INTESA SANPAOLO BANK ALBANIA SH.A.

Financial Statements as at

31 December 2011

(with independent auditor's report thereon)

Contents

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

We have audited the accompanying financial statements of Intesa Sanpaolo Bank Albania Sh.a which comprise the statement of financial position as at 31 December 2011, 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 2011, 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

16 March 2012

Intesa Sanpaolo Bank Albania Sh.a.

Statement of financial position
As at 31 December 2011
(in '000 Lek)

	Notes	2011	2010
Assets			
Cash and cash equivalents	8	8,892,780	9,451,725
Loans and advances to banks	9	16,530,111	10,498,496
Financial investments available-for-sale	10	1,865,935	2,668,123
Financial investments held-to-maturity	11	51,572,399	49,641,226
Loans and advances to customers	12	47,432,286	45,753,791
Property and equipment	13	1,530,969	1,656,909
Intangible assets	14	262,720	292,141
Deferred tax assets	19	42,079	40,572
Current tax assets		157,221	264,968
Other assets	15	746,950	364,061
Total Assets		**129,033,450**	**120,632,012**
Liabilities			
Due to banks	16	5,370,471	1,650,859
Due to customers	17	107,197,718	104,604,212
Current accounts		27,990,307	29,473,190
Time deposits		79,207,411	75,131,022
Subordinated debt	18	534,334	532,568
Current tax liabilities		58,242	-
Deferred tax liabilities	19	-	182,584
Provisions	20	318,601	217,269
Other liabilities	21	995,005	732,014
Total Liabilities		**114,474,371**	**107,919,506**
Equity			
Share capital	22	5,562,518	5,562,518
Share premium	22	1,383,880	1,383,880
Legal and regulatory reserves	23	3,348,267	1,752,404
Available-for-sale reserve		(1,829,121)	(1,130,902)
Foreign currency translation reserve		234,251	152,241
Other comprehensive items	24	714,555	714,555
Retained earnings		5,144,729	4,277,810
Total Equity		**14,559,079**	**12,712,506**
Total Liabilities and Equity		**129,033,450**	**120,632,012**

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 income and Statement of comprehensive income
For the year ended 31 December 2011
(in '000 Lek)

	Notes	2011	2010
Interest income		8,168,581	8,215,639
Interest expense		(3,211,788)	(3,318,184)
Net interest income	25	**4,956,793**	**4,897,455**
Fee and commission income		764,348	725,360
Fee and commission expense		(178,331)	(157,187)
Net fee and commission income	26	**586,017**	**568,173**
Net trading income	27	346,295	355,584
Other operating expenses, net	28	(216,248)	(224,921)
Operating income		**5,672,857**	**5,596,291**
Net impairment loss on financial assets	12	(1,001,917)	(993,626)
Personnel expenses	29	(931,551)	(1,086,711)
Operating lease expenses	33	(159,739)	(187,371)
Depreciation and amortization	13,14	(335,953)	(342,923)
Amortization of leasehold improvements	15	(32,219)	(111,603)
Other administration expenses	30	(576,047)	(664,247)
Provisions for risk and expenses	20	(90,327)	(41,401)
Total expenses		**(3,127,753)**	**(3,427,882)**
Net income before taxes		**2,545,104**	**2,168,409**
Income tax expense	31	(77,838)	(252,885)
Profit for the period		**2,467,266**	**1,915,524**

	Notes	2011	2010
Profit for the period		**2,467,266**	**1,915,524**
Other comprehensive income			
Net change in fair value of available-for-sale investment securities	24	(698,219)	(241,593)
Income tax effect		69,822	24,159
Other comprehensive income for the period, net of tax		**(628,397)**	**(217,434)**
Total comprehensive income for the period, net of tax		**1,838,869**	**1,698,090**

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 2011

(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	-	-	**47,617**
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**	**12,712,506**

Intesa Sanpaolo Bank Albania Sh.a.

Statement of changes in equity

For the year ended 31 December 2011

(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 2011	**5,562,518**	**1,383,880**	**2,362,286**	**1,752,404**	**(1,130,902)**	**152,241**	**714,555**	**1,915,524**	**12,712,506**
Transfer of prior year profit	-	-	1,915,524	-	-	-	-	(1,915,524)	-
Appropriation of retained earnings	-	-	(1,595,863)	1,595,863	-	-	-		-
Other comprehensive income (Net change in fair value of AFS investment securities)	-	-		-	(698,219)	-	-	-	**(698,219)**
Foreign currency translation difference	-	-	(4,484)	-	-	82,010	-	-	**77,526**
Reclassification of legal reserve	-	-	-					-	-
Profit for the year	-	-	-	-	-	-	-	2,467,266	**2,467,266**
Balance at 31 December 2011	**5,562,518**	**1,383,880**	**2,677,463**	**3,348,267**	**(1,829,121)**	**234,251**	**714,555**	**2,467,266**	**14,559,079**

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 2011

(in '000 Lek)

	2011	2010
Cash flows from/(in) operating activities		
Profit of the period	**2,467,266**	**1,915,524**
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	97,803	38,128
Amortization of intangible assets	59,698	106,556
Depreciation of leasehold improvements	32,219	111,603
Disposals of intangible assets	59,950	-
Disposals of property and equipment	118,502	198,239
Amortization of investments HTM-treasury bills	(79,672)	162,687
Amortization of investments HTM-other than treasury bills	78,284	(25,806)
Amortization of AFS investment securities	6,273	3,556
Impairment on financial assets	1,001,917	993,626
Increase in interest receivable	(134,406)	(60,274)
Decrease in interest payable	(54,420)	(25,335)
Foreign exchange difference	77,791	69,140
Changes in operating assets and liabilities		
Changes in loans and advances to banks	(5,981,007)	(1,803,696)
Change in loans and advances to customers	(2,596,612)	795,257
Change in other assets	(415,110)	(41,919)
Change in deferred tax assets	(1,507)	(894)
Change in due to banks	3,720,646	(2,909,352)
Change in due to customers	2,648,051	7,207,558
Change in other liabilities and provisions	364,321	150,704
Change in deferred tax liabilities	(182,584)	140,397
Change in current taxes	165,989	(127,605)
Net cash provided by operating activities	**(1,013,874)**	**4,982,570**
Cash flows from investing activities		
Purchase of intangible assets	(90,272)	(107,346)
Purchase of property and equipment	(90,584)	(53,497)
Purchase of financial investments	(1,832,089)	(3,031,249)
Net cash used in investing activities	**(2,012,945)**	**(3,192,092)**

Intesa Sanpaolo Bank Albania Sh.a.

Statement of cash flows

For the year ended 31 December 2011

(in '000 Lek) (continued)

	2011	2010
Cash flows from financing activities		
Increase of subordinated debt	608	3,078
Net Cash from financing activities	**608**	**3,078**
Net increase/(decrease) in cash during the year	**(558,945)**	**3,709,080**
Cash and cash equivalents at beginning of the year	9,451,725	5,742,645
Cash and cash equivalents at end of period	**8,892,780**	**9,451,725**
Operational cash flows from interest:		
Interest paid	3,264,143	3,354,508
Interest received	8,039,060	8,295,802

During the year 2011 the Bank paid as Corporate Income Tax for current year, a total amount of Lek 261,928 thousand (2010: Lek 161,841 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 2nd 2012.

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
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 2 July , 1998 and substituted by law no. 9662 "On the Banks in Albania" dated 18 December , 2006 enforced on June 2007. The Bank started operations on 24 September, 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 4 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 the 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, (2010: 31 branches and agencies).

The Bank had 547 employees as at 31 December 2011 (2010: 543).

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. The operations of the branch in Greece were closed as of 16th of July 2011.

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 was 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 currently 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 when possible, and if they are 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 arising from tax losses are recognised as an asset when it is probable that future taxable income would be sufficient to allow the benefit of the loss to be realised. 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 recognised at the 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 since 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 tax 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 not be 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 compensate 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 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 either as assets or 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 Operating Income/Expenses in income statement (see note 28).

(iv) Off-setting

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when, and only when, the Bank has a legal right to offset 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 Bank similar transactions such as in the 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, in groups with similar risk characteristics (carried at amortized cost).

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 60 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)

When 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, 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 live 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 live 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.

(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.

