INTESA SANPAOLO BANK ALBANIA SH.A.

Financial Statements as at

31 December 2010

(with independent auditor’s report thereon)

Contents

Ernst & Young Certified Auditors
Sh.p.k .Skopje - Tirana Branch
Dibra Str "Observator Building"
7th Floor
Tirana, Albania

Tel: (+355 4) 2259 793
Fax: (+355 4) 2259 831
www.ey.com

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

We have audited the accompanying financial statements of Intesa San Paolo Bank Albania Sh.a which comprise the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 financial statements give a true and fair view of the financial position of Intesa SanPaolo Bank Albania Sh.a. as of 31 December 2010, 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

29 March 2011

Intesa SanPaolo Bank Albania Sh.a.

Statement of financial position
As at 31 December 2010
(in '000 Lek)

	Notes	2010	2009
Assets			
Cash and cash equivalents	8	10,431,415	5,742,645
Loans and advances to banks	9	9,518,806	8,686,240
Financial investments available-for-sale	10	2,668,123	2,643,232
Financial investments held-to-maturity	11	49,641,226	47,016,899
Loans and advances to customers	12	45,753,791	47,490,960
Property and equipment	13	1,656,909	1,862,884
Intangible assets	14	292,141	289,771
Deferred tax assets	19	40,572	39,678
Current tax assets		264,968	178,709
Other assets	15	364,061	433,743
Total Assets		**120,632,012**	**114,384,761**
Liabilities			
Due to banks	16	1,650,859	4,554,716
Due to customers	17	104,604,212	97,427,503
Current accounts		29,473,190	26,161,276
Time deposits		75,131,022	71,266,227
Subordinated debt	18	532,568	529,471
Current tax liabilities		-	41,346
Deferred tax liabilities	19	182,584	42,187
Provisions	20	217,269	187,786
Other liabilities	21	732,014	610,794
Total Liabilities		**107,919,506**	**103,393,803**
Equity			
Share capital	22	5,562,518	5,562,518
Share premium	22	1,383,880	1,383,880
Legal and regulatory reserves	23	1,752,404	1,347,176
Available-for-sale reserve		(1,130,902)	(889,309)
Foreign currency translation reserve		152,241	106,952
Other comprehensive items	24	714,555	714,555
Retained earnings		4,277,810	2,765,186
Total Equity		**12,712,506**	**10,990,958**
Total Liabilities and Equity		**120,632,012**	**114,384,761**

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

Stefano Farabbi
Chief Executive Officer

Adela Xhemali
Adela Xhemali
Chief Financial Officer

Intesa SanPaolo Bank Albania Sh.a.

Statement of income and Statement of comprehensive income

For the year ended 31 December 2010

(in '000 Lek)

	Notes	2010	2009
Interest income		8,215,639	7,811,838
Interest expense		(3,318,184)	(3,463,147)
Net interest income	25	**4,897,455**	**4,348,691**
Fee and commission income		725,360	716,027
Fee and commission expense		(157,187)	(151,862)
Net fee and commission income	26	**568,173**	**564,165**
Net trading income	27	355,584	284,733
Other operating expenses, net	28	(224,921)	(176,611)
Operating income		**5,596,291**	**5,020,978**
Net impairment loss on financial assets	12	(993,626)	(771,489)
Personnel expenses	29	(1,086,711)	(1,010,351)
Operating lease expenses	33	(187,371)	(170,844)
Depreciation and amortization	13,14	(342,923)	(358,036)
Amortization of leasehold improvements	15	(111,603)	(101,972)
Other administration expenses	30	(664,247)	(744,728)
Provisions for risk and expenses	20	(41,401)	(80,813)
Total expenses		**(3,427,882)**	**(3,238,233)**
Net income before taxes		**2,168,409**	**1,782,745**
Income tax expense	31	(252,885)	(164,524)
Profit for the period		**1,915,524**	**1,618,221**

	Notes	2010	2009
Profit for the period		**1,915,524**	**1,618,221**
Other comprehensive income			
Net change in fair value of available-for-sale investment securities	24	(241,593)	396,416
Income tax effect		24,159	(39,642)
Other comprehensive income for the period, net of tax		**(217,434)**	**356,774**
Total comprehensive income for the period, net of tax		**1,698,090**	**1,974,995**

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

Stefano Farabbi
Chief Executive Officer

Adela Xhemali
Chief Financial Officer

Intesa SanPaolo Bank Albania Sh.a.

Statement of changes in equity

For the year ended 31 December 2010

(in '000 Lek)

	Share capital	Share premium	Reserves		Valuation Reserves			Profit of the year	Total
			Retained earnings	Legal and Regulatory Reserves	Available for Sale reserve	Foreign currency translation reserve	Comprehensive item (note 24)		
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**
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**

Intesa SanPaolo Bank Albania Sh.a.

Statement of changes in equity

For the year ended 31 December 2010

(in '000 Lek)

	Share capital	Share premiums	Reserves		Valuation Reserves			Profit of the year	Total
			Retained earnings	Legal and Regulatory Reserves	Available for Sale reserve	Foreign Currency Translation reserve	Comprehensive item (Note 24)		
Balance at 1 January 2010	**5,562,518**	**1,383,880**	**1,146,965**	**1,347,176**	**(889,309)**	**106,952**	**714,555**	**1,618,221**	**10,990,958**
Transfer of prior year profit	-	-	1,618,221	-	-	-	-	(1,618,221)	-
Appropriation of retained earnings	-	-	(396,822)	396,822	-	-	-	-	-
Other Comprehensive Income (Net change in fair value of AFS investment securities)	-	-	-	-	(241,593)	-	-	-	**(241,593)**
Foreign currency translation difference	-	-	(6,078)	-	-	53,695	-	-	**47,616**
Reclassification of legal reserve	-	-	-	8,406	-	(8,406)	-	-	-
Profit for the year	-	-	-	-	-	-	-	1,915,524	**1,915,524**
Balance at 31 December 2010	**5,562,518**	**1,383,880**	**2,362,286**	**1,752,404**	**(1,130,902)**	**152,241**	**714,555**	**1,915,524**	**12,712,505**

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

Stefano Farabbi
Chief Executive Officer

Adela Xhemali
Chief Financial Officer

Intesa SanPaolo Bank Albania Sh.a.

Statement of cash flows

For the year ended 31 December 2010

(in '000 Lek)

	2010	2009
Cash flows from/(in) operating activities		
Profit of the period	**1,915,524**	**1,618,221**
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	38,128	246,176
Amortization of intangible assets	106,556	92,995
Depreciation of leasehold improvements	111,603	101,972
Disposals of Intangible Assets	-	409
Disposals of Property and Equipment	198,239	18,456
Amortization of investments HTM-treasury bills	162,687	(152,099)
Amortization of investments HTM-other than treasury bills	(25,806)	(112,620)
Amortization of AFS investment securities	3,556	934
Impairment on financial assets	993,626	771,489
Increase in interest receivable	(51,974)	(121,902)
Decrease in interest payable	(25,335)	42,621
Foreign exchange difference	69,140	25,598
Changes in operating assets and liabilities		
Changes in loans and advances in banks	(832,306)	(472,227)
Change in loans and advances to customers	795,257	(4,746,824)
Change in other assets	(41,919)	28,954
Change in deferred tax assets	(894)	6,106
Change in due to banks	(2,909,352)	(1,932,972)
Change in due to customers	7,207,558	6,977,600
Change in other liabilities and provisions	150,704	164,424
Change deferred tax liabilities	140,397	27,298
Change in current taxes	(127,605)	(64,237)
Net cash provided by operating activities	**5,962,260**	**902,150**
Cash flows from investing activities		
Purchase of intangible assets	(107,346)	(175,065)
Purchase of property and equipment	(53,497)	(183,923)
Purchase of financial investments	(3,031,249)	(970,129)
Net cash used in investing activities	**(3,192,092)**	**(1,329,117)**

Intesa SanPaolo Bank Albania Sh.a.

