UNIONBANK

2010
ANNUAL REPORT

Content

1. Message from the Board of Directors' Chairman

Our vision is for Union Bank to grow as "a sound, sustainable and a profitable bank". These are not mere words, swiftly picked from a list of such expressions. They truly embody the main spirit of our bank. The order of the words is not accidental, too.
Building a sound bank was, and continues to be, our foremost goal. We insist on having firm foundations, which form the basis for growth and success. This has been the guiding light when we were shaping the shareholder structure of the bank and choosing the bank's governing and managing bodies; we consistently promulgate this spirit acrossall our staff, in all our activities. We are proud to see Union Bank living up to this goal, becoming a repected member of the banking system, radiating reliability and security to our clients, our partners and the country as a whole.

The goal of sustainability closely follows the goal of soundness.

We created this bank for the long haul. Our horizon does not stop at this or next year, it stretches well into the future. The strategy we have adopted and the decisions that we make in our day-to-day business are geared towards growing in a manner and pace that is best in the long run. Union Bank should seek continued growth and market share, while preserving this sustainability goal.

Having started operations in 2006, with an ambitious growth in branch network and banking products, the global economic crisis was impacted the Albanian economy and banking system just as Union Bank was beginning to reach profitability. Despite this difficult environment, we can be proud that we achieved our first profit in 2009 and 2010. We firmly continue on the path of soundness and sustainable growth, increasing our deposits and lending within our well-measured branch network, with full control over risks. Consequently, we are looking forward to a profitable 2011.

Union Bank is a sound, sustainable and profitable bank primarily due to the efforts of our employees, who successfully convey our values to the customers, the primary way we use to measure ourselves.

I thank all Union Bank employees for their dedication, hard work and contribution. Finally, I thank our customers who have given us their trust – Union Bank is proud to be able to share in and contribute to their successes.

2. Who we are

Our Vision
To make Union Bank a sound, sustainable and a profitable bank, for our shareholders, clients and employees.

Our Strategic Goal
To be better than our competitors as measured by our customers.

Our Core Values
We take a long term view of our relationships with our customers
...provide them with products and services at competitive prices
...and are innovative and proactive with them.

We develop
professional, highly trained, motivated people
...working in teams
...with honest two way communication at all levels.

We support
the development of the Albanian banking system
and national economy.

We operate
with integrity in all our dealings.

We do not:
deceive our customers;
disrespect our employees;
infringe the law.

3.The Bank and its Shareholders

3.1. History of Union Bank

Union Bank received its licence from the Bank of Albania in January 2006. The Bank is registered as a joint stock company and provides universal banking services almost exclusively to and for individuals and enterprises in the Republic of Albania.

Main Developments

2006	The Bank obtained its license for banking activities on January 9, 2006.
2006	7 branches are opened, the bank starts its operational activities in Tirana, Durres, Elbasan, Fushe Kruje, and Fier
2006	The Bank offers a full range of deposit, credit and payment services
2007	13 new branches open in Tirane, Kukes, Berat, Korce, Shkoder, Pogradec, Lezhe, Lushnje, Lac and Rrogozhine
2008	Launch of Maestro debit card product; First Mastercard credit card is issued
2008	Launch of the UB-Online Internet banking product
2008	Bank's total assets exceed EUR 100 million.
2008	EBRD joins as second largest shareholder (12% stake)
2010	6 new branches are opened, including two new cities – Divjaka and Polican;
2009	Institutional Building Plan (IBP) starts as a two-year technical support program from EBRD with a purpose of further strengthening the Bank
2009	With Kavaja and Vlora followed by 2 more new branches in Tirana, the branch net work reaches 30 branches and 39 ATMs; the Bank has 236 employees
2009	The Bank achieved its first annual profit
2010	The Bank activates credit line agreement with EBRD to support lending to SMEs
2010	The new organization structure and new performance evaluation process took place to respond to the growing size and complexity of the Bank

3.2. Bank's Shareholders

The shareholding of Union Bank comprises financial institutions and successful entrepreneurs, acting as major supporters of the successful activity of the Bank.