4. Significant accounting policies (continued)

(r) Provisions

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

(s) Financial guarantees

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

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

(t) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

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

4. Significant accounting policies (continued)

(u) New pronouncements (new standards, amendments/revisions to standards or interpretations) issued within 31 December 2011 year end.

(i) Standards issued and effective

The following new interpretations and amendments to standards became mandatory for the first time for the financial year beginning 1 January 2011:

- **IAS 24 Related Party Transactions (Amendment)**
  The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definition emphasize a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment is applied retrospectively. The amendment is assessed to have no impact on the Bank's financial statements.

- **IAS 32 Financial Instruments: Presentation (Amendment)**
  The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment 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, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment is applied retrospectively. The amendment is assessed to have no impact on the Bank's financial statements.

(ii) 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 becoming effective.

- **IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income.** The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The Bank is in the process of assessing the impact of this amendment for the presentation of its financial statements.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

(ii) Standards issued, but not yet effective (continued)

- **IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets.** The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Bank; however it shall be noted that the Bank currently does not hold properties for investment.

- **IAS 19 Employee Benefits (Amended).** The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. The Bank shall assess the impact of this amendment on the financial position or performance of the Bank.

- **IAS 27 Separate Financial Statements (Revised)**
  The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted.
  The Bank shall assess the impact of this amendment on the financial position or performance of the Bank; however IAS 27 is not relevant to the Bank's operations at the moment.

- **IAS 28 Investments in Associates and Joint Ventures (Revised)**
  The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted.
  The Bank shall assess the impact of this amendment on the financial position or performance of the Bank; however IAS 28 is not relevant to the Bank's operations at the moment.

- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities.** The amendment is effective for annual periods beginning on or after 1 January 2014.This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. The Bank shall assess the impact of this amendment on the financial position or performance of the Bank.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

(ii) Standards issued, but not yet effective (continued)

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements.** The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment has only disclosure effects.

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities.** The amendment is effective for annual periods beginning on or after 1 January 2013.The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. The Bank shall assess the impact of this amendment on the financial position or performance of the Bank.

- **IFRS 9 Financial Instruments - Classification and Measurement.** The new standard is effective for annual periods beginning on or after 1 January 2015. 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 financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FVO. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. The Bank shall assess the impact of the new standard on the financial position or performance of the Bank.

- **IFRS 10 Consolidated Financial Statements.** The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities.
  The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.
  The Bank shall assess the impact of the new standard on the financial position or performance of the Bank; however IFRS 10 is not relevant to the Bank's operations at the moment.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

(ii) Standards issued, but not yet effective (continued)

- **IFRS 11 Joint Arrangements.** The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Bank shall assess the impact of the new standard on the financial position or performance of the Bank; however IFRS 11 is not relevant to the Bank's operations at the moment.

- **IFRS 12 Disclosures of Involvement with Other Entities.** The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Bank shall assess the impact of the new standard on the financial position or performance of the Bank; however IFRS 12 is not relevant to the Bank's operations at the moment.

- **IFRS 13 Fair Value Measurement.** The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted.
  The Bank shall assess the impact of the new standard on the financial position or performance of the Bank.

4. Significant accounting policies (continued)

(u) New pronouncements (continued)

(iii) Improvements to IFRSs (issued in May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. 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*
IAS 34 *Interim Financial Reporting*
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 is exposed 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 Finance and Capital Market Division and Risk Management Division, which are responsible for developing and monitoring the Bank's risk management policies in these areas. All Bank's 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. The latter has delegated and distributed the authority of decision making 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)

- *Reviewing and assessing credit risk.* Bank's Credit Risk Department assesses all credit exposures, prior to commitment with customers by the Bank. 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 may be required against specific credit exposures. According to Bank's methodology all exposures are classified on Performing and Non Performing exposures as following:

<table>
<tr><th colspan="3">IFRS Classification</th></tr>
<tr><th>Summary Classification</th><th>Bank Methodology Classification</th><th>Objective Criteria</th></tr>
<tr><td rowspan="5">Performing</td><td rowspan="3">A</td><td>Significant exposure,
> 10% RC, Days Past Due < 61 days</td></tr>
<tr><td>Staff exposure</td></tr>
<tr><td>Collective, Days Past Due < 61 days</td></tr>
<tr><td rowspan="2">B</td><td>With Indicator (special treatment)</td></tr>
<tr><td>Days Past Due 61-90 days</td></tr>
<tr><td rowspan="4">Non performing</td><td>C
(includes Past Due exposures)</td><td>Days Past Due 91-180 days</td></tr>
<tr><td>D
(includes Substandard exposures)</td><td>Days Past Due 181-270 days</td></tr>
<tr><td>E
(includes Doubtful exposures)</td><td>Days Past Due > 270 days</td></tr>
<tr><td>Restructured</td><td></td></tr>
</table>

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries and product types. Detailed analyses are provided monthly to the Asset Quality Committee on the credit quality of customers' loan portfolio and specific actions are proposed. Such information is presented to the Audit Committee and Board of Directors on quarterly basis.
- *providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.

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 2011	**31 December 2010**
Cash Balances with Central Bank (excluding cash on hand)	7,704,636	8,146,724
Due from banks	16,530,111	10,498,496
Loans and advances to customers	51,552,478	48,883,302
Financial assets- available-for-sale	1,865,935	2,668,123
Financial assets- held-to-maturity	51,572,399	49,641,226
Total	**129,225,559**	**119,837,872**
Undrawn credit commitments	3,742,979	6,091,313
Letters of credit	3,527,847	3,894,440
Guarantees in favor of customers	3,752,284	4,127,857
Total credit related commitments	**11,023,110**	**14,113,610**
Total Credit Risk Exposure	**140,248,669**	**133,951,482**

The maximum credit exposure of any single client, or group of clients, as at 31 December 2011 is Lek 3,277,538 thousand (2010: Lek 2,602,155 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 individually impaired loans are individually tested but their future cash flow from collaterals or any other credit enhancements exceed the risk that the Bank is exposed to. The collective impairement is allocated as per default rate of the group with similiar credit risk characteristics where customers belong.

The financial assets in the tables below are gross of impairment allowances for both financial years ended as at 31 December 2011 and 31 December 2010:

31 December 2011	**Neither past due nor impaired**	**Past due but not individually impaired**	**Individually Impaired**	**Total**
Cash Balances with Central Bank (excluding cash on hand)	7,704,636	-	-	7,704,636
Due from Banks	16,530,111	-	-	16,530,111
Loans and advances to customers:				
Commercial lending	29,564,995	3,927,958	9,562,181	43,055,134
Mortgage lending	4,988,898	616,233	1,289,579	6,894,710
Consumer lending	1,249,929	58,671	399,255	1,707,855
Deferred disbursement fee	(97,855)	(6,796)	(570)	(105,221)
Financial Assets-available-for-sale				
Listed companies	1,287,521	-	-	1,287,521
Unlisted companies	578,414	-	-	578,414
Financial Assets-held-to-maturity				
Listed companies	7,619,640	-	-	7,619,640
Unlisted companies	43,952,759	-	-	43,952,759
Total	**113,379,048**	**4,596,066**	**11,250,445**	**129,225,559**

31 December 2010	**Neither past due nor impaired**	**Past due but not individually impaired**	**Individually Impaired**	**Total**
Cash Balances with Central Bank (excluding cash on hand)	8,146,724	-	-	8,146,724
Due from Banks	10,498,496	-	-	10,498,496
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**

In the past due loans above, there are included loans that are more than 60 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 individually impaired group. The rest of financial assets has no past due category. Respective aging analysis as at 31 December 2011 and 2010 are shown in the tables below:

31 December 2011	**61 to 90 days**	**91 to 180 days**	**more than 180 days**	**Total**
Loans and advances to customers:				
Commercial lending	264,442	746,830	2,916,686	3,927,958
Mortgage lending	112,364	319,465	184,404	616,233
Consumer lending	4,743	9,882	44,047	58,672
Deferred disbursement fee	(1,356)	(5,441)	-	(6,797)
Total	**380,193**	**1,070,736**	**3,145,137**	**4,596,066**

31 December 2010	**61 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**

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 2011	**31 December 2010**
Commercial lending	807,977	537,960
Mortgage lending	128,367	130,609
Consumer lending	7,657	5,013
Total	**944,001**	**673,582**

(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. Collective impairment is allocated for the customers tested individually but resulting with no need for individual impairment.