Statement of cash flows

For the year ended 31 December 2010

(in '000 Lek) (continued)

	2010	2009
Cash flows from financing activities		
Increase of subordinated debt	3,078	53,808
Net Cash from financing activities	**3,078**	**53,808**
Net increase/(decrease) in cash during the year	**4,688,770**	**1,245,062**
Cash and cash equivalents at beginning of the year	5,742,645	4,497,583
Cash and cash equivalents at end of period	**10,431,415**	**5,742,645**
Operational cash flows from interest:		
Interest paid	3,354,508	3,417,017
Interest received	8,304,102	7,426,151

During the year 2010 the Bank paid as Corporate Income Tax for current year, a total amount of Lek 161,841 thousand (2009: Lek 186,610 thousand).

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

These financial statements have been approved by Board of Directors of the Bank on March 4th, 2011. After their issuance, any amendment is in 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 31 branches and agencies, located in different cities of Albania: Tirana, Durres, Vlora, Elbasan, Fier, Gjirokastra, Korca, Lushnja, etc, and also in Greece with one branch in Athens Piraeus (2009: 36 branches and agencies).

The Bank had 543 employees as at 31 December 2010 (2009: 565).

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 financial statements of the Bank as of 31 December 2010 and for the year then ended, comprise also its branch in Greece which operates as a separate fiscal entity.

2. Basis of Preparation

(a) Statement of compliance

In compliance with the local accounting legislation, the 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 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 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. The functional currency of Greek branch is Euro.
Except as indicated, financial information presented in Lek has been rounded to the nearest thousand.

(d) Basis of consolidation

The 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 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 financial statements. Unrealised gains are eliminated in preparing the 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' 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 position 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 are traded 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 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. Judgment 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 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 transferred to profit or loss.

(b) Interest income and expense

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 commission income and expense

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) Dividend income

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) Leases and Leasehold improvements – the Bank as a lessee

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 fulfillment 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.

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

4. Significant accounting policies (continued)

(g) Income Tax (continued)

- 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 individual and collective level. All significant financial assets are assessed for individual impairment. Financial assets that are not individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified, by grouping together (carried at amortized cost) in groups with similar risk characteristics.

The criteria for classification and objective evidence for impairment are the following:

• Significant financial difficulty of the borrower

• A breach of contract, such as a default or delinquency in interest or principal payments showed by historical days of delay during the last three months

• Restructuring of debt because of financial difficulties experienced by the client

• Bankruptcy probability

• Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets

• National or local economic conditions that correlate with defaults on the assets in the group

• The Bank with regard to provisions management, can decide on the classification of the exposure also based on subjective evidence, independently on the criteria defined above, applying other not commonly met criteria which could appear in some individual cases.

Past due more than 90 days, are subject to individual assessment. 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 exposure.

All the customers with any restructured credit facility are subject to individual impairment testing and remain so for a period of at least 2 years 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 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.

(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.

(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 fair value and subsequently 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.

(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.

4. Significant accounting policies (continued)

(l) Investment securities (continued)

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 equipment

(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.

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 equipment	5 years
• Computer and other IT equipment	4 years

(iv) De-recognition

Property and equipment 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

4. Significant accounting policies (continued)

(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.

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.

4. Significant accounting policies (continued)

(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 collateralized 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.

(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.

4. Significant accounting policies (continued)

(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 2010 year end.

i) The following new interpretations and amendments to standards became mandatory for the first time for the financial year beginning 1 January 2010:

"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 amendment is assessed to have no impact on the Bank.
- **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. The Bank determined that the operating segments are the same as the business segments previously identified under IAS 14 "Segment Reporting".
- **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.
- **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. The amendment is assessed to have no impact on the Bank's financial statements as the Bank has not entered into any such hedges.

IFRS 3 "Business Combinations" (Revised) and IAS 27, " 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. The The Bank is taking into consideration these changes, however IFRS 3 amendment is not relevant to the Bank's operations.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

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.

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.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

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 does not expect any impact on its financial position or performance.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

Improvements to IFRSs

Issued in May 2008

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* effective 1 January 2010

Issued in April 2009

- IFRS 2 *Share-based Payment*
- IAS 1 *Presentation of Financial Statements*
- IAS 17 *Leases*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 Reassessment of Embedded Derivatives

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment) The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Bank after initial application.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Bank's financial assets. The Bank is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Bank at the date of adoption, it is not practical to quantify the effect.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)
Standards issued but not yet effective (continued)

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Bank.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished.
Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Bank.

Improvements to IFRSs (issued in May 2010)

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

IFRS 3 *Business Combinations*
IFRS 7 *Financial Instruments: Disclosures*
IAS 1 *Presentation of Financial Statements*
IAS 27 *Consolidated and Separate Financial Statements*
IFRIC 13 *Customer Loyalty Programmes*

The Bank, however, expects no impact from the adoption of the amendments on its financial position or performance.

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) that have the authority 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 has built 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.

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.

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

- *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. According to Bank's methodology all exposures are classified on Performing and Non Performing exposures as following:

IFRS Classification		
Summary Classification	**Bank Methodology Classification**	**Objective Criteria**
Performing	A	*Significant exposure, > 10% RC, Days Past Due < 61 days*
		Staff exposure
		Collective, Days Past Due < 61 days
	B	*With Indicator (special treatment)*
		Days Past Due 61-90 days
Non performing	C (includes Past Due exposures)	*Days Past Due 91-180 days*
	D (includes Substandard exposures)	*Days Past Due 181-270 days*
	E (includes Doubtful exposures)	*Days Past Due > 270 days*
	Restructured	

- *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.

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:

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

	Gross Maximum Exposure	
	31 December 2010	**31 December 2009**
Cash Balances with Central Bank (excluding cash on hand)	9,126,415	3,902,454
Due from banks	9,518,806	8,686,240
Loans and advances to customers	48,883,302	49,685,769
Financial assets- available-for-sale	2,668,123	2,643,232
Financial assets- held-to-maturity	49,641,226	47,016,899
Total	**119,837,872**	**111,934,594**
Undrawn credit commitments	6,091,313	4,057,899
Letters of credit	3,894,440	1,771,817
Guarantees in favor of customers	4,127,857	4,998,971
Total credit related commitments	**14,113,610**	**10,828,687**
Total Credit Risk Exposure	**133,951,482**	**122,763,281**

The maximum credit exposure of any single client, or group of clients, as at 31 December 2010 is Lek 2,602,155 thousand (2009: Lek 1,655,520 thousand) before taking account of collaterals 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 month 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.

