1,375
Guarantees received	4,315	576
Credit cards	-	-
Fee and commission expenses	**151,862**	**139,136**
Net fee and commission income	**564,165**	**604,894**

Figures above do not include fees received for loans and advances to customers (transaction costs) considered as adjustment for the carrying value of these financial assets as per effective interest rate method.

27. Net trading income

Net trading income for the year ended 31 December 2009 and 2008 are composed as follows:

	31 December 2009	31 December 2008
Foreign exchange	262,414	293,147
Equities (AFS VISA Shares)	22,264	18,908
Others	55	51
Total	**284,733**	**312,106**

As the Bank has been previously entitled for 8,950 VISA shares from the cards' business with VISA, the amounts disclosed in respect of those shares relate to sale in full of shares during 2009 and redemption of 5,029 shares out of a total of 8,950 during 2008.

(amounts in '000 Lek, unless otherwise stated)

28. Other operating (expenses)/ income, net

Other income for the year ended 31 December 2009 and 31 December 2008 are as follows:

	31 December 2009	31 December 2008
Premium on deposits insurance	(132,350)	(123,633)
Loss-writte off of fixed assets	(13,962)	(21,060)
Loss/gain on sale fixed assets	740	(525)
Recoveries on written off loans	6,910	30,063
Sundry net operational losses	(37,949)	(16,732)
Total	**176,611**	**131,887**

Sundry operational losses have been increased during reporting period due to some extraordinary charges booked on card frauds and robbery in one of the branches outside Tirana (22,829 thousand Lek) and some penalties on behalf of previous years tax inspection different from income tax (13,232 thousand Lek).

29. Personnel expenses

Personnel costs for the periods ended 31 December 2009 and 31 December 2008 are as follows:

	31 December 2009	31 December 2008
Salaries	783,986	805,895
Social Insurance	95,267	100,430
Personnel on secondment	85,994	-
Training & similar	36,710	9,881
Termination indemnities and others	8,394	13,605
Total	**1,010,351**	**929,811**

30. Other expenses

Other expenses for the years ended 31 December 2009 and 31 December 2008 are as follows:

	31 December 2009	31 December 2008
Insurance	36,722	34,012
Advertising & Publication	87,671	134,616
Maintenance & repair	114,244	127,889
Software maintenance	135,328	116,289
Telephone and electricity	127,919	93,651
Transportation of counting valuables and others	46,305	65,097
Consulting & Legal fees	60,485	57,611
Stationery	70,324	62,855
Travel & business trips	18,597	38,963
Security	30,522	22,634
Other	16,611	908
Total	**744,728**	**754,525**

(amounts in '000 Lek, unless otherwise stated)

31. Income tax expense

The components of income tax expense for the year ended 31 December 2009 and 2008 are:

	31 December 2009	31 December 2008
Current year	186,610	225,306
Current income tax in respect of prior years	(49,100)	150,180
Current Tax	**137,510**	**375,486**
Deferred tax (origination and reversal of temporary differences)	27,014	(6,390)
Deferred Tax	**27,014**	**(6,390)**
Income Tax Expense	**164,524**	**369,096**

Reconciliation of the income tax expense with the accounting profit for the year ended 31 December 2009 and 2008 is presented as follows:

		31 December 2009		31 December 2008
Accounting Profit Before Tax		**1,782,745**		**2,144,874**
Income tax at domestic corporate tax rate	10%	178,275	10%	214,487
Tax effect of nondeductible expenses	0.5%	8,336	0.5%	10,819
Tax effect of prior year taxes recognition	-2.8%	(49,100)	7%	150,180
Origination and reversal of temporary differences	1.5%	27,013	0%	(6,390)
Income Tax Expense	**9.2%**	**164,524**	**17%**	**369,096**

Effective income tax rate for the year 2009, as noticed above is 9.2% (2008: 17%).

In addition to a lower taxable profit for the reporting period, prior years' tax adjustments have a significant impact in the decrease of effective income tax rate.

Effective from year ended 31 December 2008, for the purpose of current tax liabilities calculation, profit before tax, based on the Law No. 9228 dated 29.04.2004 "On Accounting and Financial Statements" has been calculated according to International Financial Reporting Standards. In addition, according to provisions of Instruction No. 5, dated 30.01.2006 "On Income Tax", it has been adjusted with certain expenses which are classified as non deductible. Fixed assets depreciations and provisions for loans, are result of differences between tax and accounting rules applications. More detailed information is presented below:

	31 December 2009	31 December 2008
Depreciation and Amortization of Fixed Assets	15,031	27,608
Provisions for loans	-	24,451
Sundry operational losses	39,528	15,695
Office expenses	8,995	14,692
Rent apartments	9,248	12,312
Personnel costs	4,535	6,981
Representation	6,020	6,447
Total Nondeductible Expenses	**83,357**	**108,186**

(amounts in '000 Lek, unless otherwise stated)

31. Income tax expense (continued)

Corporate Income tax rate applicable for the period 2009 is 10% according to the Law No. 9766 date 09.07.2007 "On some changes on the provisions of the Corporate and Personal Income Tax of the Law No.8438 date 28.12.1998"(2008: 10%).
The Bank paid for the year 2009 a prepaid current income tax of Lek 225,360 thousand (2008: Lek 183,960 thousand), which can only be offset against income tax expense, if any, after future Tax Office inspections for each jurisdiction.
Current income tax in respect of prior years represents: the reversal of an income tax penalty provision (as stated also under the Note 20), for the amount of Lek 75,090 thousand, initially booked in 2008 as per results of a tax audit performed at former BIA on the period 2004-2007, following the Decision of General Tax Directory dated 01.06.2009 and the recognition of an income tax liability of Lek 25,990 thousand, as a result of a tax control at the Bank covering the period 2004 - 2007.