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 loans and advances to customers categorized on two main groups: Individually and Collectively Impaired.

	Net Exposure to Loans and advances to customers	
	31 December 2011	**31 December 2010**
Individually impaired	11,250,445	8,956,389
Allowance for impairment	(3,440,886)	(2,708,321)
Carrying amount	**7,809,559**	**6,248,068**
Collectively impaired		
Gross amount	40,302,032	39,926,914
Allowance for impairment	(679,305)	(421,190)
Carrying amount	**39,622,727**	**39,505,724**
Total carrying amount on Loans and advances to customers	**47,432,286**	**45,753,791**

(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 2011		
Past Due	612,364	454,076
Substandard	223,937	182,659
Doubtful	9,470,233	6,487,305
Restructured	943,911	685,520
Total	**11,250,445**	**7,809,560**
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**

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 Bank's 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 2011 or 2010. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are also updated every three years. 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 2011		Collateral of Loans and advances to customers 31 December 2010	
	Gross	**Net**	**Gross**	**Net**
Against individually impaired				
Property	22,898,844	13,329,717	13,793,146	7,682,097
Equity	131,036	37,391	-	-
Cash	151,382	143,130	145,422	142,029
Pledge & Guarantees	4,625,958	1,767,280	3,469,172	1,298,535
Other	255,177	-	445,116	-
Total	**28,062,397**	**15,277,518**	**17,852,856**	**9,122,661**

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 2011**	**31 December 2010**
Property	84,916,011	96,653,943
Debt Securities	5,212	4,609
Equity	1,298,042	1,325,008
Cash	3,179,641	3,721,803
Pledge and Guarantees	17,352,530	18,845,933
Other	1,129,865	2,003,071
Total	**107,881,301**	**122,554,367**

(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 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 performed.
The nature and the respective amounts of the collateral properties inventory as of 31 December 2011 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 2011**	**31 December 2010**
Real Estate	1,304,919	1,431,547
Manufacturing	4,622,097	5,988,152
Wholesale	11,893,141	11,589,403
Construction	7,439,071	7,420,054
Services	12,290,647	9,144,063
Other	1,875,588	1,574,533
Corporate	**39,425,463**	**37,147,752**
Mortgage	6,640,060	6,583,279
Consumer	1,366,763	2,022,760
Retail	**8,006,823**	**8,606,039**
Carrying amount	**47,432,286**	**45,753,791**
Concentration by location		
Albania	47,432,286	44,831,431
Greece	-	922,360
Carrying amount	**47,432,286**	**45,753,791**

(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 2011**	**31 December 2010**
Bank	16,530,111	10,498,496
Carrying amount	**16,530,111**	**10,498,496**

	Investment securities	
Concentration by sector	**31 December 2011**	**31 December 2010**
Sovereign	47,126,968	45,409,281
Bank	6,311,366	6,900,068
Carrying amount	**53,438,334**	**52,309,349**

Concentration by sector for investment securities is measured based on the category 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 2011**	**31 December 2010**
Rated Aaa	416,630	415,398
Rated Aa2	-	1,820,748
Rated Aa3	327,685	344,175
Rated A2	2,546,552	-
Rated A3	-	-
Rated Baa1/*+	-	-
Rate Baa3	-	335,571
Rate Ba1	344,272	-
Rated B1	42,939,076	41,957,862
Rates non available	552,753	535,186
	47,126,968	**45,408,940**
Bank		
Rated Aaa	1,872,025	1,828,216
Rated Aaa /*	-	-
Rated Aa1 /*	-	-
Rated Aa2	-	-
Rated Aa2/*-	-	-
Rated Aa3	537,700	1,318,508
Rated A1	1,076,913	1,487,586
Rate A1/*-	541,568	
Rated A2	765,808	642,887
Rated A2/*-	461,068	-
Rated A3	197,984	198,227
Rated Baa1	232,794	225,491
Rated Baa2	-	-
Rated Baa3	-	129,096
Rate Ba1/*-	79,845	
Rated B1	-	-
Rate B1 /*-		1,070,398
Rate Ca	545,661	
Rates non available	-	-
	6,311,366	**6,900,409**
Total carrying amount	**53,438,334**	**52,309,349**

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 meet 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. Counterparty limits have been respected during year 2011.

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 by Group structures and approval by ALCO and Board of Directors. There are departments ensuring the appropriate application of liquidity policy being the Finance and Capital Market Division, 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, which in all currencies should be above 20%. As amended on November 2011, such limit should be above 25% for all currencies and above 20% separately for the local currency and foreign currencies.

The Central Bank of Albania regulation provides that the Bank shall 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 and by Central bank of Albania.
The short term liquidity ratios have been well within limits during all the year 2011, except for the new liquidity indicator limit of Central Bank in foreign currency, which, as of December 2011, does not fulfill the proposed minimum criteria of 20%. The Bank is committed to be within the limit in March 2012.

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, based on the Bank's internal local regulation and Group Liquidity Guidelines, as at 31 December 2011 and 31 December 2010. It considers the undiscounted cash flows in/out of the Bank for on and off financial assets and liabilities, according to bank's base scenario which includes both contractual maturities for term items and behavioral assumptions for undefined maturity items.. Assumptions consist in: active market securities haircut by 25% of the value, behavioral coefficients applied for sight deposits to customers, and drawdown percentages for off balance sheets categories as committed credit lines and guarantees.

31 December 2011	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
ASSETS (CASH FLOW IN)	**47,999,949**	**7,022,603**	**21,289,083**	**37,199,634**	**8,644,749**	**122,156,018**
Net Cash	1,188,726	-	-	-	-	**1,188,726**
Minimum reserve requirements	10,197,755	-	-	-	-	**10,197,755**
Advances to banks	266,991	-	-	-	-	**266,991**
Held to Maturity Investments securities- Treasury Bills	14,029,346	-	-	-	-	**14,029,346**
Other Held-to-maturity and Available-for-sale Investment Securities – Active Market	5,683,563	-	-	-	-	**5,683,563**
Other Held-to-maturity and Available-for-sale Investment Securities – Non Active market	78,789	1,560,154	13,752,823	13,639,815	1,811,860	**30,843,441**
Loans to banks	13,048,852	3,545,584	120,177	160,090	-	**16,874,703**
Loans and advances to customers (gross performing loans)	3,505,927	1,916,865	7,416,083	23,399,729	6,832,889	**43,071,493**

31 December 2011	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
LIABILITIES (CASH FLOW OUT)	**(20,773,104)**	**(17,494,556)**	**(43,111,017)**	**(9,689,314)**	**(23,691,448)**	**(114,759,439)**
Deposits from banks and customers- Current accounts	**(3,163,074)**	**(1,403,084)**	**(2,806,168)**	**(5,612,337)**	**(23,150,889)**	**(36,135,552)**
Current accounts with banks	(1,058,448)	-	-	-	-	**(1,058,448)**
Current accounts with customers	(2,104,626)	(1,403,084)	(2,806,168)	(5,612,337)	(23,150,889)	**(35,077,104)**
Deposits from banks	**(4,314,787)**	**-**	**-**	**-**	**-**	**(4,314,787)**
of which: cash on repo and on securities lent	(3,001,580)	-	-	-	-	**(3,001,580)**
Deposits from customers- Time deposits	(13,295,243)	(16,081,950)	(40,295,379)	(4,002,599)	-	**(73,675,171)**
Subordinated debt	-	(9,522)	(9,470)	(74,378)	(540,559)	**(633,929)**
TOTAL GAP ON-BALANCE SHEET	**27,226,845**	**(10,471,953)**	**(21,821,934)**	**27,510,320**	**(15,046,699)**	**7,396,579**
Off Balance sheet (Cash flow in)	-	-	-	-	-	-
Off Balance sheet (Cash flow out)	(613,243)	(223,023)	(1,003,606)	-	-	(1,839,872)
TOTAL GAP OFF-BALANCE SHEET	**(613,243)**	**(223,023)**	**(1,003,606)**	**-**	**-**	**(1,839,872)**
TOTAL GAP 31 December 2011	**26,613,602**	**(10,694,976)**	**(22,825,540)**	**27,510,320**	**(15,046,699)**	**5,556,707**
CUMULATED GAP 31 December 2011	**26,613,602**	**15,918,626**	**(6,906,914)**	**20,603,406**	**5,556,707**	