(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 2010 and 31 December 2009:

31 December 2010	Neither past due nor impaired	Past due but not impaired	Individually Impaired	Total
Cash Balances with Central Bank (excluding cash on hand)	9,126,415	-	-	9,126,415
Due from Banks	9,518,806	-	-	9,518,806
Loans and advances to customers:				
Commercial lending	24,985,904	7,022,441	7,891,286	39,899,631
Mortgage lending	4,940,287	1,065,453	715,801	6,721,542
Consumer lending	1,735,583	265,950	351,241	2,352,774
Deferred disbursement fee	(81,999)	(5,657)	(2,988)	(90,644)
Financial Assets-available-for-sale				
Listed companies	1,885,506	-	-	1,885,506
Unlisted companies	782,617	-	-	782,617
Financial Assets-held-to-maturity				
Listed companies	6,923,042	-	-	6,923,042
Unlisted companies	42,718,184	-	-	42,718,184
Total	**102,534,345**	**8,348,187**	**8,955,340**	**119,837,872**

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	-	-	3,902,454
Due from Banks	8,686,240	-	-	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	-	-	1,963,139
Unlisted companies	680,093	-	-	680,093
Financial Assets-held-to-maturity				
Listed companies	8,731,411	-	-	8,731,411
Unlisted companies	38,285,488	-	-	38,285,488
Total	**96,642,245**	**7,746,759**	**7,545,590**	**111,934,594**

In the past due loans above, there are included loans that are more than 30 days 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 with a category of past due but not impaired group. The rest of financial assets has no past due category. Respective aging analysis as at 31 December 2010 and 2009 are shown in the tables below:

31 December 2010	31 to 90 days	91 to 180 days	more than 180 days	Total
Loans and advances to customers:				
Commercial lending	1,352,951	2,397,443	3,272,046	7,022,440
Mortgage lending	176,676	249,477	639,300	1,065,453
Consumer lending	9,962	14,082	241,907	265,951
Deferred disbursement fee	(2,039)	(1,511)	(2,108)	(5,657)
Total	**1,537,551**	**2,659,491**	**4,151,145**	**8,348,187**

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**

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

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

	31 December 2010	31 December 2009
Commercial lending	537,960	942,810
Mortgage lending	130,609	52,919
Consumer lending	5,013	1,288
Total	**673,582**	**997,017**

Restructured 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 performing and non performing category in accordance with Bank's IFRS methodology; 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:

The table below shows the loans and advances to customers categorized on two main groups: Individually and Collectively Impaired:

	Net Exposure to Loans and advances to customers	
	31 December 2010	**31 December 2009**
Individually impaired	8,956,389	7,552,772
Allowance for impairment	(2,708,321)	(2,044,337)
Carrying amount	**6,248,068**	**5,508,435**
Collectively impaired		
Gross amount	39,926,914	42,132,997
Allowance for impairment	(421,190)	(150,472)
Carrying amount	**39,505,724**	**41,982,525**
Total carrying amount on Loans and advances to customers	**45,753,791**	**47,490,960**

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

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

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 2010		
Past Due	1,914,945	1,388,841
Substandard	848,075	670,079
Doubtful	5,519,787	3,600,864
Restructured	673,582	588,284
Total	**8,956,389**	**6,248,068**
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**

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when the Bank's Board of Directors 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.

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.

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

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 2010 or 2009. 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:

	Collateral of Loans and advances to customers 31 December 2010		Collateral of Loans and advances to customers 31 December 2009	
	Gross	**Net**	**Gross**	**Net**
Against individually impaired				
Property	13,793,146	7,682,097	9,966,149	4,864,019
Cash	145,422	142,029	93,045	87,733
Pledge & Guarantees	3,469,172	1,298,535	1,502,783	556,683
Other	445,116			
Total	**17,852,856**	**9,122,661**	**11,561,977**	**5,508,435**

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.

	Collateral of Loans and advances to customers	
Against Collectively Impaired	**31 December 2010**	**31 December 2009**
Property	96,653,943	57,748,157
Debt Securities	4,609	1,309
Equity	1,325,008	286,482
Cash	3,721,803	523,878
Pledge and Guarantees	18,845,933	5,581,808
Other	2,003,071	
Total	**122,554,367**	**64,141,634**

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management (continued)

Credit Risk (continued)

It is the Bank's policy to dispose off 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 inventory 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 2010 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 2010**	**31 December 2009**
Real Estate	1,431,547	296,520
Manufacturing	5,988,152	6,512,066
Wholesale	11,589,403	8,935,923
Construction	7,420,054	7,082,572
Services	9,144,063	7,900,176
Other	1,574,533	4,787,636
Corporate	**37,147,752**	**35,514,893**
Mortgage	6,583,279	7,687,423
Consumer	2,022,760	4,288,644
Retail	**8,606,039**	**11,976,067**
Carrying amount	**45,753,791**	**47,490,960**
Concentration by location		
Albania	44,831,431	46,334,004
Greece	922,360	1,156,956
Carrying amount	**45,753,791**	**47,490,960**

(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 2010**	**31 December 2009**
Bank	9,518,806	8,686,240
Carrying amount	**9,518,806**	**8,686,240**
Concentration by location		
Albania	9,518,806	8,686,240
Greece	-	-
Carrying amount	**9,518,806**	**8,686,240**

	Investment securities	
Concentration by sector	**31 December 2010**	**31 December 2009**
Sovereign	45,408,940	40,532,573
Bank	6,900,409	9,127,558
Equity	-	-
Carrying amount	**52,309,349**	**49,660,131**
Concentration by location		
Albania	52,309,349	43,821,220
Greece		5,839,911
Carrying amount	**52,309,349**	**49,660,131**

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 credit quality of the maximum credit exposure, based on rating 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 2010**	**31 December 2009**
Rated Aaa	415,398	412,598
Rated Aa2	1,820,748	1,693,607
Rated Aa3	344,175	286,794
Rated A2	-	-
Rated A3	-	-
Rated Baa1/*+	-	321,895
Rate Baa3	335,571	-
Rated B1	41,957,862	37,324,315
Rates non available	535,186	493,364
	45,408,940	**40,532,573**
Bank		
Rated Aaa	1,828,216	2,446,586
Rated Aaa /*	-	-
Rated Aa1 /*	-	-
Rated Aa2	-	-
Rated Aa2/*-	-	535,548
Rated Aa3	1,318,508	737,956
Rated A1	1,487,586	1,362,222
Rated A2	642,887	-
Rated A2/*-	-	1,380,291
Rated A3	198,227	162,975
Rated Baa1	225,491	1,645,782
Rated Baa2	-	578,577
Rated Baa3	129,096	-
Rated B1	-	277,621
Rate B1 /*-	1,070,398	
Rates non available		-
	6,900,409	**9,127,558**
Equities		
Rate A1	-	-
Total carrying amount	**52,309,349**	**49,660,131**

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.
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 2010.