Financial Union Tirana ("UFT")
UFT as the main shareholder is one of the most successful non-banking financial institutions in the region, representing Western Union in Albania, Kosovo and Macedonia, and recently in Switzerland. UFT provides simple, fast, and modern money transfer services to a large mass of clients.

The European Bank for Reconstruction and Development ("EBRD")
EBRD is the second larger shareholder. Established since 1991, EBRD is the largest financial investor in central Europe, Western Balkan and central Asia with a mandate to help countries in these regions to transition to open and efficient market economies. EBRD is owned by 61 countries, the European Union and the European Investment Bank. EBRD's investment in Union Bank aims to support high corporate governance standards and to help Union Bank achieve its objective of becoming one of the leading financial organizations in Albania. EBRD is represented in General Assembly and appoints one member to the Board of Directors.

Mr. Edmond Leka
Mr. Leka brings an extensive experience in various financial activities. Since March 1995 he is the President and Chief Executive Officer of Financial Union Tirana and since 2006 is Chairman of the Board of Union Bank. From September 2000 until 2008 Mr. Leka was the Vice – President of American Chamber of Commerce in Albania, and previously as Chairman of the Board of Directors of Albanian Mobile Communications. He also has been Chairman of the Board of Directors of the Italian – Albanian Bank, from March 1996 to February 2002 and Chairman of the Board of Open Society Foundation Albania (Soros Foundation) from January 2002 to March 2005.

Mr. Niko Leka
Mr. Leka has a well established and long term experience in the financial, management and business activity. Currently, he serves with the capacity of the Executive Director of Financial Union Tirana. Previously, Mr. Leka has been a consultant and member of various management and financial organizations. Amongst them, Director of Urban Credit Department (Microfinance Institution) and as a Board Executive Member of the "Besa" Fund (Micro credit Financing Foundation).

3.3. Board of Directors

Edmond Leka
(Chairman of the Board)

Niko Leka
(Vice chairman of the Board)