(amounts in '000 Lek, unless otherwise stated)

5. Financial Risk Management – Liquidity Risk (continued)

31 December 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
ASSETS (CASH FLOW IN)	**39,270,383**	**10,994,181**	**17,895,685**	**37,834,797**	**9,640,607**	**115,635,653**
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	6,587,459	-	-	-	-	6,587,459
Other Held-to-maturity and Available-for-sale Investment Securities – Non Active market	387	943,447	7,850,831	21,809,710	967,249	31,571,624
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	46,112,109

31 December 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
LIABILITIES (CASH FLOW OUT)	**(17,286,793)**	**(15,915,080)**	**(40,769,129)**	**(10,205,237)**	**(24,559,158)**	**(108,735,397)**
Deposits from banks and customers- Current accounts	(2,844,425)	(1,485,637)	(2,971,273)	(5,942,546)	(24,513,002)	(37,756,883)
Current accounts with banks	(615,970)	-	-	-	-	(615,970)
Current accounts with customers	(2,228,455)	(1,485,637)	(2,971,273)	(5,942,546)	(24,513,002)	(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)	(684,299)
TOTAL GAP	**21,983,590**	**(4,920,899)**	**(22,873,444)**	**27,629,560**	**(14,918,551)**	**6,900,256**
Off Balance sheet (Cash flow in)	-	-	-	-	-	-
Off Balance sheet (Cash flow out)	(927,574)	(535,786)	(2,411,035)	-	-	(3,874,395)
TOTAL GAP OFF-BALANCE SHEET	**(927,574)**	**(535,786)**	**(2,411,035)**	**-**	**-**	**(3,874,395)**
TOTAL GAP 31 DECEMBER 2010	**21,056,016**	**(5,456,685)**	**(25,284,479)**	**27,629,560**	**(14,918,551)**	**3,025,861**
CUMULATED GAP 31 DECEMBER 2010	**21,056,016**	**15,599,331**	**(9,685,148)**	**17,944,412**	**3,025,861**	**-**

(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 the Bank's contingent liabilities and commitments.

31 December 2011	**1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**>5Years**	**Total**
Commitments	4,642,443	-	-	-	-	**4,642,443**
Guarantees	7,280,131	-	-	-	-	**7,280,131**
31 December 2010						
Commitments	6,091,313	-	-	-	-	**6,091,313**
Guarantees	7,489,469	-	-	-	-	**7,489,469**

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 2011	**31 December 2010**
Commitments	**4,642,443**	**6,091,313**
Un-drawn credit facilities	4,642,443	6,091,313
Guarantees	**7,280,131**	**7,489,469**
Letters of credit	3,527,847	3,525,690
Guarantees in favor of customers	3,752,284	3,963,779

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
Upon application of IFRS as the accounting framework, the Bank has its bond portfolio in accordance with IAS 39 as either Trading, Held to Maturity or Available for Sale portfolio.

5. Financial Risk Management (continued)

Exposure to Foreign Exchange rate risk

"Foreign exchange rate 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 consist 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, 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 regulatory framework refers to a maximum limit of 20% of open position in each currency and 30% of overall open currency position..

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. Back testing was performed and the aforementioned limits were decided. 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 1.1 Million as of 31 December 2011, with an average of Lek 0.9 Million during the year (2010: Lek 1.4 Million and average Lek 1.1 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 within the limit during 2011 (no breaches during 2010) and a Stop Loss limit to be breached five times during 2011 (twice during 2010).

The Bank has been within the limits of the Central bank of Albania regulation during year 2011. 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	518,212	2,529,566	5,249,172	595,830	8,892,780
Loans and advances to banks	3,662,430	2,651,660	10,216,021	-	16,530,111
Loans and advances to customers	8,793,251	4,173,226	34,465,561	248	47,432,286
Available for Sale Investment Securities	65,585	1,584,159	-	216,191	1,865,935
Held to Maturity Investment Securities	40,737,965	6,696,382	3,793,780	344,272	51,572,399
Property and Equipment	1,530,969	-	-	-	1,530,969
Intangible Assets	262,720	-	-	-	262,720
Current tax assets	157,221	-	-	-	157,221
Deferred tax assets	42,079	-	-	-	42,079
Other assets	406,629	31,009	307,608	1,704	746,950
Total Assets (1)	**56,177,061**	**17,666,002**	**54,032,142**	**1,158,245**	**129,033,450**
LIABILITIES					
Due to Banks	4,131,813	478,046	760,612	-	5,370,471
Due to customers	37,104,678	17,038,474	51,919,960	1,134,606	107,197,718
Subordinated debt	-	-	534,334	-	534,334
Provisions	95,117	87,713	135,771	-	318,601
Other liabilities	810,748	26,364	157,452	442	995,006
Current tax liabilities	58,242	-	-	-	58,242
Deferred tax liabilities	-	-	-	-	-
Net Equity	18,357,446	(1,710,274)	(1,969,246)	(118,848)	14,559,078
Total Liabilities (2)	**60,558,044**	**15,920,323**	**51,538,883**	**1,016,200**	**129,033,450**
Net FX Position at 31 December 2011 (1)-(2)	**(4,380,983)**	**1,745,679**	**2,493,259**	**142,045**	**-**
Off balance sheet Assets	1,911,947	14,859,818	128,367,797	11,615	145,151,177
Off balance sheet Liabilities	2,116,147	14,371,991	128,634,542	28,497	145,151,177
Net Off BSH FX Position at 31 December 2011	**(204,200)**	**487,827**	**(266,745)**	**(16,882)**	**-**
Total Net FX Position at 31 December 2011	**(4,585,183)**	**2,233,506**	**2,226,514**	**125,163**	**-**
Balance sheet Assets as at 31 December 2010	**48,881,891**	**16,122,632**	**54,202,244**	**1,425,245**	**120,632,012**
Balance sheet Liabilities as at 31 December 2010	**53,633,468**	**14,324,467**	**51,489,181**	**1,184,897**	**120,632,012**
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**	**267,402**	**-**

(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, starting from January 2011, an adverse movement is defined as a parallel and uniform shift of ±100 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 0 - 10% for USD denominated securities (2.8 - 10%: 2010), between 3.2 – 4.0% for Euro denominated securities (2.6%: 2010) and between 5.3-5.5% for GBP denominated securities (5-5.5%: 2010).

Interest rate risk generated by the Bank's balance sheet, as measured through shift sensitivity analysis of ±100 basis points, registered in 2011 a value of Lek –733 million (for +100 basis points) at year end (December 2010: Lek -727 million). The table below shows the currency breakdown of the shift sensitivity for the year end 2011 and for 2010.

Shift sensitivity 31 December 2011	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	+100 b.p. / -100 b.p	(104.911)/110.211	(104.911)/110.211	-
USD	+100 b.p. / -100 b.p	(414.085)/478.502	(382.815)/447.178	(31.270)/31.324
LEK	+100 b.p. / -100 b.p	(188.504)/194.790	(188.504)/194.790	-
Other (GBP & CHF)	+100 b.p. / -100 b.p	(26.159)/28.002	(11.047)/11.730	(15.112)/16.272

Shift sensitivity 31 December 2010	Increase in basis points	Total	Sensitivity of Profit & Loss	Sensitivity of Equity
EUR	+100 b.p. / -100 b.p	(61.196)/ 70.711	(61.196)/ 70.711	
USD	+100 b.p. / -100 b.p	(358.916)/ 426.784	(321.458)/ 390.347	(37.458)/ 36.43
LEK	+100 b.p. / -100 b.p	(274.485)/ 282.265	(274.485)/ 282.265	
Other (GBP & CHF)	+100 b.p. / -100 b.p	(32.474)/ 34.997	(14.644)/ 15.733	(17.830)/ 19.26

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, which 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 has 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.

The Bank has the same responsibilities towards Central Bank of Albania, referring to the new regulation on management of operational risk, entered in force on January 2011. It prepares reports on the exposure of key indicators and classifications of effective operational losses as per business lines according to the regulatory requirements.