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 2010 and 31 December 2009, considering the undiscounted cash flows 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 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
ASSETS (CASH FLOW IN)	**41,466,203**	**10,994,181**	**17,895,684**	**37,834,797**	**9,640,607**	**117,831,473**
Net Cash	1,307,244	-	-	-	-	1,307,244
Minimum reserve requirements	9,544,331	-	-	-	-	9,544,331
Advances to banks	1,071,518	-	-	-	-	1,071,518
Held to Maturity Investments securities- Treasury Bills	11,374,530	-	-	-	-	11,374,530
Other Held-to-maturity and Available-for-sale Investment Securities – Active Market	8,783,279	-	-	-	-	8,783,279
Other Held-to-maturity and Available-for-sale Investment Securities – Non Active market	387	943,447	7,850,831	21,809,710	967,249	31,571,625
Loans to banks	3,117,880	4,948,958	-	-	-	8,066,838
Loans and advances to customers (gross performing loans)	6,267,034	5,101,776	10,044,854	16,025,087	8,673,358	46,112,108

31 December 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
LIABILITIES (CASH FLOW OUT)	**(52,199,250)**	**(14,429,443)**	**(37,797,856)**	**(4,262,691)**	**(46,156)**	**(108,735,396)**
Deposits from banks and customers- Current accounts	(37,756,882)	-	-	-	-	(37,756,882)
Current accounts with banks	(615,970)	-	-	-	-	(615,970)
Current accounts with customers	(37,140,913)	-	-	-	-	(37,140,913)
Deposits from banks	(1,022,190)	(15,800)	-	-	-	(1,037,990)
of which: cash on repo and on securities lent	(245,070)	-	-	-	-	(245,070)
Deposits from customers- Time deposits	(13,420,178)	(14,405,808)	(37,789,585)	(3,640,654)	-	(69,256,225)
Subordinated debt	-	(7,835)	(8,271)	(622,037)	(46,156)	(684,300)
TOTAL GAP	**(10,733,047)**	**(3,435,262)**	**(19,902,171)**	**33,572,106**	**9,594,451**	**9,096,077**

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management – Liquidity Risk (continued)

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 (continued)

Liquidity risk (continued)

The information provided relates to cash flows deriving from financial liabilities, therefore it considerably differs from the face of the 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 2010	**1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**>5Years**	**Total**
Commitments	6,091,313	-	-	-	-	6,091,313
Guarantees	7,489,469	-	-	-	-	7,489,469
31 December 2009						
Commitments	4,057,899	-	-	-	-	**4,057,899**
Guarantees	6,770,788	-	-	-	-	**6,770,788**

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 2010	**31 December 2009**
Commitments	**6,091,313**	**4,057,899**
Un-drawn credit facilities	6,091,313	4,057,899
Guarantees	**7,489,469**	**6,770,788**
Letters of credit	3,525,690	1,771,817
Guarantees in favor of customers	3,963,779	4,998,971

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) which 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 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 1.4 Million as of 31 December 2010, with an average of Lek 1.1 Million during the year (2009: Lek 1 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 twice during 2010 (once during 2009).

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	272,831	488,337	9,016,777	653,471	10,431,415
Loans and advances to banks	3,477,394	1,569,309	4,472,103	-	9,518,806
Loans and advances to customers	2,909,326	5,425,200	37,418,983	283	45,753,791
Available for Sale Investment Securities	283,341	2,112,075	-	272,707	2,668,123
Held to Maturity Investment Securities	39,519,554	6,496,902	3,127,444	497,326	49,641,226
Property and Equipment	1,647,510	-	9,400	-	1,656,911
Intangible Assets	284,702	-	7,439	-	292,141
Current tax assets	264,968	-	-	-	264,968
Deferred tax assets	40,572	-	-	-	40,572
Other assets	181,695	30,810	150,098	1,458	364,059
Total Assets (1)	**48,881,891**	**16,122,632**	**54,202,244**	**1,425,245**	**120,632,012**
LIABILITIES					
Due to Banks	1,033,767	38,912	578,180	-	1,650,859
Due to customers	36,363,360	15,258,982	51,743,863	1,238,008	104,604,212
Subordinated debt	-	-	532,568	-	532,568
Provisions	90,027	76,286	50,958	-	217,270
Other liabilities	494,233	27,659	209,703	419	732,014
Current tax liabilities	-	-	-	-	-
Deferred tax liabilities	182,584	-	-	-	182,584
Net Equity	15,469,497	(1,077,372)	(1,626,090)	(53,530)	12,712,505
Total Liabilities (2)	**53,633,468**	**14,324,467**	**51,489,181**	**1,184,897**	**120,632,012**
Net FX Position at 31 December 2010 (1)-(2)	**(4,751,577)**	**1,798,165**	**2,713,063**	**240,349**	**-**
Off balance sheet Assets	1,592,906	13,747,538	125,509,612	58,647	140,908,703
Off balance sheet Liabilities	1,760,894	13,641,297	125,474,920	31,592	140,908,703
Net Off BSH FX Position at 31 December 2010	**(167,988)**	**106,241**	**34,693**	**27,054**	**-**
Total Net FX Position at 31 December 2010	**(4,919,565)**	**1,904,406**	**2,747,756**	**267,403**	**0-**
Balance sheet Assets as at 31 December 2009	**49,196,884**	**18,589,664**	**45,247,065**	**1,351,148**	**114,384,761**
Balance sheet Liabilities as at 31 December 2009	**47, 910,324**	**18,364,896**	**46,767,195**	**1,342,346**	**114,384,761**
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)**	**-**

(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 2.8-10% for USD denominated securities (4-7%: 2009), between 2.60% for EURO denominated securities (3.72-6.00%: 2009) and between 5-5.5% for GBP denominated securities (5-6.00%: 2009).

Interest rate risk generated by the Bank's balance sheet, as measured through shift sensitivity analysis of ± 25 basis points, registered in 2010 a value of Lek -187 million at year end (December 2009: Lek -176 million). The table below shows the currency breakdown of the shift sensitivity for the year end 2010.

Shift sensitivity 31 December 2010	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	+25 b.p. / -25 b.p.	(15.961)/ 15.961	(15.961)/ 15.961	-
EUR	+26 b.p. / -26 b.p.	(16.599)/ 16.599	(16.599)/ 16.599	-
USD	+25 b.p. / -25 b.p.	(94.048)/ 94.048	(84.581)/ 84.581	(9.467)/ 9.467
USD	+26 b.p. / -26 b.p.	(97.810)/ 97.810	(87.964)/ 87.964	(9.846)/ 9.846
LEK	+25 b.p. / -25 b.p.	(69.443)/ 69.443	(69.443)/ 69.443	-
LEK	+26 b.p. / -26 b.p.	(72.220)/ 72.220	(72.220)/ 72.220	-
Other (GBP & CHF)	+25 b.p. / -25 b.p.	(8.290)/ 8.290	(3.703)/ 3.703	(4.587)/ 4.587
Other (GBP & CHF)	+26 b.p. / -26 b.p.	(8.621)/ 8.621	(3.851)/ 3.851	(4.770)/ 4.770

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

5. Financial Risk Management (continued)

Operational risks (continued)
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.

The Bank's Board of Directors 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.

Regulatory Capital
The Bank's lead regulator, Central Bank of Albania, sets and monitors capital requirements for the Bank. The Greek branch 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 2010 the Bank has achieved an adequacy ratio well above the minimum required and as of 31 December 2010 it amounted to 17.1 %.

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 2010 has followed same tendency to much higher levels compared to the regulatory limit and as of the 31 December 2010 it amounted to 16.3%.

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 Branch

As of 31 December 2010, the Bank's Operations in Albanian and Greek Branch are as follows:

	Albania	Greece	Intra-group transactions	Aggregate
Assets				
Cash and cash equivalents	9,805,560	1,181,149	(555,294)	10,431,415
Loans and advances to banks	9,518,806			9,518,806
Financial Investments Available-for-sale	2,668,123			2,668,123
Financial Investments Held-to-maturity	49,641,226			49,641,226
Loans and advances to customers	44,831,430	922,361		45,753,791
Property and equipments	1,647,511	9,400		1,656,911
Intangible assets	284,702	7,439		292,141
Deferred tax assets	40,572			40,572
Current tax assets	264,968			264,968
Other assets	360,098	3,961		364,059
Total Assets	**119,062,996**	**2,124,310**	**(555,294)**	**120,632,012**
Liabilities				
Deposits from banks	2,206,153		(555,294)	1,650,859
Deposits from customers	103,757,055	847,157		104,604,212
Current accounts	29,203,865	269,325		29,473,190
Time deposits	74,553,190	577,832		75,131,022
Subordinated debt	532,568			532,568
Current tax liabilities				
Deferred tax liabilities	182,584			182,584
Provisions	217,270			217,270
Other liabilities	652,808	79,206		732,014
Total Liabilities	**107,548,438**	**926,363**	**(555,294)**	**107,919,507**
Equity				
Share capital				6,946,398
Other comprehensive item				714,554
Retained earnings				4,277,810
Available-for-sale reserves				(1,130,902)
Legal and regulatory reserves				1,752,404
Foreign currency translation reserve				152,241
Total Equity				**12,712,505**

The amount of Lek 555,294 thousand represents intra-group placements between Head Office in Albania and the Branch in Greece as of 31 December 2010.

