Financial Statements

for the year ended
31 December 2010

Emporiki Bank
CRÉDIT AGRICOLE GROUP

Contents

PricewaterhouseCoopers Audit sh.p.k.
Blvd. Deshmoret e Kombit
Twin Towers, Tower 1, 10-th floor
Tirana, Albania

01 September 2011

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of Emporiki Bank sh.a. (hereinafter referred to as *the Bank*) as at and for the year ended 31 December 2010 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the Bank's financial position and results as at and for the year then ended in conformity with the International Financial Reporting Standards (IFRS).

We acknowledge the Board of Directors' responsibility for the fair presentation of the financial statements in conformity with IFRS.

We confirm, to the best of our knowledge and belief, the following representations:

DOCUMENTS, TRANSACTIONS, CONTRACTS AND AGREEMENTS

1. All minutes of the meetings of shareholders, directors and other management meetings, and all financial and accounting records and other data which could have an impact on the Bank's financial position until the date of signing this letter have been made available to you.

2. We are not aware of any accounts, transactions or material contracts and agreements not presented in the financial statements or not recorded fairly and properly in the financial and accounting records underlying the financial statements.

3. The information presented by us and included in our financial records is complete.

FINANCIAL STATEMENTS

4. We acknowledge our responsibility for the systems designed to prevent and detect fraud and error. We have addressed all significant facts relating to suspected frauds, where identified.

5. We have disclosed to you all significant facts relating to any frauds or suspected frauds known to us that may have affected the Bank.

6. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

7.

8. The financial statements are free of material misstatements, including omissions. We believe that the effects of the uncorrected financial statements misstatements aggregated by you during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

1. The following have been properly recorded and adequately disclosed in the financial statements:

   a. Balances and transactions with related parties.
   b. Losses arising from sale and purchase commitments or agreements to buy back assets previously sold.
   c. Assets pledged as collateral.

ASSETS AND LIABILITIES

2. The Bank has satisfactory title to all assets and there are no liens or encumbrances on the Bank's assets.

3. We have determined all excess and slow-moving stock. The balance of the stocks of raw materials disclosed as

at the balance sheet date are of standard value and are useful for further operations of the Bank. No stocks have been valued at amounts in excess of their net marketable value. We are aware of no plans as to a change in the Bank's operating profile which could have a negative impact on the value of stocks.

4. We have disclosed all liabilities, both current and contingent.

5. As at the balance sheet date and until the date of signing this letter the Bank has complied with all terms and conditions of its loan agreements.

6. There are no formal or informal arrangements or agreements in respect of compensating balances of cash or capital accounts. We have not concluded any loan agreements other than those presented to you.

7. There are no:

   a. Oral guarantees made by a director, manager, employee or any other third party acting as representative of the Bank;
   b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.
   c. Agreements to repurchase assets previously sold.
   d. Other agreements not in the ordinary course of business.

8. There are no disputed claims.

1. As at the balance sheet date the Bank did not own or issue any derivatives such as options or foreign exchange futures. The Bank was not a party to any agreements which could result in any derivative rights or obligations arising.

2. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

OTHER ISSUES

1. There have been no events subsequent to the period end, other than those described in the notes to the financial statements, which would require adjustment or disclosure in the financial statements or notes thereto.

2. We are not aware of:

   a. any irregularities caused by management or employees who have significant roles in the system of internal accounting control, or any irregularities caused by other employees that could have a material effect on the financial statements, or
   b. any violations of laws or regulations the effects of which should be considered for disclosure in the financial statement or as a basis for recording a loss contingency
   c. any environmental issues which could lead to contingencies and liabilities.

1. You have been presented with the full correspondence of our Bank with statutory regulatory bodies and with copies of their resolutions and decisions.

21. We have assessed the impact on the financial position and performance of the Bank of the recent turbulence in the financial markets (commonly referred to as the "credit crunch" and its effects). We informed you of our conclusions from this assessment and, where relevant, have ensured that all these effects have been properly reflected in the financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

(All amounts in ALL thousand, unless otherwise stated)

	Notes	31 December 2010	31 December 2009
Assets			
Cash and balances with Central Bank	5	2,603,022	2,354,636
Loans and advances to banks	6	4,136,285	467,734
Available-for-sale financial assets	7	1,102,290	816,731
Loans and advances to customers	8	22,595,583	25,372,731
Investment property	9	217,477	13,659
Property and equipment	10	696,388	751,183
Intangible assets	11	190,778	61,535
Other assets	12	128,899	105,040
Prepaid income tax		51,524	51,548
Total assets		**31,722,246**	**29,994,797**
Liabilities			
Due to Banks	13	12,857,318	13,045,632
Due to customers	14	12,857,857	11,225,945
Subordinated loan	15	1,533,420	1,524,057
Other liabilities	16	236,650	86,287
Deferred tax liabilities	17	35,037	37,925
Total liabilities		**27,520,282**	**25,919,846**
Shareholders equity			
Share capital	18	4,649,723	4,649,723
Legal reserve	19	57,162	57,162
Revaluation of AFS portfolio		2,430	(219)
Accumulated deficit		(507,351)	(631,715)
Total shareholders equity		**4,201,964**	**4,074,951**
Total liabilities and shareholders equity		**31,722,246**	**29,994,797**

The accompanying notes on pages 6 to 59 form an integral part of these financial statements.

These financial statements have been approved by Board of Directors
on 5 May 2011 and signed on their behalf by:

George Caracostas
Chief Executive Officer

Finance Division Manager

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in ALL thousand, unless otherwise stated)

	Notes	**Year ended 31 December 2010**	**Year ended 31 December 2009**
Interest and similar income	20	2,085,531	2,065,981
Interest and similar expense	21	(735,087)	(997,135)
Net interest income		**1,350,444**	**1,068,846**
Impairment losses on loans and advances	8	(447,616)	(1,031,615)
Net interest income after loan impairment charges		**902,828**	**37,231**
Fee and commission income		103,380	98,750
Fee and commission expenses		(20,012)	(21,867)
Net fee and commission income	22	83,368	76,883
Net foreign exchange result	23	64,824	537,079
Other income		15,256	-
Other operating expenses	24	(944,801)	(847,879)
Profit/ (loss) for the year before income tax		**121,475**	**(196,686)**
Income tax credit/ (expense)	25	2,888	(21,871)
Net profit/ (loss) for the year		**124,363**	**(218,557)**
Other comprehensive income			
Revaluation of available-for-sale financial assets		2,649	(156)
Total comprehensive income/ (loss) for the year		**127,012**	(218,713)

The accompanying notes on pages 6 to 59 form an integral part of these financial statements.

These financial statements have been approved by Board of Directors on 5 May 2011 and signed on their behalf by:

George Caracostas
Chief Executive Officer

Finance Division Manager

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in ALL thousand, unless otherwise stated)

	Share Capital	Legal Reserve	Revaluation of AFS investments	Accumulated deficit	Total
Balance at 1 January 2009	**3,987,880**	**57,162**	**(63)**	**(413,158)**	**3,631,821**
Share capital increase	661,843	-	-	-	661,843
Revaluation of available-for-sale financial assets	-	-	(156)	-	(156)
Net loss for the year	-	-	-	(218,557)	(218,557)
Total comprehensive loss for the year	-	-	(156)	(218,557)	(218,713)
Balance at 31 December 2009	**4,649,723**	**57,162**	**(219)**	**(631,715)**	**4,074,951**
Revaluation of available-for-sale financial assets	-	-	2,649	-	2,649
Net profit for the year	-	-	-	124,363	124,363
Total comprehensive profit for the year			2,649	124,363	127,012
Balance at 31 December 2010	**4,649,723**	**57,162**	**2,430**	**(507,352)**	**4,201,963**

The accompanying notes on pages 6 to 59 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in ALL thousand, unless otherwise stated)