Regulatory Capital

The Bank's lead regulator, Central Bank of Albania, sets and monitors capital requirements for the Bank. The Greek branch was 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 2011 the Bank has achieved an adequacy ratio well above the minimum required and as of 31 December 2011 it amounted to 19.3 % (2010: 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 2011 has followed same tendency to much higher levels compared to the regulatory limit and as of the 31 December 2011 it amounted to 18.4% (2010: 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 Branches

As of 31 December 2011, the Bank's Operations in Albanian and Greek Branch are as follows:

	Albania	Greece	Intra-group transactions	Aggregate
Assets				
Cash and cash equivalents	8,892,780	-	-	8,892,780
Loans and advances to banks	16,530,111	-	-	16,530,111
Financial Investments Available-for-sale	1,865,935	-	-	1,865,935
Financial Investments Held-to-maturity	51,572,399	-	-	51,572,399
Loans and advances to customers	47,432,286	-	-	47,432,286
Property and equipments	1,530,969	-	-	1,530,969
Intangible assets	262,720	-	-	262,720
Deferred tax assets	42,079	-	-	42,079
Current tax assets	157,221	-	-	157,221
Other assets	746,952	(2)	-	746,950
Total Assets	**129,033,452**	**(2)**	**-**	**129,033,450**
Liabilities				
Deposits from banks	5,370,471	-	-	5,370,471
Deposits from customers	107,197,718	-	-	107,197,718
Current accounts	27,990,307	-	-	27,990,307
Time deposits	79,207,411	-	-	79,207,411
Subordinated debt	534,334	-	-	534,334
Current tax liabilities	58,242	-	-	58,242
Deferred tax liabilities	-	-	-	-
Provisions	318,601	-	-	318,601
Other liabilities	(973,920)	1,968,925	-	995,005
Total Liabilities	**112,505,446**	**1,968,925**	**-**	**114,474,371**
Equity	-	-	-	
Share capital	-	-	-	6,946,398
Other comprehensive item	-	-	-	714,555
Retained earnings	-	-	-	5,144,729
Available-for-sale reserves	-	-	-	(1,829,121)
Legal and regulatory reserves	-	-	-	3,348,267
Foreign currency translation reserve	-	-	-	234,251
Total Equity				**14,559,079**

(amounts in '000 Lek, unless otherwise stated)

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

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

	Albania	Greece	Intra-group transactions	Aggregate
Assets				
Cash and cash equivalents	8,825,870	1,181,149	(555,294)	9,451,725
Loans and advances to banks	10,498,496			10,498,496
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	217,269			217,269
Other liabilities	652,808	79,206		732,014
Total Liabilities	**107,548,437**	**926,363**	**(555,294)**	**107,919,506**
Equity	-	-	-	
Share capital	-	-	-	6,946,398
Other comprehensive item	-	-	-	714,555
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				**12,712,506**

The amount of Lek 555,294 thousand represents intra-group placements between Head Office in Albania and Branches 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 2011, the Bank's Operations in Albanian and Greek Branch are as follows:

	Albania	Greece	Intra-group transactions	Aggregate
Total interest income	8,120,637	49,285	(1,341)	8,168,581
Total interest expenses	(3,209,299)	(3,830)	1,341	(3,211,788)
Net interest income	**4,911,338**	**45,455**	**-**	**4,956,793**
Fee and commission income	761,739	2,609	-	764,348
Fee and commission expense	(177,347)	(984)	-	(178,331)
Net fee and commission income	**584,392**	**1,625**	**-**	**586,017**
Net trading income	346,165	130	-	346,295
Other operating income, net	(205,435)	(10,813)	-	(216,248)
Operating income	**5,636,460**	**36,397**	**-**	**5,672,857**
Net impairment loss on financial assets	(978,232)	(23,685)	-	(1,001,917)
Personnel costs	(895,742)	(35,809)	-	(931,551)
Operating lease expenses	(157,298)	(2,441)	-	(159,739)
Depreciation and amortization	(332,221)	(3,732)	-	(335,953)
Depreciation of leasehold improvements	(32,219)	-		(32,219)
Other administration costs	(573,783)	(2,264)	-	(576,047)
Provisions for risk and expenses	(90,327)	-	-	(90,327)
Total expenses	**(3,059,822)**	**(67,931)**	**-**	**(3,127,753)**
Net income before taxes	**2,576,638**	**(31,534)**	**-**	**2,545,104**
Income tax expense	(77,838)	-	-	(77,838)
Profit for the period	**2,498,800**	**(31,534)**	**-**	**2,467,266**

The balance of Lek 1,341 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 2011.

(amounts in '000 Lek, unless otherwise stated)

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

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

	Albania	**Greece**	**Intra-group transactions**	**Aggregate**
Interest income	8,002,182	223,746	(10,289)	8,215,639
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 Branches in Greece for the period ended 31 December 2010.

(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 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial investments Available for sale				
Quoted investments				
Governments debt securities	327,685	-	-	**327,685**
Other debt securities	959,836	512,829	-	**1,472,665**
Unquoted investments	-	-	-	-
Total	**1,287,521**	**512,829**	**-**	**1,800,350**

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**

(amounts in '000 Lek, unless otherwise stated)

7. Fair value of Financial Instruments (continued)

Accounting classification and fair values:

31 December 2011	Note	Held-to-maturity	Loans and Receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair Value
Cash and cash equivalents	8	-	8,892,780	-	-	8,892,780	8,892,780
Loans and advances to banks	9	-	16,530,111	-	-	16,530,111	16,530,111
Loans and advances to customers:	12	-	47,432,286	-	-	47,432,286	47,432,286
Investment securities							
Measured at fair value	10	-	-	1,800,350	-	1,800,350	1,800,350
Measured at amortised cost	11	51,572,399	-	65,585	-	51,637,984	52,580,385
TOTAL		**51,572,399**	**72,855,177**	**1,865,935**	**-**	**126,293,511**	**127,235,912**
Due to banks	16	-	-	-	5,370,471	5,370,471	5,370,471
Due to customers	17	-	-	-	107,197,718	107,197,718	107,267,491
Subordinated liabilities	18	-	-	-	534,334	534,334	534,334
TOTAL		**-**	**-**	**-**	**113,102,523**	**113,102,523**	**113,172,296**

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 2010	**Note**	**Held-to-maturity**	**Loans and Receivables**	**Available-for-sale**	**Other amortized cost**	**Total carrying amount**	**Fair Value**
Cash and cash equivalents	8	-	9,451, 725	-	-	9,451,725	9,451,725
Loans and advances to banks	9	-	10,498,496	-	-	10,498,496	10,498,496
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**

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 2011, 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 2011 and 31 December 2010 can be detailed as follows:

	31 December 2011	31 December 2010
Cash and balances with banks	1,450,741	3,531,508
Unrestricted balances with central bank	4,153	31,549
Money market placements	7,437,886	5,888,668
Total	**8,892,780**	**9,451,725**

9. Loans and advances to banks

Loans and advances to banks as of 31 December 2011 and 31 December 2010 are composed as follows:

	31 December 2011	31 December 2010
Compulsory reserve	10,184,537	9,518,806
Correspondent banks deposits	6,345,574	979,690
Total	**16,530,111**	**10,498,496**

During 2011 the bank's deposits increase refers mainly to the placements with Head Office.

10. Financial Investments Available-for-sale

Financial Investments Available-for-sale as of 31 December 2011 and 31 December 2010 can be detailed as follows:

	31 December 2011	31 December 2010
Albanian Government:	**65,585**	**283,341**
Listed Companies:	**1,287,521**	**1,885,506**
- Banks & Financial Institutions	959,836	1,541,308
- EU Government	327,685	344,198
- Other International Institutions	-	-
Unlisted Companies:	**512,829**	**499,276**
- Banks & Financial Institutions	512,829	499,276
Total	**1,865,935**	**2,668,123**

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 2011 and 31 December 2010 can be detailed as follows:

	31 December 2011	31 December 2010
Foreign Government and others:	**3,860,207**	**3,107,221**
- International Institution	-	-
- US and EU government	3,860,207	3,107,221
Listed companies: Banks	**3,759,433**	**3,815,821**
Unlisted companies: Banks	**1,079,268**	**1,043,663**
Albanian Government bonds	**42,873,491**	**41,674,521**
Total	**51,572,399**	**49,641,226**

As at 31 December 2011, Albanian Held-to-maturity investments securities of Lek 3,450,000 thousand (2010: Lek 280,000 thousand) have been pledged as collateral for Reverse REPO Agreements. These transactions are conducted under terms that are usual to the customary to standard lending, securities borrowing and lending activities as well as requirements determined by Central Bank of Albania. As of 31 December 2011, the average yield of Held to maturity investment securities pledged as collateral for the Reverse REPO Agreements amounts to 7.36 % (2010: 8.47%).