(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	Aggregate
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
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
Loans and advances to customers	46,334,004	1,156,956		47,490,960
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 Branch (continued)

As of 31 December 2010, the Bank's Operations in Albanian and Greek Branch are as follows:

	Albania	Greece	Intra-group transactions	Aggregate
Total interest income	8,002,182	223,746	(10,289)	8,215,639
Total interest expenses	(3,246,395)	(82,078)	10,289	(3,318,184)
Net interest income	**4,755,787**	**141,668**	**-**	**4,897,455**
Fee and commission income	716,203	9,157	-	725,360
Fee and commission expense	(152,657)	(4,530)	-	(157,187)
Net fee and commission income	**563,546**	**4,627**	**-**	**568,173**
Net trading income	353,270	2,314	-	355,584
Other operating income, net	(198,839)	(26,082)	-	(224,921)
Operating income	**5,473,764**	**122,527**	**-**	**5,596,291**
Net impairment loss on financial assets	(888,253)	(105,373)	-	(993,626)
Personnel costs	(947,215)	(139,496)	-	(1,086,711)
Operating lease expenses	(153,622)	(33,749)	-	(187,371)
Depreciation and amortization	(327,590)	(15,333)	-	(342,923)
Depreciation of leasehold improvements	(47,130)	(64,473)		(111,603)
Other administration costs	(593,007)	(71,240)	-	(664,247)
Provisions for risk and expenses	(41,401)	-	-	(41,401)
Total expenses	**(2,998,218)**	**(429,664)**	**-**	**(3,427,882)**
Net income before taxes	**2,475,546**	**(307,137)**	**-**	**2,168,409**
Income tax expense	(252,885)	-		(252,885)
Profit for the period	**2,222,661**	**(307,137)**	**-**	**1,915,524**

The balance of Lek 10,289 thousand represents intra-group interest income and expenses on the placements between Head Office Albania and the Branch in Greece for the period ended 31 December 2010.

(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	Aggregate
Interest income	7,475,334	408,632	(72,128)	7,811,838
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 of leasehold improvement	(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)

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 2010	Level 1	Level 2	Level 3	Total
Financial investments Available for sale				
Quoted investments				
Governments debt securities	344,175	-	-	**344,175**
Other debt securities	1,541,331	499,276	-	**2,040,607**
Unquoted investments				
Total	**1,885,506**	**499,276**	**-**	**2,384,782**

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**
Unquoted investments				
Total	**1,963,139**	**402,472**	**-**	**2,365,611**

(amounts in '000 Lek, unless otherwise stated)

7. Fair value of Financial Instruments (continued)

Accounting classification and fair values:

31 December 2010	Note	Held-to-maturity	Loans and Receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair Value
Cash and cash equivalents	8	-	10,431,415	-	-	10,431,415	10,431,415
Loans and advances to banks	9	-	9,518,806	-	-	9,518,806	9,518,806
Loans and advances to customers:	12	-	45,753,791	-	-	45,753,791	45,753,791
Investment securities							
Measured at fair value	10	-	-	2,384,782	-	2,384,782	2,384,782
Measured at amortised cost	11	49,641,226	-	283,341	-	49,924,566	50,394,318
TOTAL		**49,641,226**	**65,704,012**	**2,668,123**	**-**	**118,013,361**	**118,483,112**
Due to banks	16	-	-	-	1,650,859	1,650,859	1,650,859
Due to customers	17	-	-	-	104,604,212	104,604,212	104,693,460
Subordinated liabilities	18	-	-	-	532,568	532,568	532,568
TOTAL		**-**	**-**	**-**	**106,787,639**	**106,787,639**	**106,876,887**

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 securities 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 securities. 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 2009	**Note**	**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	-	47,016,899	46,712,797
TOTAL		**47,016,899**	**61,919,845**	**2,643,232**	**-**	**111,302,354**	**110,998,252**
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**

The measurement of the Fair Value for Available-for-sale and Held-to-maturity Albanian Government securities for December 2010 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 2010 and 31 December 2009 can be detailed as follows:

	31 December 2010	31 December 2009
Cash and balances with banks	4,094,465	2,646,424
Unrestricted balances with central bank	31,549	539,647
Money market placements	6,305,401	2,556,574
Total	**10,431,415**	**5,742,645**

9. Loans and advances to banks

Loans and advances to banks as of 31 December 2010 and 31 December 2009 are composed as follows:

	31 December 2010	31 December 2009
Compulsory reserve	9,518,806	8,686,240
Correspondent banks deposits	-	-
Total	**9,518,806**	**8,686,240**

10. Financial Investments Available-for-sale

Financial Investments Available-for-sale as of 31 December 2010 and 31 December 2009 can be detailed as follows:

	31 December 2010	31 December 2009
Albanian Government:	**283,341**	**277,621**
Listed Companies:	**1,885,506**	**1,963,139**
- Banks & Financial Institutions	1,541,308	1,676,342
- EU Government	344,198	286,797
- Other International Institutions	-	-
Unlisted Companies:	**499,276**	**402,472**
- Banks & Financial Institutions	**499,276**	402,472
Total	**2,668,123**	**2,643,232**

The Bank reviews its debts securities classified as available-for-sale investments at each balance sheet date to assess 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 2010 and 31 December 2009 can be detailed as follows:

	31 December 2010	31 December 2009
Foreign Government and others:	**3,107,221**	**2,921,487**
- International Institution		-
- US and EU government	3,107,221	2,921,487
Listed companies: Banks	**3,815,821**	**5,809,924**
Unlisted companies: Banks	**1,043,663**	**961,173**
Albanian Government bonds	**41,674,521**	**37,324,315**
Total	**49,641,226**	**47,016,899**

As at 31 December 2010, Albanian Held-to-Maturity investments securities of Lek 280,000 thousand (2009: Lek 3,639,130 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 2010, the average yield of Held to Maturity investment securities pledged as collateral for the Reverse REPO Agreements amounts to 8.47 % (2009: 9.24%)

12. Loans and advances to customers

Loans and advances to customers are composed as follows:

	31 December 2010	31 December 2009
Loans to customers	29,367,035	29,639,548
Overdrafts to customers	19,606,911	20,092,995
Gross amount	**48,973,946**	**49,732,543**
Deferred disbursement fee	(90,644)	(46,774)
Allowance for impairment	(3,129,511)	(2,194,809)
Total	**45,753,791**	**47,490,960**

(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 2010	31 December 2009
Specific Allowance for impairment		
Balance at 1 January	**2,044,337**	**1,077,151**
Impairment loss for the year		
Charge for the year	2,490,143	1,742,936
Recoveries	(1,755,671)	(888,325)
Effect of movements in foreign exchange	42,566	113,678
Write-offs	(113,054)	(1,103)
Balance at 31 December	**2,708,321**	**2,044,337**
Collective Allowance for impairment		
Balance at 1 January	**150,472**	**153,213**
Impairment loss for the year		
Charge for the year	641,972	170,719
Recoveries	(382,819)	(225,827)
Effect of movements in foreign exchange	11,565	52,367
Write-offs	-	-
Balance at 31 December	**421,190**	**150,472**
Total Allowance for Impairment	**3,129,511**	**2,194,809**

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 Note 20; while for 2010 no impairment for other commitments are outstanding.