As provided by article 73 of the Law No.9920, date 19.05.2008 "On Tax Procedures", tax administration reserves the right to perform a tax assessment within 5 years from the delivery date of yearly income tax declaration.
Tax losses can be carried forward up to 3 years in Albania, whereas in Greece it is possible to carry forward tax losses for a period of 5 years. Deferred tax assets have not been recognized in respect of losses from the Greek subsidiary as it is not probable that future taxable profit will be available against which the subsidiary can utilize the benefits there from.

32. Commitment and contingencies

Commitments and contingencies as at 31 December 2009 and 31 December 2008 are as follows:

	31 December 2009	31 December 2008
Contingent Assets	**109,099,362**	**101,382,986**
Guarantees received from credit customers	102,820,268	86,144,908
Un-drawn credit facilities	4,057,899	4,091,582
Letters of credit	1,771,817	5,860,405
Forward foreign exchange contracts	449,378	4,894,770
Money market future dated deals	-	391,321
Contingent Liabilities	**4,998,971**	**6,500,946**
Guarantees in favor of customers	4,998,971	6,500,946

Guarantees are mainly represented by bid and performance bonds. Guarantees and letters of credit are collateralized by cash and deposits. The Bank issues guarantees to its customers. These instruments bear a credit risk similar to that of loans granted.

Dispute with tax authorities

Currently, the Bank has a dispute with tax authorities with regard to Tax Inspection results in former BIA. The Bank is following all legal steps to defend itself as it believes the findings are not in accordance with the Albanian legislation. The case is presently under Court Proceedings in Tirana District Court.
Management believes that the tax risk provision is prudent; they have a strong case with which to defend such tax claims, given the uncertainty of the Albanian tax environment.

(amounts in '000 Lek, unless otherwise stated)

32. Commitment and contingencies (continued)

Other litigations

The Bank is subject to legal proceedings, claims, and litigation that arise in the ordinary course of business. Management believes that any existing or potential future litigation will not have a material adverse effect on Bank's financial position, results of operations, or cash flows.

33. Operating lease commitments and operating lease expenses

Operating lease rentals as at 31 December 2009 and 31 December 2008 are as follows:

	31 December 2009	31 December 2008
Less than one year	131,278	139,272
Between one and five years	244,432	277,071
More than five years	88,148	100,000
Total	**463,858**	**516,343**

The Bank has rental agreements with renewal options for its offices in Albania and Greece. During 2009 the amount of Lek 170,844 thousand was recognized as an expense in the statement of profit and loss in respect of lease rentals (2008:Lek 211,678 thousand).
Operating lease contracts are cancelable, if notified for a period of 180 days in advance.

(amounts in '000 Lek, unless otherwise stated)

34. 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 with the Intesa Sanpaolo s.p.a in the normal course of business. This related party qualifies as parent company of the Bank. The respective transactions include loans, deposits and others for administrators, shareholders and other closely related to them. Mostly, other related are parties of control or interests of Bank's shareholders, or they are close family members related to key management.

There are no doubtful debts related to outstanding balances of related parties, consequently allowances for impairment.

The transactions are carried out on commercial terms and at market rates.

During the reporting period, there were neither long term benefits nor termination benefits paid to key management.

The outstanding balances with related parties as at 31 December 2009 and 31 December 2008 are as follows:

	Parent company		Other related parties	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Assets at end of year	**320,417**	**154,072**	**267,348**	**563,601**
Loans and advances to Credit Institutions	320,417	154,072	-	-
Loans and advances to customers	-	-	267,348	563,601
Liabilities at end of year	**681,347**	**1,057,840**	**399,950**	**2,766,273**
Loans and advances from Credit Institutions	681,347	1,057,840	-	-
Customers deposits	-	-	399,950	2,766,273
Off balance sheet	**1,906,649**	**5,743,870**	**929,817**	**686,009**
Letter of Credit/of Guarantees given	-	-	-	314,738
Letter of Credit/of Guarantees received	1,794,843	2,281,591	504,000	-
Foreign Currency Contracts	111,806	3,462,279	-	-
Collaterals	-	-	425,817	371,271
Income for year ending		**172,700**	**2,466**	**36,852**
Interest income		172,700	2,466	36,835
Commission income		-	-	17
Expenses for year ending		**2,939**	**17,882**	**12,498**
Interest expense		2,939	17,882	12,498
Compensation of Key Managers	**-**	**-**	**123,172**	**79,136**
Net Salary	-	-	82,198	49,014
Net Bonus paid	-	-	19,576	27,605
Social & Health Insurance	-	-	2,065	2,517
Other expenses	-	-	19,333	-

34. Related parties (continued)

Regarding to compensations to key managers, during year 2009 the Net Salary is increased compared to year 2008. The reason is that there is an increase in the cost of the personnel seconded from other companies of the group. The same explanation is for the increase in other expenses, as well.

35. Events after balance sheet date

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