12. Loans and advances to customers

Loans and advances to customers are composed as follows:

	31 December 2011	31 December 2010
Loans to customers	29,252,299	29,367,035
Overdrafts to customers	22,405,400	19,606,911
Gross amount	**51,657,699**	**48,973,946**
Deferred disbursement fee	(105,221)	(90,644)
Allowance for impairment	(4,120,192)	(3,129,511)
Total	**47,432,286**	**45,753,791**

(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 2011	31 December 2010
Specific Allowance for impairment		
Balance at 1 January	**2,708,321**	**2,044,337**
Impairment loss for the year		
Charge for the year	1,240,670	2,490,143
Recoveries	(517,700)	(1,755,671)
Effect of movements in foreign exchange	33,040	42,566
Write-offs	(23,444)	(113,054)
Balance at 31 December	**3,440,887**	**2,708,321**
Collective Allowance for impairment		
Balance at 1 January	**421,190**	**150,472**
Impairment loss for the year		
Charge for the year	259,908	641,972
Recoveries	(1,078)	(382,819)
Effect of movements in foreign exchange	(715)	11,565
Write-offs	-	-
Balance at 31 December	**679,305**	**421,190**
Total Allowance for Impairment	**4,120,192**	**3,129,511**

(amounts in '000 Lek, unless otherwise stated)

13. Property and Equipment

Property and Equipments as of 31 December 2011 and 31 December 2010 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 2010	**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**
Additions during period	5,027	77,509	4,892	10,101	14,122	111,651
Disposals	(20,716)	(79,396)	(25,876)	(13,697)	-	(139,685)
Effect of movements in foreign exchange	-	81	26	8	-	115
Balance as at 31 December 2011	**1,616,616**	**1,019,133**	**183,381**	**277,276**	**66,375**	**3,162,781**

Disposals for period ending 31 December 2011 are mainly due to the regular process of physical inventory writte offs and Greece Branch fixed assets write-off as a result of closing operations of Greece Branch. Additions for the period ending 31 December 2011 are mainly related to IT equipments.
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 2011 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 2010	**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**
Depreciation charge for the year	81,137	99,172	9,782	26,214	-	216,305
Disposals	(7,769)	(73,389)	(25,039)	(12,304)	-	(118,501)
Effect of movements in foreign exchange	24	54	135	4	-	217
Balance as at 31 December 2011	**491,380**	**748,768**	**157,198**	**234,466**	**-**	**1,631,812**
Carrying amount						
At 1 January 2010	**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**
At 31 December 2011	**1,125,236**	**270,365**	**26,183**	**42,810**	**66,375**	**1,530,969**

As at 31 December 2011 the fully depreciated items represent an amount of Lek 592,897 thousand (2010: Lek 574,843 thousand).

(amounts in '000 Lek, unless otherwise stated)

14. Intangible Assets

Intangible assets as of 31 December 2011 and 31 December 2010 are as follows:

	Software and Licenses	Intangible Assets in Process	Total
Cost			
Balance as at 1 January 2010	**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**
Additions during period	105,049	-	105,049
Disposals	(65,380)	(9,422)	(74,802)
Transfers	-	-	-
Effect of movements in foreign exchange	75	-	75
Balance as at 31 December 2011	**788,349**	**11,983**	**800,332**
Depreciation and Impairment Losses			
Balance as at 1 January 2010	**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**
Depreciation charge for the year	119,648	-	119,648
Disposals	(59,950)	-	(59,950)
Effect of movements in foreign exchange	45	-	45
Balance as at 31 December 2011	**537,612**	**-**	**537,612**
Carrying amount			
At 1 January 2010	**265,678**	**24,093**	**289,771**
At 31 December 2010	**270,736**	**21,405**	**292,141**
At 31 December 2011	**250,737**	**11,983**	**262,720**

Additions during period ending 31 December 2011 represent investments in licenses and software.

As at 31 December 2011 the fully depreciated items represent an amount of Lek 224,052 thousand (2010: Lek 221,758 thousand).

(amounts in '000 Lek, unless otherwise stated)

15. Other Assets

Other assets as of 31 December 2011 and 31 December 2010 are as follows:

	31 December 2011	31 December 2010
Leasehold improvements	54,604	77,218
Prepayments	44,251	55,894
Non current assets, held for sale	168,373	47,942
Sundry debtors	100,690	36,242
Cheques for collection	17,369	17,972
ATM & POS transactions	69,128	45,870
Unrealized Loss on Foreign Exchange contracts	208,973	41,016
Others	83,562	41,907
Total	**746,950**	**364,061**

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

	31 December 2011	31 December 2010
At beginning of the period	**77,218**	**214,722**
Additions during period	12,621	6,687
Provision for Disposals	**-**	**(32,494)**
Disposal:	**(35,234)**	**(111,603)**
Amortization of the period	(32,219)	(46,780)
Write – off	(3,015)	(64,823)
Effect of movements in foreign exchange	**-**	(94)
At end of the period	**54,605**	**77,218**

In the leasehold improvements disposal is included the write-off of the remaining value for the main branch of Athens Branch for Lek 58,124 thousand for the year ended 2010, meanwhile in 2011 the write-off amount is mainly due to Lezha Branch relocation.

Non-current assets held for sale include collateral values of some unrecoverable loans. Out of the total amount of Lek 168,373 thousand, as of 31 December 2011: Buildings (including land where they were constructed) amount to Lek 168,233 thousand and electronic devices amount to 140 thousand (2010: Buildings amount to Lek 47,802 thousand and electronic devices amount to 140 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 2011 and 31 December 2010 are as follows:

	31 December 2011	31 December 2010
Due to Central Bank	**139,959**	**30,119**
Correspondent banks		
Current accounts	**917,624**	**601,316**
Resident	17,956	64,288
Non-resident	899,668	537,028
Deposits	**1,312,916**	**775,098**
Resident	1,312,916	775,098
Non-resident	-	-
Repurchase Agreements	**2,999,972**	**244,326**
Total	**5,370,471**	**1,650,859**

Repurchase agreements as of 31 December 2011 and as of 31 December 2010 are comprised as follows:

	31 December 2011			
Maturity	**Interest Rate**	**Nominal value**	**Accrued interest**	**Book value**
05 Jan 2012	4.78%	1,570,432	617	1,571,049
05 Jan 2012	4.77%	872,462	342	872,804
05 Jan 2012	4.77%	555, 901	218	556,119
Total		**2,998,795**	**1,177**	**2,999,972**

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

The Bank has placed as collateral Treasury Bills for an amount of Lek 3,450,000 thousand (2010: Lek 280,000 thousand) as previously described in note 11.