(amounts in '000 Lek, unless otherwise stated)

13. Property and Equipment

Property and Equipments as of 31 December 2010 and 31 December 2009 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 2009	**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**
Additions during period	5,485	56,735	13,494	4,067		79,781
Disposals	-	(160,927)	(6,297)	(31,221)	(26,983)	(225,428)
Effect of movements in foreign exchange	-	598	154	152	-	904
Balance as at 31 December 2010	**1,632,305**	**1,020,939**	**204,339**	**280,864**	**52,253**	**3,190,700**

Disposals for period ending 31 December 2010 are mainly due to the regular process of physical inventory writte offs. Additions for the period ending 31 December 2010 are mainly related to IT equipements.

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 2010 the Bank had no contractual commitments on Property and Equipment.

(amounts in '000 Lek, unless otherwise stated)

13. Property and Equipment (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 2009	**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**
Depreciation charge for the year	81,362	108,847	11,155	34,892	-	236,256
Disposals	-	(160,927)	(6,091)	(31,221)	-	(198,239)
Effect of movements in foreign exchange	(23)	18,483	319	4,436	-	23,215
Balance as at 31 December 2010	**417,988**	**722,931**	**172,320**	**220,552**	**-**	**1,533,791**
Carrying amount						
At 1 January 2009	**1,371,512**	**411,961**	**41,276**	**101,467**	**101,765**	**2,027,981**
At 31 December 2009	**1,290,171**	**368,005**	**30,051**	**95,421**	**79,236**	**1,862,884**
At 31 December 2010	**1,214,317**	**298,008**	**32,019**	**60,312**	**52,253**	**1,656,909**

As at 31 December 2010 the fully depreciated items represent an amount of Lek 574,843 thousand (2009: Lek 539,018 thousand).

(amounts in '000 Lek, unless otherwise stated)

14. Intangible Assets

Intangible assets as of 31 December 2010 and 31 December 2009 are as follows:

	Software and Licenses	Intangible Assets in Process	Total
Cost			
Balance as at 1 January 2009	**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**
Additions during period	109,368	-	109,368
Disposals	(2,416)	-	(2,416)
Transfers	2,688	(2,688)	-
Effect of movements in foreign exchange	395	-	395
Balance as at 31 December 2010	**748,605**	**21,405**	**770,010**
Depreciation and Impairment Losses			
Balance as at 1 January 2009	**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**
Depreciation charge for the year	106,555	-	**106,555**
Disposals	-	-	**-**
Effect of movements in foreign exchange	(1,578)	-	(1,578)
Balance as at 31 December 2010	**477,869**	**-**	**477,869**
Carrying amount			
At 1 January 2009	**188,791**	**7,128**	**195,919**
At 31 December 2009	**265,678**	**24,093**	**289,771**
At 31 December 2010	**270,736**	**21,405**	**292,141**

Additions during period ending 31 December 2010 represent investments in licenses and software.

As at 31 December 2010 the fully depreciated items represent an amount of Lek 221,758 thousand (2009: Lek 164,831 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 and enhancement of the core banking system.

(amounts in '000 Lek, unless otherwise stated)

15. Other Assets

Other assets as of 31 December 2010 and 31 December 2009 are as follows:

	31 December 2010	31 December 2009
Leasehold improvements	77,218	214,722
Prepayments	55,894	54,986
Non current assets, held for sale	47,942	49,953
Sundry debtors	36,242	70,741
Cheques for collection	17,972	20,950
ATM & POS transactions	45,870	19,760
Unrealized Loss on Foreign Exchange contracts	41,016	320
Others	41,907	2,311
Total	**364,061**	**433,743**

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

	31 December 2010	31 December 2009
At beginning of the period	**214,722**	**258,676**
Additions during period	6,687	12,611
Provision for Disposals	**(32,494)**	**-**
Disposal:	**(111,603)**	**(69,977)**
Amortization of the period	(46,780)	(69,977)
Write – off	(64,823)	-
Effect of movements in foreign exchange	**(94)**	**13,412**
At end of the period	**77,218**	**214,722**

In the leasehold improvements disposal, is included the write-off of the remaining value for the main branch of Athens for Lek 58,124 thousand.
Included in Provision for Disposals in 2009 is an amount of Lek 32.494 thousand related to the Greek Branches other than Athens.

Non current assets held for sale include collateral values of some unrecoverable loans. Out of the total amount of Lek 47,942 thousand, as of 31 December 2010: Buildings (including land where they were constructed) amount to Lek 47,802 thousand and electronic devices amount to 140 thousand (2009: Buildings (including land where they were constructed) amount to Lek 48,863 thousand and electronic devices amount to 1,090 thousand). The Bank has the ownership on these assets and its intention is to sell them.

(amounts in '000 Lek, unless otherwise stated)

16. Due to banks

Due to banks as of 31 December 2010 and 31 December 2009 are as follows:

	31 December 2010	31 December 2009
Due to Central Bank	**30,119**	**47,257**
Correspondent banks		
Current accounts	**601,316**	**757,411**
Resident	64,288	51,027
Non-resident	537,028	706,384
Deposits	**775,098**	**678,025**
Resident	775,098	680,082
Non-resident	-	-
Foreign exchange differences	-	(2,057)
Repurchase Agreements	**244,326**	**3,072,023**
Total	**1,650,859**	**4,554,716**

The foreign exchange differences (December 2010: Lek: 0 while December 2009: Lek (2,057) 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 2010. Foreign exchange differences are related to the Intra-Group transactions.

Repurchase agreements as of 31 December 2010 and as of 31 December 2009 are comprised as follows:

	31 December 2010			
Maturity	**Interest Rate**	**Nominal value**	**Accrued interest**	**Book value**
06 Jan 2011	5.00%	244,259	67	244,326
		244,259	**67**	**244,326**

	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
Total		**3,066,891**	**5,132**	**3,072,023**

The Bank has placed as collateral Treasury Bills for an amount of Lek 280,000 thousand (2009: Lek 3,639,130 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 2010 and 31 December 2009 are composed as follows:

	31 December 2010			31 December 2009		
Current accounts	**Local Currency**	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Retail	2,515,061	5,546,200	8,061,261	2,385,609	5,200,656	7,586,265
Corporate	7,900,785	13,511,144	21,411,929	7,085,290	11,489,721	18,575,011
	10,415,846	**19,057,344**	**29,473,190**	**9,470,899**	**16,690,377**	**26,161,276**
Deposits						
Retail	23,764,723	44,006,129	67,770,852	21,596,495	43,950,714	65,547,209
Corporate	2,182,791	5,177,379	7,360,170	1,615,316	4,103,702	5,719,018
	25,947,514	**49,183,508**	**75,131,022**	**23,211,811**	**48,054,416**	**71,266,227**
Total	**36,363,360**	**68,240,852**	**104,604,212**	**32,682,710**	**64,744,793**	**97,427,503**