	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities		
Net profit/ (loss) before income tax	121,475	(196,686)
Adjustments to reconcile net profit to net cash flows from operating activities:		
Depreciation	111,206	97,595
Amortization	21,047	22,753
Impairment losses on loans and advances	449,383	1,031,615
Provision for contingent liabilities	(1,767)	(1,698)
Unrealized (gains)/losses on foreign currency revaluation	(71,983)	(410,774)
Tax penalties compensated through income tax receivable	23	5,073
Income tax paid	-	(226)
Cash flows from operating activities before changes in operating assets and liabilities	**629,384**	**547,652**
Changes in operating assets and liabilities:		
Increase in restricted balances with central bank	(150,340)	(284,978)
Increase in investment property	(203,818)	-
Decrease/ (increase) in loans and advances to customers	2,411,546	(3,723,646)
Increase in other assets	(23,858)	(72,784)
(Decrease)/increase in due to banks	(188,314)	1,878,000
Increase in due to customers	1,631,912	1,560,714
Increase/ (decrease) in other liabilities	150,364	(6,786)
Cash flow from / (used) in operating activities	**4,256,876**	**(101,828)**
Cash flows from investing activities		
Purchases of intangible assets	(150,289)	(32,142)
Purchases of property and equipment	(56,413)	(148,255)
Purchases of AFS securities	(1,157,014)	(1,217,153)
Proceeds from matured AFS securities	866,488	590,000
Cash flows from / (used in) investing activities	**(497,228)**	**(807,550)**

Statement of cash flows continues on next page.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

(All amounts in ALL thousand, unless otherwise stated)

	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from financing activities		
Share capital increase	-	661,841
Subordinated debt	6,950	551,840
Cash flows from financing activities	**6,950**	**1,213,681**
Net increase in cash and cash equivalents	**3,766,598**	**304,304**
Cash and cash equivalents at beginning of the year	1,758,464	1,454,161
Cash and cash equivalents at end of the end of the year (note 27)	**5,525,062**	**1,758,465**

Cash flows from operating activities for the year ended 31 December 2010 include interest received in the amount of ALL 2,058,260 thousand (2009: ALL 2,061,046 thousand) and interest paid in the amount of ALL 697,900thousand (2009: ALL 1,017,637 thousand.)

The accompanying notes on pages 6 to 59 form an integral part of these financial statements.

(All amounts in ALL thousand, unless otherwise stated)

1. INTRODUCTION

Emporiki Bank Greece (the "Parent Bank") is an international financial institution based in Greece since 1907 which upon the decision of the Greek Ministry of Development changed its name from the Commercial Bank of Greece on 3 July 2003. In October 1998, the Parent Company opened a subsidiary in Albania with its principal office located in Tirana, which, in October 1999, was authorized to operate in all fields of banking activity. In October 1999, this subsidiary was named Intercommercial Bank – Albania Sh.a. and subsequently during 2001 changed its name to the Commercial Bank of Greece (Albania) Sh.a. On 1 March 2004, upon the final approval from the Bank of Albania, the Bank's name was changed to Emporiki Bank- Albania Sh.a. ("EBA" or "the Bank").

From the commencement of its activity to June 2007 the Bank operated in accordance with the Law no. 8365 "On the Banking System in Albania", dated July 1998 and Law no. 8269, dated December 1997 "On the Bank of Albania". In June 2007 the Law No. 9662 "On the Banks in the Republic of Albania", dated 18 December 2006, superseded the preceding banking law. The Bank is licensed to perform payment transfers, credit and deposit activities in Albania and abroad and other banking activities in accordance with Albanian Laws.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Adoption of New or Revised Standards and Interpretations

The Bank has adopted all new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations.

The following standards, amendments and interpretations to existing standards are mandatory for the Bank's accounting periods beginning on or after 1 January 2010, but they are not relevant to the Bank's operations.

• IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3.

For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re- measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest s proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

The revised standard does not impact the financial statements of the Bank as it is not involved in any business combination.

• IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The revised standard does not impact the financial statements of the Bank as it does not prepared consolidated financial statements.

• IFRIC 17, ‘Distribution of non-cash assets to owners’ (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The interpretation is not relevant to the Bank as it does not distribute non-cash assets to its owners.

• IFRIC 18, ‘Transfers of assets from customers’, effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The interpretation is not relevant to the financial statements of the Bank as it has not been transferred assets from customers.

• Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new and revised standards (continued)

• Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have a material impact on these financial statements.

• Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new and revised standards (continued)

• IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - Group and treasury share transactions , the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The amendment to the standard is not relevant to the Bank's financial statements as it does not involve in such arrangements.

a) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

The following standards, amendments and interpretations to existing standards are mandatory for the Bank's accounting periods beginning on or after the effective date, but the Bank has not early adopted them.

• IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Bank's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Bank is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the Bank's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognized directly in profit or loss.

• Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Bank will not be impacted by the revised standard.

• IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Bank will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Bank financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new and revised standards (continued)

• 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Bank will apply these amendments for the financial reporting period commencing on 1 January 2011.

• Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Bank does not expect the amendments to have any material effect on its financial statements.

• Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Bank does not expect the amendments to have any effect on its financial statements.

• Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Bank is currently assessing the impact of the amended standard on disclosures in its financial statements. The amendment is not expected to have any impact on the Bank's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new and revised standards (continued)

• Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree s share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity’s financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Bank does not expect the amendments to have any material effect on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank’s financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new and revised standards (continued)

• IFRS 10, Consolidated financial statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

• IFRS 11, Joint arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

• IFRS 12, Disclosure of interest in other entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

• IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

The Bank does not expect the new IFRSs (10 to 13) to have any effect on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Basis of preparation

(a) Basis of measurement

These financial statements have been prepared on the historical cost basis, except for the available-for-sale financial assets which are measured at fair value. The financial statements are presented in Albanian Lek and all values are rounded to the nearest thousand (Lek 000) except when otherwise indicated.

(b) Functional and presentation currency

These financial statements are presented in Albanian Lek ("ALL") which is the Bank's functional and presentation currency.

(c) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 4.

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

(a) Foreign currency transactions

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

(b) Interest income

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all fees and points 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.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and liabilities at amortised cost and financial assets available-for-sale on an effective interest rate basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Fees and commission

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, placement fees, are recognised as the related services are performed.

Other fees and commission expense relates mainly to transaction and other banking service fees, which are expensed as the services are received.

(b) Operating lease payments

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

(c) Operating expenses

The operating expenses are recognized when incurred.

(d) Employee benefits

The Bank operates a defined contribution pension plan. The Bank pays contributions to publicly administered pension insurance plans on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(e) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial assets and liabilities

i Recognition

The Bank initially recognises loans and advances, and deposits, on the date that they are originated. 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 Derecognition

The Bank derecognises a financial asset when the assets are redeemed or the rights to the cash flows from the assets otherwise 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 recognised as a separate asset or liability.
The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

iii Amortized cost measurement

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

iv 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, mainly discounted cash flow method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial assets and liabilities (continued)

v Identification and measurement of impairment for assets carried at amortised cost

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.

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

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

Impairment losses on assets carried at amortised cost are measured as 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 recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial assets and liabilities (continued)

vi Identification and measurement of impairment of available for sale financial instruments
Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

(i) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks, loans and advances to 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.

Mandatory reserves held with Central Bank as excluded from cash and cash equivalents for the statement of cash flows purposes.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

(j) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance to other banks or customers. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, or available-for-sale.

Held-to-maturity

Held-to-maturity investments are assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. Held-to-maturity investments are carried at amortised 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 the following two financial years.

i Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.
Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired and the balance in equity is reclassified from other comprehensive income to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) 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. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. 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 recognised 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. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

iii Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

he estimated useful lives are as follows:

	(in years)
• Building	50
• Computers and IT equipment	4
• Office furniture	5
• Motor vehicles	5
• Leasehold improvements	9 - 12

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(m) Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is four years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property has been acquired through the enforcement of security over loans and advances. Investment property is measured cost less accumulated depreciation and impairment losses.

(o) Non-current assets held for sale

Asset held for sale represent non-current assets that are not used for operational purposes but will rather be recovered through a sale transaction. Non-current assets classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

(p) 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 recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

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 recognised 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 amortisation, if no impairment loss had been recognised.

(q) Deposits and other financial liabilities

Deposits and other liabilities are the Bank's sources of debt funding.
When the Bank sells a financial asset and simultaneously enters into a "repo" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.
The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the contractual terms of the instrument.

Deposits and other financial liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(r) Provisions

A provision is recognised only 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 required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. USE OF ESTIMATES AND JUDGMENTS

Management discussed with the Board of Directors the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see note 5).

Key sources of estimation uncertainty

Allowances for credit losses

The Bank reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

To the extent that the net present value of estimated cash flows differs by (+/-) 5% the provision would be estimated LEK 47,808 thousand higher (2009: LEK 86,768), LEK 49,911 thousand lower (2009:LEK 6,834).

Impact of the ongoing global financial and economic crisis

Recent volatility in global and Albanian financial market.