(amounts in '000 Lek, unless otherwise stated)

17. Due to customers

Due to customers as of 31 December 2011 and 31 December 2010 are composed as follows:

	31 December 2011			31 December 2010		
Current accounts	**Local Currency**	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Retail	2,884,391	5,502,575	8,386,966	2,515,061	5,546,200	8,061,261
Corporate	7,739,721	11,863,620	19,603,341	7,900,785	13,511,144	21,411,929
	10,624,112	**17,366,195**	**27,990,307**	**10,415,846**	**19,057,344**	**29,473,190**
Deposits						
Retail	25,130,646	46,177,357	71,308,003	23,764,723	44,006,129	67,770,852
Corporate	1,349,920	6,549,488	7,899,408	2,182,791	5,177,379	7,360,170
	26,480,566	**52,726,845**	**79,207,411**	**25,947,514**	**49,183,508**	**75,131,022**
Total	**37,104,678**	**70,093,040**	**107,197,718**	**36,363,360**	**68,240,852**	**104,604,212**

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

	31 December 2011			31 December 2010		
	Local Currency	**Foreign Currency**	**Total**	**Local Currency**	**Foreign Currency**	**Total**
Current Accounts	**10,624,112**	**17,366,195**	**27,990,307**	**10,415,846**	**19,057,344**	**29,473,190**
Deposits						
On demand	1,675,430	5,391,344	7,066,774	1,440,410	6,176,616	7,617,026
One month	6,684,871	9,298,219	15,983,090	6,510,795	8,765,852	15,276,647
Three months	4,644,951	9,392,223	14,037,174	5,045,775	9,698,441	14,744,216
Six months	4,589,074	10,478,044	15,067,118	4,487,982	7,932,838	12,420,820
Nine months	4,647,406	9,507,787	14,155,193	4,722,764	7,897,536	12,620,300
Twelve months	2,792,195	5,664,541	8,456,736	2,731,309	5,793,462	8,524,771
Twenty four months	1,118,644	2,444,236	3,562,880	729,783	2,398,295	3,128,078
Other	327,995	550,451	878,446	278,696	520,469	799,165
	26,480,566	**52,726,845**	**79,207,411**	**25,947,514**	**49,183,509**	**75,131,023**
Total	**37,104,678**	**70,093,040**	**107,197,718**	**36,363,360**	**68,240,853**	**104,604,213**

(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:

2011	LEK (%)	USD (%)	EUR (%)
Current accounts and demand deposits	0.15 – 5.81	0.10 – 2.00	0.05 – 2.70
Time deposits – 1 month	1.75 – 5.50	0.10 – 2.10	0.20 – 3.85
Time deposits – 3 months	3.50 – 5.70	0.65 – 2.00	1.80 – 4.10
Time deposits – 6 months	5.00 – 6.60	0.85 – 2.30	2.00 – 4.20
Time deposits – 12 months	1.50 – 7.40	0.50 – 4.00	0.50 – 4.50
Time deposits – 24 months	6.55 – 8.40	1.45 – 3.20	3.30 – 4.50
Time deposits – 60 months			

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

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 2011 and 31 December 2010 is as follows:

	31 December 2011	31 December 2010
Subordinated Debt	527,934	527,326
Accrued Interest	6,400	5,242
Total	**534,334**	**532,568**

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 2011			31 December 2010		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Deferred tax asset	**42,079**	**-**	**42,079**	**40,572**	**-**	**40,572**
Tangible and intangible assets	42,079	-	42,079	40,572	-	40,572
Deferred tax liability	**-**	**-**	**-**	**-**	**(182,584)**	**(182,584)**
Loans and advances to customers	-	-	-	-	(182,584)	(182,584)
Net deferred tax assets/(liabilities)	**42,079**	**-**	**42,079**	**40,572**	**(182,584)**	**(142,012)**

Movements in temporary differences during the year are as follows:

31 December 2011	**Opening balance**	**Recognized in profit or loss**	**Closing balance**
Tangible and intangible assets	40,572	1,507	42,079
Other assets	-	-	-
Loans and advances to customers	(182,584)	182,584	-
Translation effect	-	-	-
Total	**(142,012)**	**184,091**	**42,079**
31 December 2010			
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)**

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 2011	**Tax Litigation**	**Other Litigations**	**Other Provisions**	**Off-Bsh Provisions**	**Total**
At beginning of the period	85,527	122,028	9,714	-	217,269
Additions during period	-	91,089	-	20,117	111,206
Reversals(used and unused amounts)	-	(762)	(7,978)	-	(8,740)
Effect of movements in foreign exchange	-	630	154	750	1,534
Transfer in other asset	-	(2,668)	-	-	(2,668)
At end of the period	**85,527**	**210,317**	**1,890**	**20,867**	**318,601**

Other litigations increases/decreases include the net charges for the year of Lek equivalent Lek 91,089 thousand, and the reversal of prior year reserves following the sale of one collateral received on written off loans, at the amount of Lek 762 thousand. The amount of Lek 2,668 thousand presents the impairment for assets held for sale (bought through legal processes). This impairment has been transferred to the respective asset, under the category "Non current assets held for sale".

The Off-Balance sheet provision represents the provisions for the financial commitments, granted to non-performing customers, which are subject to individually assessment for provision.

(amounts in '000 Lek, unless otherwise stated)

21. Other liabilities

Other liabilities as of 31 December 2011 and 31 December 2010 are composed as follows:

	31 December 2011	31 December 2010
Invoices to be received	461,368	496,164
Sundry creditors	65,912	57,939
Suspense accounts	43,673	45,521
Bank cheques issued and payments in transit	209,993	45,469
Other tax liabilities	33,210	42,257
Due to third parties	12,367	14,198
Other accrued expenses/deferred income	168,482	30,466
Total	**995,005**	**732,014**

Other tax liabilities represent December 2011 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 2012.

Payment in transit increase is related to the government tax payment in transit made from the tax payers at the last day of the year. The increase of the other accrued expenses is related to the unrealised forex forward revaluation resulting from the increase of the foreign exchange forward operations and the fluctuations of the exchange rates during the year 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 29 June 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 2011 and 31 December 2010 is presented below:

(amounts in original units)	**Number of Shares**	**Nominal Value**	**Premium Paid**	**Total Shares Value**
Share Capital at 31 December 2010	**15,581,282**	**357**	**-**	**5,562,517,674**
Premium on shares	**1,250,000**	**-**	**1,107,104**	**1,383,880,000**
Intesa Sanpaolo S.p.A.	1,250,000	-	1,107104	1,383,880,000
Share Capital, Premium at 31 December 2010	**15,581,282**	**357**	**1,107,104**	**6,964,397,674**
Share Capital, Premium at 31 December 2011	**15,581,282**	**357**	**1,107,104**	**6,964,397,674**

All the Bank's shares have the 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 4 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 the transfer of the ownership of 1,751,283 nominative shares. This transaction was approved on 7 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 Note 1, both parties accepted the respective fulfillment of the contractual terms, completing therefore this transaction.

During 2010, there were no changes in the Shareholders Capital structure, meanwhile during 2011 the ownership of 1,212,221 nominative shares was transferred from European Bank for Reconstruction and Development to Intesa Sanpaolo S.p.A. The total value of the transferred shares was Lek 432,764 thousand and represented 7.78% of the Bank share capital.
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 2010	**15,581,282**	**357**	**5,562,517,674**	**100.00%**
Intesa Sanpaolo S.p.A.	14,152,656	357	5,052,498,192	90.83%
European Bank for Reconstruction and Development	1,212,224	357	432,763,968	7.78%
Società Italiana per le Imprese all'Estero S.p.A.	216,402	357	77,255,514	1.39%
Share Capital at 31 December 2011				
Intesa Sanpaolo S.p.A.	15,364,880	357	5,485,262,160	98.61%
Società Italiana per le Imprese all'Estero S.p.A.	216,402	357	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 appropriation of 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 2011, the Bank has created the credit risk reserve, in compliance with the banking local supervisory regulation. The credit risk reserve balance of Lek 1,815,998 thousand is included in the Regulatory Reserve.

	31 December 2011	31 December 2010
Regulatory reserve	2,946,982	1,446,895
Legal reserve	401,285	305,509
Total	**3,348,267**	**1,752,404**

24. Other valuation reserves

Comprehensive items

The balance of Lek 714,555 thousand for both periods ending 31 December 2011 and 2010 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 2011 amounted for Lek 698,219 thousand (2010: Lek 241,593 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 2011 the movements amounted for Lek 82,009 thousand (2010: Lek 45,289 thousand).