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

	31 December 2010			31 December 2009		
	Local Currency	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Current Accounts	**10,415,846**	**19,057,344**	**29,473,190**	**9,470,899**	**16,690,377**	**26,161,276**
Deposits						
On demand	1,440,410	6,176,616	7,617,026	1,297,806	5,554,441	6,852,247
One month	6,510,795	8,765,852	15,276,647	5,517,346	9,268,971	14,786,317
Three months	5,045,775	9,698,441	14,744,216	4,037,439	10,204,253	14,241,692
Six months	4,487,982	7,932,838	12,420,820	4,047,020	8,283,786	12,330,806
Nine months	4,722,764	7,897,536	12,620,300	4,713,958	8,138,666	12,852,624
Twelve months	2,731,309	5,793,462	8,524,771	2,665,618	5,874,753	8,540,371
Twenty four months	729,783	2,398,295	3,128,078	698,663	325,830	1,024,493
Other	278,696	520,469	799,165	233,960	403,717	637,677
	25,947,514	**49,183,509**	**75,131,023**	**23,211,810**	**48,054,417**	**71,266,227**
Total	**36,363,360**	**68,240,853**	**104,604,213**	**32,682,709**	**64,744,794**	**97,427,503**

(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:

2010	LEK (%)	USD (%)	EUR (%)
Current accounts and demand deposits	0.25 – 5.86	0.03 – 2.50	0.05 – 3.00
Time deposits – 1 month	1.50 – 6.15	0.10 – 2.40	0.20 – 4.40
Time deposits – 3 months	3.50 – 7.00	0.65 – 3.50	0.75 – 4.80
Time deposits – 6 months	5.30 – 7.00	0.85 – 3.00	2.60 – 4.50
Time deposits – 12 months	5.25 – 8.60	0.50 – 4.50	0.50 – 5.00
Time deposits – 24 months	6.75 – 8.30	1.45 – 2.20	4.00 – 4.70
Time deposits – 60 months			5.00 – 5.00
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

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 2010 and 31 December 2009 is as follows:

	31 December 2010	31 December 2009
Subordinated Debt	527,326	524,248
Accrued Interest	5,242	5,223
Total	**532,568**	**529,471**

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 2010			31 December 2009		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax asset	**40,572**	**-**	**40,572**	**39,678**	**-**	**39,678**
Tangible and intangible assets	40,572	-	40,572	39,678	-	39,678
Deferred tax liability	**-**	**(182,584)**	**(182,584)**	**-**	**(42,187)**	**(42,187)**
Loans and advances to customers	-	(182,584)	(182,584)		(42,187)	(42,187)
Net deferred tax assets/(liabilities)	**40,572**	**(182,584)**	**(142,012)**	**39,678**	**(42,187)**	**(2,509)**

Movements in temporary differences during the year are as follows:

31 December 2010	Opening balance	Recognized in profit or loss	Closing balance
Tangible and intangible assets	39,678	894	40,572
Other assets	-	-	-
Loans and advances to customers	(42,187)	(140,397)	(182,584)
Translation effect	-	-	
Total	**(2,509)**	**(139,503)**	**(142,012)**
31 December 2009			
Tangible and intangible assets	37,314	2,365	39,679
Other assets	2,080	(2,080)	-
Loans and advances to customer	(14,889)	(27,299)	(42,188)
Translation effect	-	-	-
Total	**24,505**	**(27,014)**	**(2,509)**

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 2010	Tax Litigation	Other Litigations	Other Provisions	Total
At beginning of the period	**45,906**	**107,436**	**34,444**	**187,786**
Additions during period	39,621	45,618	10,408	95,647
Reversals(used and unused amounts)	-	(39,606)	(35,138)	(74,744)
Effect of movements in foreign exchange	-	8,580		8,580
At end of the period	**85,527**	**122,028**	**9,714**	**217,269**

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 45,618 thousand and the reversal of prior year reserves following the sale of two collaterals received on written off loans, at the amount of Lek 39,606 thousand. Other provisions represent provisions for restructuring of the Greece branch 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 2010 and 31 December 2009 are composed as follows:

	31 December 2010	31 December 2009
Invoices to be received	496,164	358,919
Sundry creditors	57,939	61,528
Suspense accounts	45,521	79,933
Bank cheques issued and payments in transit	45,469	50,009
Other tax liabilities	42,257	41,912
Due to third parties	14,198	15,916
Other accrued expenses/deferred income	30,466	2,577
Total	**732,014**	**610,794**

Other tax liabilities represent December 2010 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 2011.

(amounts in '000 Lek, unless otherwise stated)

22. Share capital and premium

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 2010 and 31 December 2009 is presented below:

(amounts in original units)	Number of Shares	Nominal Value	Premium Paid	Total Shares Value
Share Capital at 31 December 2009	**15,581,282**	**357.00**	**-**	**5,562,517,674**
Premium on shares	**1,250,000**	**-**	**1,107.104**	**1,383,880,000**
Intesa Sanpaolo S.p.A.	1,152,750	-	1,107.104	1,276,214,136
European Bank for Reconstruction and Development	97,250	-	1,107.104	107,665,864
Share Capital, Premium at 31 December 2009	**15,581,282**	**357.00**	**1,107.104**	**6,946,397,674**
Share Capital, Premium at 31 December 2010	**15,581,282**	**357.00**	**1,107.104**	**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 premium (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. During 2010 there are no changes in the Shareholders Capital structure.
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 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%
Share Capital at 31 December 2010	**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.

During the year 2010, the Bank has created the credit risk reserve, in compliance with the banking local supervisory regulation.

	31 December 2010	31 December 2009
Regulatory reserve	1,446,895	1,125,837
Legal reserve	305,509	221,339
Total	**1,752,404**	**1,347,176**

24. Other valuation reserves

Comprehensive items

The balance of Lek 714,555 thousand for both periods ending 31 December 2010 and 2009 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 2010 amounted for Lek (241,593) thousand during (2009: Lek 396,416 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 2010 the movements amounted for Lek 45,289 thousand (2009: Lek 100,563 thousand).

25. Net Interest income

	31 December 2010	31 December 2009
Interest income		
Loans and advances to customers	3,603,152	3,540,285
Financial Investments Held-to-maturity	4,068,117	3,845,583
Loans and advances to banks	364,381	258,717
Financial Investments Available-for-sale	179,989	167,253
Cash and cash equivalents		-
Total interest income	**8,215,639**	**7,811,838**
Interest expenses		
Time deposits	2,892,904	2,831,701
Deposits from banks	152,172	329,842
Current accounts	258,010	281,525
Subordinated loan	15,098	20,079
Total interest expenses	**3,318,184**	**3,463,147**
Net interest income	**4,897,455**	**4,348,691**

(amounts in '000 Lek, unless otherwise stated)

26. Net fee and commission income

	31 December 2010	31 December 2009
Collection and payment services	272,471	247,387
Active current accounts	183,751	186,945
Active ATMs and POSs	165,180	154,140
Guarantees given	51,975	83,730
Unused/advanced liquidated credit lines	34,996	23,117
Arrangement fees and others	16,987	20,708
Fee and commission income	**725,360**	**716,027**
Active ATMs and POSs	141,318	132,718
Banking services-foreign branches	14,085	13,357
Collection and payment services	867	1,472
Guarantees received	917	4,315
Credit cards	-	-
Fee and commission expenses	**157,187**	**151,862**
Net fee and commission income	**568,173**	**564,165**

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 2010 and 2009 are composed as follows:

	31 December 2010	31 December 2009
Foreign exchange	355,584	262,414
Equities (AFS VISA Shares)	-	22,264
Others	-	55
Total	**355,584**	**284,733**

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.