The global financial crisis has had a severe effect on the Albanian economy and the financial situation within the Albanian financial and corporate sectors has significantly deteriorated since mid-2008. In 2010, some sectors of the Albanian economy experienced a moderate recovery in economic growth. The referred to in the preceding sentence recovery was accompanied by increased export and increased rate of household savings.

The future economic direction of Albania is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on the sector and wider economy, and consequently what effect, if any, they could have on the future financial position of the Company.

The Albanian economy is also vulnerable to market downturns and economic slowdowns elsewhere in the world. Management is unable to determine reliably the effects on the Company's future financial position of any further changes in the economic environment in which the Company operates.
Management believes it is taking all necessary measures to support the sustainability and development of the Company's business in the current circumstances.

3 USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact on customers/ borrowers:
The debtors or borrowers of the Company may also be affected by the lower liquidity situation which could, in turn, impact their ability to repay the amounts owed. The operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Impact on liquidity:
The effects of the ongoing global financial crisis continued to have a significant impact on the Company in 2010. The duration of the crisis, and the delayed recovery of industries and the banking sector may result in a reduction in cash from operations, availability of credit, an increase in costs and a delay in timing or reduction of planned capital expenditures.

4. FINANCIAL RISK MANAGEMENT

(a) Overview

The Bank has exposure to the following risks from its use of financial instruments:
• credit risk
• liquidity risk
• market risks
• operational risks.

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse 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, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

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 other banks and investment securities. 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).

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committee. A separate Bank Unit, reporting to the Chief Executive Officer and the Chief Risk Officer in parallel, is responsible for oversight of the Bank's credit risk.

The management of credit risk is accomplished through:

- Formulating credit risk policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing and monitoring of the delegation levels and escalating process regarding the credit approvals. Board of Directors delegates its power of approval authority to the Credit Committees of the Bank currently for the amount up to EUR 2,000,000 equivalent). However for financings of specific sectors of economy as well as certain counterparties types, which are considered more risky such as real estate, construction, hotels, start ups, financial institutions, political persons, etc. The approval authority remains with the Board of Directors regardless of the amount of financing.
- Reviewing and assessing credit risk. Bank Management and Permanent Control Sector of the Bank assess all credit exposures limits, prior to the final approval by the competent authority. Renewals and reviews of facilities are subject to the same process.
- Limiting concentrations of exposure to counterparties, geographies and sectors of economy. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, industry segments and to geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.
- Monitoring the actual exposures against limits on a frequent basis. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, even by changing these lending limits where appropriate.
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

The current risk grading framework consists of five categories reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades remains with the Risk Management and Permanent Control Unit with the final approval by Credit Committee. Risk grades are subject to regular reviews by the Bank.

(i) Maximum exposure to credit risk

	Maximum exposure	
	2010	**2009**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and balances with Central Bank	2,603,022	2,354,636
Loans and advances to banks	4,136,285	467,734
Loans and advances to customers:		
Loans to individuals		
– Consumer/Overdrafts	162,048	188,526
– Credit cards	49,238	21,356
– Mortgages	7,249,261	7,231,599
Loans to corporate entities:		
– Large corporate customers	10,789,923	12,749,021
– Small and medium size enterprises	4,345,113	5,182,230
Total loans and advances to customers	**22,595,583**	**25,372,732**
Available-for-sale financial investments	1,102,290	816,731
Other financial assets	116,243	79,709
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of Guarantees	115,959	147,615
Loans Commitment	1,268,997	327,138
At 31 December	**31,938,379**	**29,566,295**

(ii) Credit quality of loans and advances to banks and investment securities

	Loans and advances to banks		**Investment securities (AFS)**	
	2010	**2009**	**2010**	**2009**
Neither past due nor impaired				
Grade 1: Low-fair risk (Standard)	4,136,285	467,734	1,102,290	816,731
Total carrying amount (Notes 7 and 8)	**4,136,285**	**467,734**	**1,102,290**	**816,731**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(ii) Credit quality of loans and advances to customers

	Loans and advances to customers	
	2010	**2009**
Carrying amount		
Individually impaired		
Grade2:Impaired(SM)	-	-
Grade3:Impaired(Substandard)	1,650,586	1,789,716
Grade4:Impaired(Doubtful)	950,307	1,223,749
Grade5:Impaired(Lost)	2,229,624	1,410,319
Gross amount	**4,830,517**	**4,423,784**
Allowance for impairment	(1,761,931)	(1,313,683)
Carrying amount(A)	3,068,586	3,110,101
Portfolio based allowance for losses		
Grade1:Low-fairrisk(Standard)	16,223,820	19,257,569
Grade2:Watchlist(SM)	2,887,635	2,132,383
Grade3:Impaired(Substandard)	729,898	1,252,956
Grade4:Impaired(Doubtful)	21,777	47,858
Grade5:Impaired(Lost)	45,130	35,773
Gross amount	**19,908,260**	**22,726,539**
Allowance for impairment	(381,263)	(463,909)
Carrying amount (B)	**19,526,997**	**22,262,630**
Total carrying amount (A+B)	**22,595,583**	**25,372,731**

Loans and advances are as follows:

	31 December 2010		31 December 2009	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired	13,205,695	4,136,285	18,222,481	467,734
Past due but not impaired	6,702,565	-	4,504,057	-
Impaired	4,830,517	-	4,423,785	-
Gross Total	**24,738,777**	**4,136,285**	**27,150,323**	**467,734**
Less: allowance for impairment	(2,143,194)	-	(1,777,592)	-
Net Total	**22,595,583**	**4,136,285**	**25,372,731**	**467,734**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iii) Loans and advances neither past due nor impaired by rating class (gross amounts)

31 December 2010 — **Loans and advances neither past due nor impaired by rating class**

	Individuals				Corporate entities			
	Overdrafts	**Credit Cards**	**Term loans**	**Mortgages**	**Large Corporate Customers**	**SMEs**	**Loans and advances to customers**	**Loans and advances to banks**
Standard monitoring	2,781,976	36,180	117,066	4,556,806	4,155,294	1,337,868	12,985,190	4,136,285
Special monitoring	55,203	161	4,103	78,795	18,840	-	157,101	-
Sub-standard	-	-	270	59,037	-	4,096	63,404	-
Total	**2,837,179**	**36,341**	**121,439**	**4,694,638**	**4,174,134**	**1,341,964**	**13,205,695**	**4,136,285**

31 December 2009 — **Loans and advances neither past due nor impaired by rating class**

	Individuals				Corporate entities			
	Overdrafts	**Credit Cards**	**Term loans**	**Mortgages**	**Large Corporate Customers**	**SMEs**	**Loans and advances to customers**	**Loans and advances to banks**
Standard monitoring	4,370,919	18,160	124,354	4,905,880	5,033,289	2,235,089	16,687,691	467,734
Special monitoring	481,881	-	4,352	138,201	208,291	22,397	855,122	-
Sub-standard	13,742	-	9,469	160,641	284,139	211,676	679,667	-
Total	**4,866,542**	**18,160**	**138,175**	**5,204,722**	**5,525,719**	**2,469,162**	**18,222,480**	**467,734**

(iv) Loans and advances past due but not impaired

31 December 2010 — **Loans and advances past due but not impaired by ageing**

	Individuals				Corporate entities		
	Overdrafts	**Credit Cards**	**Term loans**	**Mortgages**	**Large Corporate Customers**	**SMEs**	**Loans and advances to customers**
Past due up to 30 days	482,301	2,154	16,279	1,173,578	1,173,578	565,878	3,014,470
Past due 30 – 90 days	527,423	3,461	7,270	501,584	501,584	402,118	2,344,525
Past due 90 – 180 days	80,682	2,220	1,352	148,095	148,095	26,188	298,661
Past due more than 180 days	307,038	3,113	14,631	606,987	606,987	1,930	1,044,909
Total	**1,397,444**	**10,948**	**39,532**	**2,430,244**	**2,430,244**	**996,114**	**6,702,565**
Fair value of collaterals	**851,342**	**3,565**	**186,000**	**8,219,449**	**8,219,449**	**2,528,730**	**15,502,417**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

31 December 2009	Loans and advances past due but not impaired by ageing						
		Individuals			Corporate entities		
	Overdrafts	Credit Cards	Term loans	Mortgages	Large Corporate Customers	SMEs	Loans and advances to customers
Past due up to 30 days	512,759	1,688	25,934	912,321	781,448	366,524	2,600,674
Past due 30 – 90 days	61,414	1,502	10,446	259,755	48,390	126,546	508,053
Past due 90 – 180 days	71,087	-	-	24,244	-	63,055	158,386
Past due more than 180 days	316,485	-	10,891	46,751	845,082	17,735	1,236,944
Total	**961,745**	**3,190**	**47,271**	**1,243,071**	**1,674,920**	**573,860**	**4,504,057**
Fair value of collaterals	**787,032**	**11,308**	**153,592**	**2,719,574**	**8,883,309**	**1,514,878**	**14,069,693**