(amounts in '000 Lek, unless otherwise stated)

25. Net Interest income

	31 December 2011	31 December 2010
Interest income		
Loans and advances to customers	3,710,468	3,603,152
Financial Investments Held-to-maturity	4,012,300	4,068,117
Loans and advances to banks	288,121	364,381
Financial Investments Available-for-sale	157,692	179,989
Cash and cash equivalents		
Total interest income	**8,168,581**	**8,215,639**
Interest expenses		
Time deposits	2,774,866	2,892,904
Deposits from banks	183,110	152,172
Current accounts	236,173	258,010
Subordinated loan	17,639	15,098
Total interest expenses	**3,211,788**	**3,318,184**
Net interest income	**4,956,793**	**4,897,455**

(amounts in '000 Lek, unless otherwise stated)

26. Net fee and commission income

	31 December 2011	31 December 2010
Collection and payment services	300,967	272,471
Active current accounts	192,245	183,751
Active ATMs and POSs	181,703	165,180
Guarantees given	37,113	51,975
Unused/advanced liquidated credit lines	41,472	34,996
Arrangement fees and others	10,848	16,987
Fee and commission income	**764,348**	**725,360**
Active ATMs and POSs	164,750	141,318
Banking services-foreign branches	10,632	14,085
Collection and payment services	715	867
Guarantees received	2,234	917
Credit cards	-	-
Fee and commission expenses	**178,331**	**157,187**
Net fee and commission income	**586,017**	**568,173**

The 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 2011 and 2010 are composed as follows:

	31 December 2011	31 December 2010
Foreign exchange	346,295	355,584
Total	**346,295**	**355,584**

(amounts in '000 Lek, unless otherwise stated)

28. Other operating (expenses)/ income, net

Other income for the year ended 31 December 2011 and 31 December 2010 are as follows:

	31 December 2011	31 December 2010
Premium on deposits insurance	(198,924)	(194,939)
Loss-write off of fixed assets	(14,309)	(5,451)
Loss/gain on sale fixed assets	8,533	2,493
Recoveries on written off loans	3,093	15,568
Sundry net operational losses	(14,641)	(42,592)
Total	**(216,248)**	**(224,921)**

Loss write - off of fixed assets for the year 2011 are mainly due to the regular process of physical inventory write-offs for the value of Lek 1,063 thousand and to the closure/relocation of the Bank branches.

29. Personnel expenses

Personnel costs for the periods ended 31 December 2011 and 31 December 2010 are as follows:

	31 December 2011	31 December 2010
Salaries	734,856	863,084
Social Insurance	78,673	86,446
Personnel on secondment	84,912	99,138
Training & similar	25,381	30,642
Termination indemnities and others	7,729	7,401
Total	**931,551**	**1,086,711**

30. Other expenses

Other expenses for the years ended 31 December 2011 and 31 December 2010 are as follows:

	31 December 2011	31 December 2010
Insurance	5,619	30,440
Advertising & Publication	87,610	91,941
Maintenance & repair	63,709	86,957
Software maintenance	151,622	137,515
Telephone and electricity	92,161	123,497
Transportation of counting valuables and others	31,797	31,616
Consulting & Legal fees	41,517	47,785
Stationery	46,314	56,960
Travel & business trips	17,428	16,250
Security	35,920	27,919
Other	2,349	13,367
Total	**576,047**	**664,247**

(amounts in '000 Lek, unless otherwise stated)

31. Income tax expense

The components of income tax expense for the year ended 31 December 2011 and 31 December 2010 are:

	31 December 2011	31 December 2010
Current year	261,929	113,342
Current income tax in respect of prior years	-	40
Current Tax	**261,929**	**113,382**
Deferred tax (origination and reversal of temporary differences)	(184,091)	139,503
Deferred Tax	**(184,091)**	**139,503**
Income Tax Expense	**77,838**	**252,885**

Reconciliation of the income tax expense with the accounting profit for the year ended 31 December 2011 and 2010 is presented as follows:

		31 December 2011		31 December 2010
Accounting Profit Before Tax		**2,545,103**		**2,168,409**
Income tax at domestic corporate tax rate	10%	254,510	10%	216,841
Tax effect of nondeductible expenses	0.3%	7,418	-4.8%	(103,499)
Tax effect of prior year taxes recognition	0%	-	0%	40
Origination and reversal of temporary differences	-7.2%	(184,091)	6.4%	139,503
Income Tax Expense	**3.1%**	**77,838**	**11.7%**	**252,885**

Effective income tax rate for the year 2011, as noticed above is 3.1% (2010: 11.7%).

In the decrease of the income tax rate a significant impact has tax effect of 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**.** Due to the change of the Law "On Income Tax" (amended with the Law no. 10364 dated 16.12.2010), there are no temporary differences between the tax base liabilities and their carrying amount for IFRS reporting purposes during 2011. Consequently, the previous year deferred tax liability balance was reversed.

(amounts in '000 Lek, unless otherwise stated)

31. Income tax expense (continued)

Detailed information is displayed below:

	31 December 2011	31 December 2010
Depreciation and Amortization of Fixed Assets	11,784	7,933
Provisions for loans	-	(1,406,524)
Sundry operational losses	6,008	13,768
Office expenses	10,011	8,054
Rent apartments	12,597	11,722
Personnel costs	17,002	3,393
Representation	6,487	8,422
Others	10,294	318,244
Total Nondeductible Expenses	**74,183**	**(1,034,988)**

Referred to the law no. 9766 dated 09.07.2007 "On some changes on the Law No. 8438 dated 28.12.1998" income tax rate applied for the Bank for the year 2011 is 10% (2010: 10%).

During 2011 the Bank has prepaid income tax in the amount of Lek 109,122 thousand (2010: Lek 158,733 thousand). On the beginning of 2011, the Bank resulted with income tax credit balance Lek 110,875 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 2011 and 31 December 2010 are as follows:

	31 December 2011	31 December 2010
Contingent Assets	**141,398,893**	**136,412,096**
Guarantees received from credit customers	122,368,120	120,997,735
Un-drawn credit facilities	3,742,979	6,091,313
Letters of credit	3,527,847	3,525,690
Money market future dated deals	1,028,082	-
Forward foreign exchange contracts	10,731,865	5,797,358
Contingent Liabilities	**3,752,284**	**3,963,778**
Guarantees in favor of customers	3,572,284	3,963,778

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.

(amounts in '000 Lek, unless otherwise stated)

32. Commitment and contingencies (continued)

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.

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 2011 and 31 December 2010 are as follows:

	31 December 2011	31 December 2010
Less than one year	87,807	126,294
Between one and five years	165,499	182,132
More than five years	73,853	12,480
Total	**327,159**	**320,906**

The Bank has rental agreements with renewal options for its offices in Albania. During 2011 the amount of Lek 159,739 thousand was recognized as an expense in the statement of profit and loss in respect of lease rentals (2010: Lek 187,371 thousand).
Operating lease contracts are cancelable, if notified for a period of 180 days in advance.

(amounts in '000 Lek, unless otherwise stated)

34. Related parties

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control. A number of banking transactions are entered into with the related with the Intesa Sanpaolo S.p.A in the normal course of business. This related party qualifies as parent company of the Bank. The respective transactions include loans, deposits and others for administrators, shareholders and other closely related to them. Mostly, other related are parties of control or interests of Bank's shareholders, or they are close family members related to key management.
There are no doubtful debts related to outstanding balances of related parties, consequently allowances for impairment.

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

During the reporting period, there were neither long term benefits nor termination benefits paid to key management.
The outstanding balances with related parties as at 31 December 2011 and 31 December 2010 are as follows:

	Parent company		Key management personnel and Other related parties	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Assets at end of year	**6,974,932**	**1,208,920**	**180,824**	**212,469**
Loans and advances to Credit Institutions	6,974,932	1,208,920	-	-
Loans and advances to customers	-	-	180,824	212,469
Liabilities at end of year	**642,013**	**527,326**	**356,021**	**322,958**
Loans and advances from Credit Institutions	642,013	527,326	-	-
Customers deposits	-	-	356,021	322,958
Off balance sheet	**14,258,882**	**5,981,270**	**7,941**	**86,779**
Letter of Credit/of Guarantees given	-	-	-	41,631
Letter of Credit/of Guarantees received	4,531,730	1,452,637	-	-
Foreign Currency Contracts	9,727,152	4,528,633	-	-
Collaterals	-	-	7,941	45,148
Income for year ending	**72,793**	**1,667**	**12,576**	**4,017**
Interest income	72,793	1,667	12,003	4,017
Commission income	-	-	573	-
Expenses for year ending	**23,632**	**15,098**	**9,817**	**1,204**
Interest expense	23,632	15,098	9,817	1,204
Compensation of Key Managers	**-**	**-**	**170,834**	**152,051**
Net Salary	-	-	99,035	85,738
Net Bonus paid	-	-	43,234	33,399
Social & Health Insurance	-	-	2,582	2,103
Other expenses	-	-	25,983	30,811

34. Related parties (continued)

Regarding compensation paid to key managers, during year 2011 the Net Salary is increased compared to year 2010. The reason is that as per new policy, starting 2011 it was decided to pay the 13th salary to all the Bank's employees.

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.