(amounts in '000 Lek, unless otherwise stated)

28. Other operating (expenses)/ income, net

Other income for the year ended 31 December 2010 and 31 December 2009 are as follows:

	31 December 2010	31 December 2009
Premium on deposits insurance	(194,939)	(132,350)
Loss-writte off of fixed assets	(5,451)	(13,962)
Loss/gain on sale fixed assets	2,493	740
Recoveries on written off loans	15,568	17,538
Sundry net operational losses	(42,592)	(48,577)
Total	**(224,921)**	**(176,611)**

29. Personnel expenses

Personnel costs for the periods ended 31 December 2010 and 31 December 2009 are as follows:

	31 December 2010	31 December 2009
Salaries	863,084	783,986
Social Insurance	86,446	95,267
Personnel on secondment	99,138	85,994
Training & similar	30,642	36,710
Termination indemnities and others	7,401	8,394
Total	**1,086,711**	**1,010,351**

30. Other expenses

Other expenses for the years ended 31 December 2010 and 31 December 2009 are as follows:

	31 December 2010	31 December 2009
Insurance	30,440	36,722
Advertising & Publication	91,941	87,671
Maintenance & repair	86,957	114,244
Software maintenance	137,515	135,328
Telephone and electricity	123,497	127,919
Transportation of counting valuables and others	31,616	46,305
Consulting & Legal fees	47,785	60,485
Stationery	56,960	70,324
Travel & business trips	16,250	18,597
Security	27,919	30,522
Other	13,367	16,611
Total	**664,247**	**744,728**

(amounts in '000 Lek, unless otherwise stated)

31. Income tax expense

The components of income tax expense for the year ended 31 December 2010 and 2009 are:

	31 December 2010	31 December 2009
Current year	113,342	186,610
Current income tax in respect of prior years	40	(49,100)
Current Tax	**113,382**	**137,510**
Deferred tax (origination and reversal of temporary differences)	139,503	27,014
Deferred Tax	**139,503**	**27,014**
Income Tax Expense	**252,885**	**164,524**

Reconciliation of the income tax expense with the accounting profit for the year ended 31 December 2010 and 2009 is presented as follows:

		31 December 2010		31 December 2009
Accounting Profit Before Tax		**2,168,409**		**1,782,745**
Income tax at domestic corporate tax rate	10%	216,841	10%	178,275
Tax effect of nondeductible expenses	-4.8%	(103,499)	0.5%	8,336
Tax effect of prior year taxes recognition	0%	40	-2.8%	(49,100)
Origination and reversal of temporary differences	6.4%	139,503	1.5%	27,013
Income Tax Expense	**11.7%**	**252,885**	**9.2%**	**164,524**

Effective income tax rate for the year 2010, as noticed above is 11.7% (2009: 9.2%).

In the increase of the income tax rate a significant impact has tax effect of the nondeductible expenses and the reversal of the temporary differences.

Profit before tax is based on the Income Tax Law No. 9228 date 29.04.2004 "Accounting and Financial Statement" and is calculated according to International Financial Reporting Standards. Based on the Instruction No.5, dated 30.01.2006 of the Law "On Income Tax" profit before tax is corrected with nondeductible expenses and the differences calculated from the depreciation method of the fixed assets, loans provision and other provisions that are resulted from the application of above mentioned rules.

The amount of Lek 1.406.524 thousand described as Provisions for Loans shown in the table below represents the difference between loan provisions created as per Bank of Albania Methodology and loans provisions created as per IFRS. Detailed information is displayed below:

	31 December 2010	31 December 2009
Depreciation and Amortization of Fixed Assets	7,933	15,031
Provisions for loans	(1,406,524)	-
Sundry operational losses	13,768	39,528
Office expenses	8,054	8,995
Rent apartments	11,722	9,248
Personnel costs	3,393	4,535
Representation	8,422	6,020
Others	318,244	
Total Nondeductible Expenses	**(1,034,988)**	**83,357**

(amounts in '000 Lek, unless otherwise stated)

31. Income tax expense (continued)

Referred to the law 9766 dated 09.07.2007 "On some changes on the Law No. 8438 dated 28.12.1998" income tax rate applied for our company for 2010 year is 10% (2009: 10%).

During 2010, the Bank has prepaid income tax in the amount of Lek 158,733 thousand (2009: Lek 225,360 thousand).
On the beginning of 2010, the Bank resulted with income tax credit balance Lek 64,236 thousand.

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.

32. Commitment and contingencies

Commitments and contingencies as at 31 December 2010 and 31 December 2009 are as follows:

	31 December 2010	31 December 2009
Contingent Assets	**136,412,096**	**109,099,362**
Guarantees received from credit customers	120,997,735	102,820,268
Un-drawn credit facilities	6,091,313	4,057,899
Letters of credit	3,525,690	1,771,817
Forward foreign exchange contracts	5,797,358	449,378
Contingent Liabilities	**3,963,778**	**4,998,971**
Guarantees in favor of customers	3,963,778	4,998,971

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.
Contingent assets like letters of credit and un-drawn credit facilities are off balance sheet items representing future commitments where Bank acts as the beneficiary.

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 litigation

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 2010 and 31 December 2009 are as follows:

	31 December 2010	31 December 2009
Less than one year	126,294	131,278
Between one and five years	182,132	244,432
More than five years	12,480	88,148
Total	**320,906**	**463,858**

The Bank has rental agreements with renewal options for its offices in Albania and Greece. During 2010 the amount of Lek 212,043 thousand was recognized as an expense in the statement of profit and loss in respect of lease rentals (2009:Lek 170,844 thousand).
Generally 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 2010 and 31 December 2009 are as follows:

	Parent company		**Key management personnel and Other related parties**	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Assets at end of year	**1,208,920**	**320,417**	**212,469**	**267,348**
Loans and advances to Credit Institutions	1,208,920	320,417	-	-
Loans and advances to customers	-	-	212,469	267,348
Liabilities at end of year	**527,326**	**681,347**	**322,958**	**399,950**
Loans and advances from Credit Institutions	527,326	681,347	-	-
Customers deposits	-	-	322,958	399,950
Off balance sheet	**5,981,270**	**1,906,649**	**86,779**	**929,817**
Letter of Credit/of Guarantees given	-	-	41,631	-
Letter of Credit/of Guarantees received	1,452,637	1,794,843	-	504,000
Foreign Currency Contracts	4,528,633	111,806	-	-
Collaterals	-	-	45,148	425,817
Income for year ending	**1,667**	**-**	**4,017**	**2,466**
Interest income	1,667	-	4,017	2,466
Commission income	-	-	-	-
Expenses for year ending	**15,098**	**-**	**1,204**	**17,882**
Interest expense	15,098	-	1,204	17,882
Compensation of Key Managers	**-**	**-**	**152.051**	**123,172**
Net Salary			85,738	82,198
Net Bonus paid			33,399	19,576
Social & Health Insurance			2,103	2,065
Other expenses			30,811	19,333

34. Related parties (continued)

Regarding compensation paid to key managers, during year 2010 the Net Salary is increased compared to year 2009. 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.

The Bank's management has decided to not enter into new business in Greece. Several alternatives as to how to manage the current operations have been analyzed and the Bank is trying to reach the most efficient approach through negotiations with the Central Bank of Greece and the relevant authorities.