Loans and securities past due but not impaired contain loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

(v) Loans and advances impaired

	Loans and advances past due but not impaired by ageing						
		Individuals			Corporate entities		
	Overdrafts	Credit Cards	Term loans	Mortgages	Large Corporate Customers	SMEs	Loans and advances to customers
31 December 2010							
Individually impaired	507,652	2,917	23,163	1,425,980	1,514,272	1,356,533	4,830,517
Fair value of collaterals	**543,126**	**10,487**	**101,742**	**2,340,895**	**7,311,870**	**3,686,776**	**13,994,896**
31 December 2009							
Individually impaired	452,728	346	22,802	1,235,978	1,576,372	1,135,559	4,423,785
Fair value of collaterals	**360,576**	**-**	**75,207**	**2,331,051**	**3,237,308**	**3,080,215**	**9,084,357**

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. Total amount of renegotiated loans as of 31 December 2010 is ALL 1,905,991 thousand (31 December 2009: ALL 1,636,765 thousand).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimation regarding the 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 Banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when Bank Credit determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write off decisions generally are based on a product specific past due status as well as on legal actions followed related to the enforcement procedure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Overdrafts	Credit Cards	Term loans	Mortgages	Large Corporate Customers	SMEs	Total individually impaired	Fair value of collaterals
31 December 2010								
Grade 3: Impaired (Substandard)	114,950	632	826	137,647	1,222,680	173,851	1,650,586	7,410,656
Grade 4: Impaired (Doubtful)	156,459	563	4,872	301,981	111,226	375,207	950,308	2,128,427
Grade 5: Impaired (Lost)	236,243	1,722	17,466	986,353	180,365	807,474	2,229,623	4,455,812
Total	**507,652**	**2,917**	**23,163**	**1,425,980**	**1,514,272**	**1,356,533**	**4,830,517**	**13,994,895**
31 December 2009								
Grade 3: Impaired (Substandard)	168,499	346	2,608	231,776	1,183,154	203,334	1,789,717	3,009,492
Grade 4: Impaired (Doubtful)	216,565	-	6,417	560,423	80,580	359,765	1,223,750	3,456,530
Grade 5: Impaired (Lost)	67,664	-	13,777	443,779	312,638	572,460	1,410,318	2,618,335
Total	**452,728**	**346**	**22,802**	**1,235,978**	**1,576,372**	**1,135,559**	**4,423,785**	**9,084,357**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

The Bank holds collateral against loans and advances to customers. The Bank implements its internal guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The Bank holds collateral mainly in the form of:

- Real Estate mortgages over residential as well as business properties;
- Pledge over business assets in operation such as machineries and equipments, inventory, and accounts receivable;
- Cash collateral and certain securities (i.e. Treasury Bills), etc.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated on an annual basis for the loans granted to corporate clients, while for the small enterprises and for the mortgage loans the revision takes place when the loan is individually assessed as impaired, except for cases where the review is requested by the customer, the loan is in arrears, or there is a significant decrease in the market prices for real estate premises. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. At 31 December 2010 collateral was held against REPO Agreement as these securities are in foreign currency (EUR). Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2010 or 2009. For large part of loan portfolio the fair value of collateral exceeds the amounts of loans, however the Bank normally discounts the fair value of the collateral substantially (almost 40%) to account for the practical and administrative difficulties of a foreclosure. In such a manner the bank is protected against the potential default of the client.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk as at 31 December 2010 and 31 December 2009 is shown below:

Concentration by sector

	Loans and Advances to customers		**Loans and Advances to Banks**		**Investment Securities**	
Carrying Amount	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Corporate	10,789,923	12,749,021	-	-	-	-
Sovereign	-	-	-	-	1,102,290	816,731
Bank	-	-	4,136,285	467,734	-	-
Retail	11,805,660	12,623,710	-	-	-	-
Total	**22,595,583**	**25,372,731**	**4,136,285**	**467,734**	**1,102,290**	**816,731**

Concentration by location

	Loans and Advances to customers		**Loans and Advances to Banks**		**Investment Securities**	
Carrying Amount	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Albania	22,595,583	25,372,731	3,745	62,628	1,102,290	816,731
North America	-	-	181,511	2,243	-	-
Europe	-	-	3,951,029	402,863	-	-
Total	**22,595,583**	**25,372,731**	**4,136,285**	**467,734**	**1,102,290**	**816,731**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Concentration by location for loans and advances is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

Detailing of corporate loans with regards to economic sector is as follows:

	Corporate loans	
	2010	**2009**
Trading, repairing of cars and homes	5,508,375	5,005,720
Construction	3,120,363	3,688,072
Production and distribution of electricity, gas and water	676,812	1,600,036
Processing industry	335,459	1,335,441
Transport and telecommunication	342,782	419,740
Health and social activities	123,438	223,257
Public, individual and social services	390,835	430,781
Hotels and restaurants	291,859	45,957
Other	-	17
Total	**10,789,923**	**12,749,021**

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 honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Bank Risk.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Liquidity policies and procedures are subject of approval and review by ALCO.
The Bank's liquidity management process includes:

• Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers;
• Maintaining a portfolio of marketable assets and a MM line from the Parent Company reviewed on annual basis;
• Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
• Managing the concentration and profile of debt maturities.

The responsibility for the management of daily liquidity position remains with the Treasury Sector Monitoring. Daily reports cover the projected estimated cash flows for the next day, week, and month, which are considered as key liquidity management periods. The starting point for those projections is the analysis of the contractual maturity of the financial liabilities and the expected collection date for the financial assets.

The Management of short and medium term liquidity is a responsibility of ALCO. ALCO analyses on a monthly basis the liquidity position of the Bank and proposes the actions deemed as necessary.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to short term liabilities, and the cumulative gap up to 3- months over total assets. For this purpose the highly liquid assets are considered as including cash and cash equivalents and available for sale securities portfolio. The Liquidity ratios defined by the Bank are in compliance with Central Bank requirements imposed by the Regulation 'On Liquidity Risk Management"

Parent bank is committed to support the bank by maintaining a credit line necessary to cover liquidity needs using the worst liquidity scenarios. The line is reviewed on annual basis based on the approved budget.

The following tables show the cash flows from the Bank's assets and liabilities on the basis of their earliest possible contractual maturity as at 31 December 2010 and 2009. The amounts disclosed in the table are the contractual undiscounted cash flows.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

As at 31 December 2010	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Assets						
Cash and balances with Central Bank	2,603,022	-	-	-	-	2,603,022
Loans and advances to banks	4,169,143	-	-	-	-	4,169,143
Available for sale financial assets	76,389	198,363	435,869	468,058	-	1,178,679
Loans and advances to customers	1,874,113	1,443,609	2,049,510	2,625,453	19,166,495	27,159,180
Other financial assets	116,243	-	-	-	-	116,243
Total	**8,838,910**	**1,641,972**	**2,485,379**	**3,093,511**	**19,166,495**	**35,226,267**
Liabilities						
Due to banks	182,550	62,342	81,561	179,316	15,501,621	16,007,390
Due to customers	6,676,760	2,212,345	1,608,839	2,706,890	96,376	13,301,210
Subordinated debt	-	9,501	7,274	27,123	1,859,264	1,903,162
Other financial liabilities	235,679	-	-	-	-	235,679
Total	**7,094,989**	**2,284,188**	**1,697,674**	**2,913,329**	**17,457,261**	**31,447,441**
Commitments and guarantees	**26,063**	**189,636**	**84,347**	**987,045**	**97,864**	**1,348,955**
Liquidity gap at 31 December 2010	**1,717,857**	**(831,852)**	**703,358**	**(806,863)**	**1,611,370**	**2,429,871**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

As at 31 December 2009	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Assets						
Cash and balances with Central Bank	1,940,809	155,107	97,354	161,366	-	2,354,636
Loans and advances to banks	468,076	-	-	-	-	468,076
Available for sale financial assets	817,977	9,967	14,951	29,901	-	872,796
Loans and advances to customers	3,155,152	1,467,814	1,817,356	3,164,316	20,349,893	29,954,531
Other financial assets	79,709	-	-	-	-	79,709
Total	**6,461,723**	**1,632,888**	**1,929,661**	**3,355,583**	**20,349,893**	**33,729,748**
Liabilities						
Due to banks	539,106	38,890	58,335	116,670	14,626,036	15,379,037
Due to customers	5,891,275	1,430,354	918,135	3,306,435	54,948	11,601,147
Subordinated debt	3,656	7,374	!6,650	21,184	1,882,566	1,931,430
Other financial liabilities	83,548	-	-	-	-	83,548
Total	**6,517,585**	**1,476,618**	**976,470**	**3,444,289**	**16,563,550**	**28,978,512**
Commitments and guarantees	**51,451**	**67,707**	**102,374**	**85,119**	**168,103**	**474,754**
Liquidity gap at 31 December 2010	**(107,313)**	**88,563**	**850,817**	**(173,825)**	**3,618,240**	**4,276,482**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's cash flows, 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 optimising the return on risk.

Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. The foreign exchange position is treated as part of the Bank's trading portfolios for risk management purposes.

Non-trading portfolios primarily arise from the interest rate management of the entity s retail and commercial banking assets and liabilities. Non-trading portfolios also consist of risks arising from the Bank's held-to-maturity and available-for-sale investments.

Overall authority for market risk is vested in ALCO. ALCO is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

Exposure to market risks

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Following the group policy, for liquidity purposes Bank maintains AFS portfolio. AFS is in local currency and consist of T-Bills of Albanian Government. This portfolio is marked to market using the market interest rates available. The group policy does not allow the bank to maintain the HTM portfolio.

Exposure to foreign exchange risk

The Board of Directors sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily by the Middle Office Unit.

The analysis below includes only monetary assets and liabilities denominated in ALL and foreign currencies. Non-monetary assets are not considered to give rise to any material currency risk and therefore were excluded from the analysis.

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

	As at 31 December 2010					As at 31 December 2009				
Assets	ALL	EURO	USD	OTHER	TOTAL	ALL	EURO	USD	OTHER	TOTAL
Cash and balances with Central Bank	1,148,927	1,162,758	291,337	-	2,603,022	1,073,982	1,091,493	189,161	-	2,354,636
Loans and advances to banks		3,599,142	181,729	355,414	4,136,285	60,008	363,548	41,059	3,119	467,734
Available for sale Securities	1,102,290	-	-	-	1,102,290	816,731	-	-	-	816,731
Loans and advances to customers	984,869	20,807,314	803,400	-	22,595,583	1,337,747	22,657,624	1,029,231	348,129	25,372,731
Other financial assets	(386,930)	495,607	8,788	(1,222)	116,243	18,736	59,830	1,057	86	79,709
Total	2,849,156	26,064,821	1,285,254	354,192	30,553,423	3,307,204	24,172,495	1,260,508	351,334	29,091,541
Liabilities										
Due to banks	170,961	11,991,029	343,366	351,962	12,857,318	463,290	11,918,841	316,321	347,180	13,045,632
Due to customers	5,470,618	6,475,097	909,056	3,086	12,857,857	4,957,729	5,290,867	967,359	9,990	11,225,945
Subordinated Debt		1,533,420	-	-	1,533,420	-	1,524,057	-	-	1,524,057
Other financial liabilities	142,650	74,315	18,713	-	235,678	69,421	13,311	816	-	83,548
Total	5,784,229	20,073,861	1,271,135	355,048	27,484,273	5,490,440	18,747,076	1,284,496	357,170	25,879,182
Net Position	(2,935,073)	5,990,960	14,119	(856)	3,069,150	2,183,236	5,425,419	23,988	5,836	3,212,359

(d) Market risks (continued)

As of 31 December 2010 the Bank did not have any hedge accounting. The Bank had only economic hedging transactions during the reporting period.

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates (+/- 10%) applied at the balance sheet date, with all other variables held constant:

	Open Currency Position on December 31st		Effect of Depreciation of ALL to profit and loss		Effect of Appreciation of ALL to profit and loss	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
USD	58,266	(23,989)	(5,826)	2,399	5,826	(2,399)
EUR	(546,093)	5,425,419	54,609	(544,919)	(54,609)	544,919
Total effect	**(487,827)**	**5,401,430**	**48,783**	**(542,520)**	**(48,783)**	**542,520**

The appreciation of the local currency by 10% vis-à-vis the Euro and USD would result in positive revaluation effect of ALL 48,783 thousand (2009: ALL 542,520 thousand).

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. The ALCO defines and reviews the interest rate pricing policy for financial assets and liabilities. The responsibility for the management of day-to-day interest rate risk lies with the Treasury Sector.

The Bank uses the back-up liquidity facility line provided from the Parent company to economically hedge the interest rate risk by re-pricing the borrowing based on the re-pricing of the loans.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 300 basis point (bps) parallel fall or rise in all interest rates up to one year and 200 basis points (bps) parallel fall or rise over one year. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates is as presented below.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

2010

	Up to 1 Year Scenarios		over 1 Year Scenarios	
	300 bps Increase	300 bps decrease	200 bps increase	200 bps Decrease
Estimated Profit (loss) effect	(17,804)	17,804	8,219	(8,219)

2009

	Up to 1 Year Scenarios		over 1 Year Scenarios	
	300 bps Increase	300 bps decrease	200 bps increase	200 bps Decrease
Estimated Profit (loss) effect	19,315	(19,315)	1,584	(1,584)

The effect on fair value of the AFS portfolio due to change in the interest rate is immaterial due small size of portfolio and short period to remaining maturity.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual reprising or maturity dates.

As at 31 December 2010

	Up to 1 month	**1 to 3 months**	**3 to 6 Months**	**6 to 12 months**	**Over 1 year**	**Not interest bearing**	**Total**
Assets							
Cash and balances with Central Bank	1,577,678	-	-	-	-	1,025,344	2,603,022
Loans and advances to banks	4,136,285	-	-	-	-	-	4,136,285
Available for sale Securities	1,102,290	-	-	-	-	-	1,102,290
Loans and advances to customers	11,375,169	4,977,643	1,051,584	5,781,524	1,552,857	(2,143,194)	22,595,583
Other financial assets	-	-	-	-	-	116,243	116,243
Total	**18,191,422**	**4,977,643**	**1,051,584**	**5,781,524**	**1,552,857**	**(1,001,607)**	**30,553,423**
Liabilities							
Due to banks	176,323	12,680,995	-	-	-	-	12,857,318
Due to customers	4,578,873	2,111,302	1,579,523	2,624,332	1,963,827	-	12,857,857
Subordinated debt	-	555,513	977,907	-	-	-	1,533,420
Other liabilities	-	-	-	-	-	235,678	235,678
Total	**4,755,196**	**15,347,810**	**2,557,430**	**2,624,332**	**1,963,827**	**235,679**	**27,484,273**
Interest sensitivity gap at 31 December 2010	**13,436,226**	**(10,370,167)**	**(1,505,846)**	**3,157,192**	**(410,970)**	**(1,237,285)**	**3,069,150**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

As at 31 December 2009

	Up to 1 month	**1 to 3 months**	**3 to 6 Months**	**6 to 12 months**	**Over 1 year**	**Not interest bearing**	**Total**
Assets							
Cash and balances with Central Bank	1,508,440	-	-	-	-	846,196	2,354,636
Loans and advances to banks	467,734	-	-	-	-	-	467,734
Available for sale Securities	816,731	-	-	-	-	-	816,731
Loans and advances to customers	11,851,324	6,745,494	1,182,275	5,759,886	1,611,344	(1,777,592)	25,372,731
Other financial assets	-	-	-	-	-	79,709	79,709
Total	**14,644,229**	**6,745,494**	**1,182,275**	**5,759,886**	**1,611,344**	**(851,687)**	**29,091,541**
Liabilities							
Due to banks	519,661	12,525,971	-	-	-	-	13,045,632
Due to customers	5,742,793	1,367,813	825,871	3,234,520	54,948	-	11,225,945
Subordinated debt	-	552,228	971,829	-	-	-	1,524,057
Other liabilities	-	-	-	-	-	124,212	124,212
Total	**6,262,454**	**14,446,012**	**1,797,700**	**3,234,520**	**54,948**	**124,212**	**25,919,846**
Interest sensitivity gap at 31 December 2009	**8,381,775**	**(7,700,518)**	**(615,425)**	**2,525,366**	**1,556,396**	**(975,899)**	**3,171,695**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The regulation "On capital adequacy" is issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 8365 date 02.07.1998 "Banking Law of the Republic of Albania". The Parent company and individual banking operations are directly supervised by their local regulators.

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted assets and off balance-sheet items, expressed as a percentage. The minimum required Capital Adequacy Ratio for total Tier I and Tier II capital is 12%. The Capital Adequacy Ratio is monitored by Bank of Albania and the Bank based on statutory figures.

The Modified Capital Adequacy Ratio is the proportion of the base capital to risk-weighted assets and off balance-sheet items, expressed as a percentage. The minimum modified capital adequacy is 6%.

Risk-Weighted Assets (RWAs)

Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 12% of the carrying amount.

Off-balance-sheet credit related commitments are taken into account. The amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The amounts shown in the table below are derived from statutory financial statements.

	Balance sheet/notional amount		Risk Weight amount	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Total Assets	30,907,791	29,286,057	28,477,222	33,933,160

	Capital		Ratio	
Capital Ratios	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Tier 1 Capital	2,938,313	3,054,808	10.32%	9.00%
Tier 1 + Tier 2 Capital	4,407,469	4,572,368	15.48%	13.47%

Tier 1 capital or otherwise know as Core Capital is composed of the following:

a. Elements that are added – subscribed capital, reserves, retained earnings, profit of the current year, revaluation differences. The Bank's statutory Tier 1 capital includes total retained earnings of ALL 18,631 thousand, which are distributable to the Bank's shareholders.
b. Elements that are subtracted – Prior years losses, losses of the current period, revaluation differences, intangible fixed assets.

Tier 2 capital or otherwise known as supplementary capital includes: revaluation reserve, subordinated liabilities (hybrid instruments, time subordinated liabilities).

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.
The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Bank's management of capital during the period.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2010		2009	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Loans and advances to customers	**20,899,501**	**22,595,583**	**22,444,953**	**25,372,731**
Individuals				
-Overdrafts	5,014,438	4,742,232	6,558,479	6,080,878
-Credit cards	54,458	49,238	23,564	21,357
-Term loans	176,368	157,683	188,135	188,526
-Mortgages	5,772,943	7,249,261	5,018,105	7,231,600
Corporate	-			
-Large corporate customers	6,804,291	7,445,465	7,329,411	7,913,033
-SME	3,077,003	2,951,704	3,327,259	3,937,337
Due to banks	14,147,039	12,857,318	14,354,243	13,045,632
Due to customers	12,938,436	12,857,857	11,296,297	11,225,945

Loans and advances to credit institutions

Loans and advances to credit institutions include inter-bank placements and items in the course of collection. As loans, advances and overnight deposits are short term and at floating rates, their fair value is considered to equate to their carrying amount.

Loans and advances to customers

Due to the nature of the Bank's information system, the Bank is not able to determine the fair value of its loans and advances to customers by class of instrument.

Due to customers

The fair value of customer deposits has been estimated discounting cash flows using the market rates for the remaining maturity.

Loans and advances from financial institutions

The fair value for due to banks and financial institutions has been estimated discounting cash flows using the market rates for the remaining maturity.

5. CASH AND BALANCES WITH CENTRAL BANK

Cash and balances with Central Bank consisted of the following:

	31 December 2010	31 December 2009
Cash on hand:		
-In Albanian Lek	266,109	178,200
-In foreign currencies	748,850	667,996
Current account with Central Bank	373,818	444,535
Included in cash and cash equivalents (Note 27)	**1,388,777**	**1,290,731**
Mandatory reserve	1,214,245	1,063,905
Total	**2,603,022**	**2,354,636**

The overnight deposit with Central Bank at 31 December 2010 earns interest at 3.25 % per annum (2009: 3.5%).

Restricted balances with Central Bank (mandatory reserves)

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits with the Central Bank as a reserve account, which during the month can be decreased up to 60% of its level, provided that the required monthly average is greater than the required reserve. The statutory reserve is not available for the Banks' day-to-day operations.

Interest on statutory reserves in the Central Bank is calculated as follows:

-LEK balances: 70% of the repurchase agreements rate: 3.5% per annum as of 31 December 2010 (31 December 2009: 3.675% per annum);
-EUR balances: 70% of the one-month EUR LIBOR rate: 0.7 % per annum as of 31 December 2010 (31 December 2009: 0.7%); and
-USD balances: 70% of the one-month USD LIBOR rate: 0.09 % per annum as of 31 December 2010 (31 December 2009: 0.09% per annum).

6. LOANS AND ADVANCES TO BANKS

Current accounts and money market placements with banks are detailed as follows:

	31 December 2010	31 December 2009
Current accounts with banks	3,784,453	23,120
Money market placements	351,832	444,614
Included in cash and cash equivalents (Note 27)	**4,136,285**	**467,734**

Interest rates for term deposits with banks range from 3.25% to 5.1% for ALL, ranges from 0.2% to 1.55% for EUR, from 0.1% to 0.25% for USD and from 0.09% to 0.1% for CHF in 2010.

6. LOANS AND ADVANCES TO BANKS (CONTINUED)

All loans and advances to banks are short term.

	31 December 2010	31 December 2009
Greece	3,006,737	388,500
Albania	3,745	62,628
U.S.A	181,511	2,243
Other	944,292	14,363
Total	**4,136,285**	**467,734**

7. AVAILABLE FOR SALE FINANCIAL ASSETS

Details of available for sale treasury bills by contractual maturity are presented as follows:

31 December 2010

	Cost	*Accrued interest*	*Fair value reserve for available-for-sale securities*	*Carrying value*
6 months	338,588	5,398	128	344,114
12 months	738,916	16,958	2,302	758,176
Total	**1,077,503**	**22,356**	**2,430**	**1,102,290**

31 December 2009

	Cost	*Accrued interest*	*Fair value reserve for available-for-sale securities*	*Carrying value*
3 months	49,222	487	(1)	49,708
6 months	144,468	2,015	28	146,511
12 months	599,301	21,457	(246)	620,512
Total	**792,991**	**23,959**	**(219)**	**816,731**

8. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers consisted of the following:

	31 December 2010	31 December 2009
Individuals	8,152,778	7,887,166
Private entrepreneurs and enterprises	16,482,894	19,181,579
Accrued interest	103,105	81,578
	24,738,777	**27,150,323**
Less allowance for impairment	(2,143,194)	(1,777,592)
Total	**22,595,583**	**25,372,731**

	31 December 2010	31 December 2009
Current	3,124,939	5,568,057
Non-current	19,470,644	19,804,674
Total	**22,595,583**	**25,372,731**

Loans to customers include ALL 4,944 thousand that represent overdrafts.
All impaired loans have been written down to their recoverable amounts. Movements in the impairment allowances are as follows:

	31 December 2010						
	Overdrafts	**Credit Cards**	**Term loans**	**Mortgages**	**Large Corporate Customers**	**SMEs**	**Total**
Balance at the beginning of the year	200,137	339	19,722	452,171	863,978	241,244	1,777,591
(Recovery of)/ impairment charge for the year	50,770	627	19,886	244,446	(246,366)	380,021	449,384
Write-Offs	-	-	(41,526)	-	(28,910)	(25,363)	(95,799)
Translation adjustment	1,692	2	121	3,022	5,719	1,462	12,018
Balance at the end of the year	**252,599**	**968**	**(1,797)**	**699,639**	**594,421**	**597,364**	**2,143,194**

8. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	31 December 2009						
	Overdrafts	Credit Cards	Term loans	Mortgages	Large Corporate Customers	SMEs	Total
Balance at the beginning of the year	65,232	11	6,469	221,404	268,539	70,374	632,029
Impairment charge for the year	122,113	306	11,993	201,865	540,214	155,450	1,031,940
Translation adjustment	12,793	22	1,260	28,902	55,225	15,420	113,622
Balance at the end of the year	**200,138**	**339**	**19,722**	**452,171**	**863,978**	**241,244**	**1,777,591**

9. INVESTMENT PROPERTY

During 2010 the Bank obtained 5 new properties amounting of ALL 203,950 thousand by taking possession of collateral held as security. The Bank classified the properties as investment property.

	2010	2009
Balance at 1 January	13,659	13,659
Additions	203,818	-
Balance at 31 December	**217,477**	**13,659**

The fair value of investment property approximates its carrying amount.

10. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	Buildings	Computers and IT equipment	Office equipment	Motor vehicles	Leasehold improvements	Total
Cost						
At 1 January 2009	360,738	211,256	83,416	35,587	338,233	1,029,230
Additions	-	34,241	27,483	6,185	80,346	148,255
Disposal	-	-	(6,252)	-	-	(6,252)
At 31 December 2009	**360,738**	**245,497**	**104,647**	**41,772**	**418,579**	**1,171,233**
At 1 January 2010	360,738	245,497	104,647	41,772	418,579	1,171,233
Additions	10,214	35,451	8,950	12	1,786	56,413
Disposal	-	-	-	-	-	-
At 31 December 2010	**370,952**	**280,948**	**113,597**	**41,784**	**420,365**	**1,227,646**
Accumulated depreciation						
At 1 January 2009	(117,291)	(90,320)	(46,298)	(19,050)	(53,268)	(326,227)
Charge for the year	(8,133)	(35,716)	(13,709)	(4,911)	(35,126)	(97,595)
Disposals	-	-	3,772	-	-	3,772
At 31 December 2009	**(125,424)**	**(126,036)**	**(56,235)**	**(23,961)**	**(88,394)**	**(420,050)**
At 1 January 2010	(125,424)	(126,036)	(56,235)	(23,961)	(88,394)	(420,050)
Charge for the year	(7,316)	(41,294)	(15,285)	(6,106)	(41,207)	(111,208)
Disposals						
At 31 December 2010	**(132,740)**	**(167,330)**	**(71,520)**	**(30,067)**	**(129,601)**	**(531,258)**
Net book value						
At 31 December 2009	**235,314**	**119,461**	**48,412**	**17,811**	**330,185**	**751,183**
At 31 December 2010	**238,212**	**113,618**	**42,077**	**11,717**	**290,764**	**696,388**

There are no assets pledged as collateral as at 31 December 2010 (2009: none).

Leasehold improvements relate to expenditures made by the Bank for the reconstruction of the leased premises for branches opened during 2010 and 2009.

11. INTANGIBLE ASSETS

	Software
Cost	
At 1 January 2009	134,712
Additions	32,142
At 31 December 2009	**166,854**
At 1 January 2010	166,854
Additions	150,289
At 31 December 2010	**317,143**
Accumulated amortization	
At 1 January 2009	(82,566)
Charge for the year	(22,753)
At 31 December 2009	**(105,319)**
At 1 January 2010	(105,319)
Charge for the year	(21,046)
At 31 December 2010	**(126,365)**
Net carrying value	
At 31 December 2009	**61,535**
At 31 December 2010	**190,778**

12. OTHER ASSETS

Other assets are comprised of the following:

	31 December 2010	31 December 2009
Financial assets		
Bank orders receivable	57,102	61,499
Other debtors	59,142	18,211
Total other financial assets	**116,244**	**79,710**
Other non-financial assets		
Prepayments	3,777	17,052
Other	8,878	8,278
Total non-financial assets	**12,655**	**25,330**
Total other assets	**128,899**	**105,040**

	31 December 2010	31 December 2009
Current	128,899	105,040
Total	**128,899**	**105,040**

Other debtors are neither past due nor impaired.

13. DUE TO BANKS

Due to banks are comprised of the following:

	31 December 2010	31 December 2009
Current accounts		
Resident	12	7
Non-resident	5,363	4,266
Borrowings from non-resident Banks	12,680,995	12,578,076
Borrowings from resident Banks	170,948	463,283
Total	12,857,318	13,045,632

	31 December 2010	31 December 2009
Current	12,857,318	-
Non-current	-	13,045,632
Total	12,857,318	13,045,632

The deposits denominated in EUR represent 95% (2009: 95%) of the deposits from non-resident banks. The interest rates for the year 2010 range from 1.923% to 2.303% for EUR; 1.551% to 1.584% for USD and 1.530% to 1.449% for CHF

Included in deposits from non resident banks is an amount of EUR 86 million, USD 3.3 million and CHF 3.1 million (2010: EUR 86 million, USD 3.3 million and CHF 3.1 million) related to a ten year maturity borrowings received from the Parent Bank with reprising on quarterly bases.

14. DUE TO CUSTOMERS

Due to customers consisted of current, savings, and other accounts and term deposits as follows:

	31 December 2010			31 December 2010		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Corporate entities						
Current accounts	902,230	725,361	1,627,591	640,384	783,127	**1,423,511**
Term deposits	1,428,900	1,478,673	2,907,573	2,023,499	1,323,825	**3,347,324**
Other accounts	6,275	17,610	23,885	11,933	127	**12,060**
	2,337,405	**2,221,644**	**4,559,049**	**2,675,816**	**2,107,079**	**4,782,895**
Corporate entities						
Current accounts	193,465	232,376	425,841	25,341	143,584	**168,925**
Demand deposits	354,836	875,174	1,230,010	358,361	631,710	**990,071**
Term deposits	2,531,019	4,003,368	6,534,387	1,856,567	3,232,922	**5,089,489**
Other accounts	102	21	123	102	133	**235**
	3,079,422	5,110,939	8,190,361	2,240,371	4,008,349	**6,248,720**
Accrued interest	55,308	53,139	108,447	37,158	41,486	**78,644**
Payment in transit	-	-	-	4,929	110,757	**115,686**
Total	**5,472,135**	**7,385,722**	**12,857,857**	**4,958,274**	**6,267,671**	**11,225,945**

14. DUE TO CUSTOMERS (CONTINUED)

	31 December 2010	31 December 2009
Current	12,764,597	11,200,218
Non-current	93,260	25,727
Total	**12,857,857**	**11,225,945**

15. SUBORDINATED LOAN

	31 December 2010	31 December 2009
Balance at the beginning of the year	1,524,057	880,085
New disbursements during the year	-	551,840
Accrued interest	6,950	6,497
Translation adjustments	2,413	85,635
Total	**1,533,420**	**1,524,057**

	31 December 2010	31 December 2009
Non-current	1,533,420	1,524,057
Total	**1,533,420**	**1,524,057**

The subordinated debt is issued by Emporiki bank of Greece S.A. It bears interest at six month EURIBOR plus a spread that range from 0.9 % to 2.25% as detailed in the following table:

	Amount in Euro	Maturity	Interest rate	Disbursement date	First instalment due after
Tranche 1	4,500,000	10 years	EURIBOR + 2.25%.	April 2006	April 2012
Tranche 2	2,500,000	10 years	EURIBOR + 0.9 %	May 2007	May 2017
Tranche 3	4,000,000	10 years	EURIBOR + 2.1 %	December 2009	December 2019
Total	**11,000,000**				

During the year 2010 there is no new disbursement of the subordinated debt.

16. OTHER LIABILITIES

Other liabilities are comprised of the following:

	31 December 2010	31 December 2009
Financial liabilities		
Accrued expenses	44,234	37,309
Sundry creditors	191,445	46,239
Total financial liabilities	**235,679**	**83,548**
Other non-financial liabilities		
Provision	971	2,739
Total other liabilities	**236,650**	**86,287**

	31 December 2010	31 December 2009
Current	236,651	86,287
Total	**236,651**	**86,287**

Movements in provisions for contingent liabilities are as follows:

	2010	2009
As of 1 January		
Provisions for letters of guarantees	2,739	11,985
Provisions for tax penalties	(1,768)	(327)
resulting from tax inspections	-	(8,919)
As of 31 December	**971**	**2,739**

Provision for tax penalties resulting from tax inspections as at 31 December 2010 was nil (2009; ALL 8,919 thousand). In case of penalties from Tax authorities the Bank has the right to pay it by decreasing the Bank's receivable corporate income tax.

17. DEFERRED TAX LIABILITIES

The movement in the deferred income tax account is as follows:

	31 December 2010	31 December 2009
Balance at the beginning of the year	(37,925)	(16,054)
Deferred tax benefit relating to the origination and reversal of temporary differences	2,888	(21,871)
Balance at the end of the year	**(35,037)**	**(37,925)**

The deferred tax assets have been set off against deferred tax liabilities as the amounts are due to the same tax authority and are expected to be settled on a net basis. Movements in temporary differences during the year are recognised in profit or loss, except for an insignificant amount related to revaluation of AFS portfolio.

As at 31 December 2010 and 31 December 2009 deferred tax assets and liabilities have been recognized for the following items:

	31 December 2010	31 December 2009
Deferred tax asset		
Accelerated depreciation for accounting	7,072	6,519
Amortization of loan fees income	10,758	15,463
Carried forward losses	77,822	77,822
	95,652	**99,804**
Deferred tax liability		
Difference between IFRS and	(130,689)	(137,729)
Statutory allowance for impairment losses	**(130,689)**	**(137,729)**
Net deferred tax liabilities	**(35,037)**	**(37,925)**

Albanian tax legislation allows carry forward of losses for three consecutive years after the tax loss was declared.

18. SHARE CAPITAL

Emporiki Bank of Greece remains the sole shareholders of the Bank.

In August 2009 the Shareholders' Assembly of the Bank decided to increase the paid-up capital through the cash contribution of EUR 4,999,976.56 and by issuing 6,157 new shares. As a result the paid-up capital increased to EUR 33,568,138.88 and historical cost is ALL 4,649,723 thousand.
As at 31 December 2010, share capital is ALL 4,649,723 thousand.

The table below reconciles the number of shares outstanding at the beginning and end of the year:

	31 December 2010	31 December 2009
Number of authorized and fully paid shares at beginning of the year	41,336	35,179
Number of shares issued during year	-	6,157
Number of authorized and fully paid shares at the end of the year	**41,336**	**41,336**

19. LEGAL RESERVE

The legal reserve represents balances created by using the previous year statutory profit in accordance with the local legislation in order to provide for the coverage of possible losses that may arise during the normal course of the business. Legal reserves are not distributable to the shareholders.

	31 December 2010	31 December 2009
Legal reserve at the beginning of the year	57,162	57,162
Increase in reserve	-	-
At 31 December	**57,162**	**57,162**

20. INTEREST AND SIMILAR INCOME

Interest income was earned on the following assets:

	Year ended 31 December 2010	Year ended 31 December 2009
Loans and advances to customers	1,995,545	2,032,334
Interest income from operations with Central Bank	19,972	21,650
Loans and advances to credit institutions	7,095	5,597
Investment securities	62,919	40,230
Total	**2,085,531**	**2,065,981**

21. INTEREST AND SIMILAR EXPENSE

Interest expense was incurred on the following liabilities:

	Year ended 31 December 2010	Year ended 31 December 2009
Due to customers	423,834	436,020
Loans and advances from credit institutions	270,186	520,642
Subordinated loan	41,067	40,473
Total	**735,087**	**997,135**

22. NET FEE AND COMMISSIONS INCOME

Fee and commissions received and paid were comprised as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Fee and Commission Income	21,791	24,398
Money transfer and cheques	13,959	13,303
Account maintenance	44,998	17,087
Agent transactions	22,632	43,962
Other	103,380	98,750
Total fee and commission income		
Fee and commission Expenses		
Guarantees received from banks	1,686	86
Correspondent Banks	9,213	8,236
Credit Cards	5,356	3,192
Other	3,757	10,353
Total Fee and commissions expenses	**20,012**	**21,867**
Net fee and commission income	**83,368**	**76,883**

23. NET FOREIGN EXCHANGE RESULT

	Year ended 31 December 2010	Year ended 31 December 2009
Foreign exchange transactions (losses)/gains	(10,066)	11,497
Foreign exchange translation gains	74,890	526,102
Net foreign exchange result	**64,824**	**537,079**

24. OTHER OPERATING EXPENSES

Other operating expenses consisted of the following:

	Year ended 31 December 2010	Year ended 31 December 2009
Personnel costs	348,300	301,918
Rent	101,443	90,314
Depreciation of property and equipment	111,248	97,595
Amortization of intangibles	21,046	22,753
Advertising and promotion	89,024	118,076
Telephone and electricity	82,178	34,822
Reuters, Swift maintenance	16,178	39,822
Insurance and security	14,745	36,303
Consulting and legal fees	2,745	16,833
Travel and transportation	4,076	16,511
IT system maintenance	21,440	18,894
Maintenance and repairs	16,903	13,737
Office supplies	-	8,787
Taxes other than income tax	7,172	6,437
Other	108,303	25,077
Total	**944,801**	**847,879**

Personnel costs

	Year ended 31 December 2010	Year ended 31 December 2009
Salaries	317,148	273,019
Contribution to state pension fund	27,981	26,206
Contribution for Social and health insurance	3,171	2,693
Total	**348,300**	**301,918**

25. INCOME TAX EXPENSE

Income tax in Albania is assessed at the rate of 10% (2009: 10%) of taxable income:

	Year ended 31 December 2010	Year ended 31 December 2009
Current tax	-	-
Deferred taxes (See Note 17)	2,888	(21,871)
Total	**2,888**	**(21,871)**

The following is a reconciliation of income taxes calculated at the applicable tax rate to income tax expense.

	Year ended 31 December			
	Tax rate	2010	Tax rate	2009
Profit/ (loss) before taxes				
Prima facie tax calculated at 10%	10%	121,475	10%	(196,686)
Non tax deductible expenses	-11%	12,148	2%	(19,669)
Tax benefits resulted from temporary		13,420		4,512
differences not previously recognized	19%	(22,680)	19%	37,028
Income tax expense		**2,888**		**21,871**

26. CASH AND CASH EQUIVALENTS AT END OF THE END OF THE YEAR

	31 December 2010	31 December 2009
Cash and balances with Central Bank (Note 5)	1,388,777	1,290,731
Loans and advances to banks (Note 6)	4,136,285	467,734
Total	**5,525,062**	**1,758,465**

27. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include the following:

	31 December 2010	31 December 2009
Contingent liabilities		
Guarantees in favour of customers	115,959	147,615
Loan commitments	1,268,996	327,138

Guarantees and letters of credit

Letters of credit and guarantees given to customers commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses.

As at the balance sheet date the fair value of the guarantees and letters of credit approximates their carrying value.

Legal

In the normal course of business the Bank is presented with legal claims; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at 31 December 2010 and 2009.

Lease commitments

The Bank has entered into non-cancellable operating lease commitments primarily for the new branches opened during 2010, 2009, 2008, 2007 and 2006. Such commitments as at 31 December 2010 and 2009 are as follows:

	31 December 2010	31 December 2009
Not later than 1 year	100,729	98,355
Later than 1 year and not later than 5 years	497,006	389,249
Later than 5 years	118,227	307,117
Total	**715,962**	**794,721**

28. RELATED PARTY TRANSACTIONS

The Parent of the Bank is Emporiki Bank of Greece SA. The ultimate parent and ultimate controlling party is Credit Agricole SA, France.

The Bank entered into the following related party transactions with its Parent Bank in Greece: placements, foreign exchange transactions and money transfers. All of the Bank's transactions of this nature with Head Office are carried out on an arms length basis.

28. RELATED PARTY TRANSACTIONS (CONTINUED)

A summary of related party transactions are as follows:

	31 December 2010	31 December 2009
Emporiki Bank SA Greece (Parent)		
Assets at end of year		
Loans and advances to banks	368,226	156,706
Liabilities at end of year		
Due to banks	12,686,358	12,582,342
Subordinated loan	1,533,420	1,524,057
Off balance sheet		
Guarantees and commitments received from Banks	-	80,632
Income for year ending		
Interest and similar income	433	1,264
Fee and commission income	-	-
Expenses for the year ending		
Interest and similar expense	298,581	552,761
Fee and commission expenses	1,765	184
Short term managements benefits		
Key management's compensation	34,967	36,652
Salaries	34,967	27,967
Bonuses	-	8,684

In key management's compensation are included only short term employee benefits (salaries and bonuses). The post employment benefits, long term benefits and share based payments are not applicable as no such benefits are granted.

29. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The following table provides a reconciliation of classes of financial assets with the measurement categories as of 31 December 2010:

2010	**Loans and receivables**	**Available-for-sale assets**	**Total**
Cash and balances with Central Bank	2,603,022	-	2,603,022
Loans and advances to banks	4,136,285	-	4,136,285
Available-for-sale financial assets	-	1,102,290	1,102,290
Loans and advances to customers	22,595,583	-	22,595,583
Other financial assets	116,243	-	116,243
Total financial assets	**29,451,133**	**1,102,290**	**30,553,423**
Non-financial assets			1,168,823
Total assets			**31,722,246**

2009	**Loans and receivables**	**Available-for-sale assets**	**Total**
Cash and balances with Central Bank	2,354,636	-	2,354,636
Loans and advances to banks	467,734	-	467,734
Available-for-sale financial assets	-	816,731	816,731
Loans and advances to customers	25,372,731	-	25,372,731
Other financial assets	79,709	-	79,709
Total financial assets	**28,274,810**	**816,731**	**29,091,541**
Non-financial assets			903,256
Total assets			**29,994,797**

As of 31 December 2010 and 2009, the Bank had no assets in trading assets and assets designated at FVTPL categories.

As of 31 December 2010 and 2009 all of the Bank's financial liabilities were carried at amortised cost.

30. EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting period that would require either adjustments or additional disclosures in the financial statements.

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