Varuzhan Piranjani

Agim Xhaja

Daniel Berg

Genc Turku

Gazmend Kadriu

3.4. Senior Management

Gazmend Kadriu
Chief Executive Officer

Suela Bokshi
Chief Operating Officer

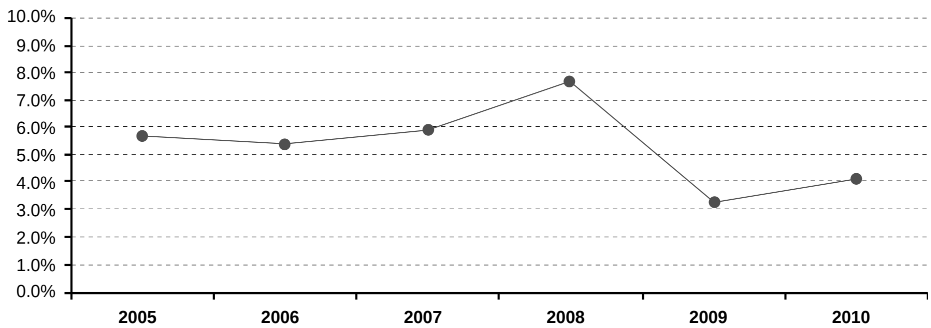
Ardian Petollari
Chief Business Officer


31 degë
Makinë e Re?
ju financojmë 100%
Financoni Shtëpinë
e Ëndrrave Tuaja

4. Economy Overview

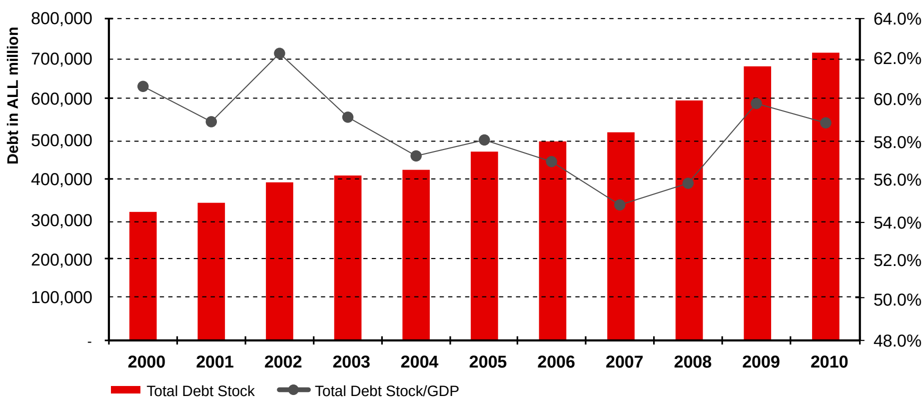
4.1. Macroeconomic indicators

Graph.1 GDP Growth



Although the global crisis did not have as severe an impact as in many other countries (both developed and developing), in 2008 the Albania's annual economic growth slowed significantly. In 2010, GDP grew 4.1 % and the Albanian economy so far has managed to successfully cope with the direct and indirect negative influences of the global financial crisis. We quote the 2011 report of the IMF [2]: "Partly reflecting base effects and favourable external markets conditions, exports of Albanian goods and services grew by 56% during 2010. The rapid exports growth contributed to the expansion of overall demand and GDP as well as to the smoothing of external imbalances and the stabilization of the exchange rate. While remaining at a still high 11.9%, the current account deficit decreased by 3.5 GDP percentage points in 2010. To a large extent, this reflected an improved savings-investment balance from the public sector. The fiscal consolidation was necessary in order to comply with the public debt ceiling prescribed by the fiscal rule. The budget deficit decreased by 4% of GDP, reaching 3% in 2010, as a result of both higher government revenues and lower public spending. The public debt decreased to 58.4% of GDP, remaining within the 60% target stipulated by law. A more cautious fiscal policy, declining risk-premia, and the positive inflation outlook, enabled the Bank of Albania to lower its policy rate to a historical low of 5.00% by mid-2010. At the same time, the central bank revised its operational framework in order to increase the efficiency and transparency of monetary policy.".

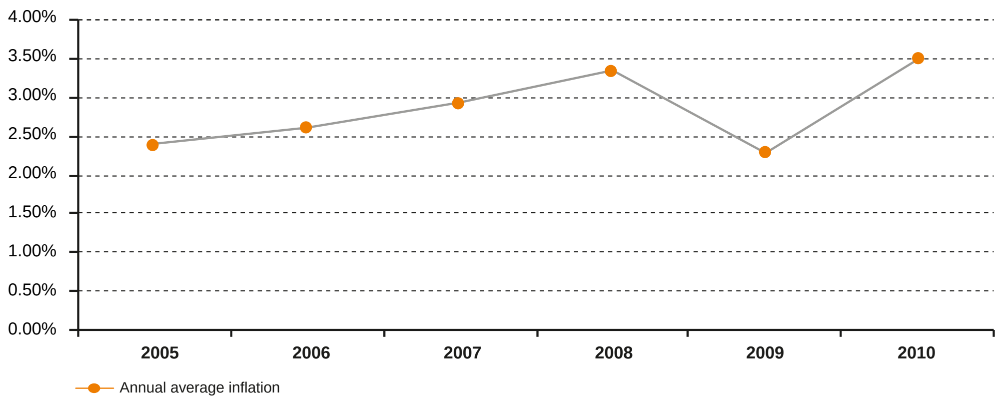
Debt Stock to GDP [1]



Central Government Debt Stock, which is as the level of 58.5% of GDP, consists of 56.9% domestic debt and 43.1% foreign debt. During 2010 the structural change domestic/foreign debt has been in favor of foreign debt [3]. With regard to currencies, 68.3% of foreign debt is in Euro followed by 18.3% in USD that means that the debt is quite sensitive to the changes ALL/Euro exchange rates [3].

[1]Source of GDP and Debt Stock data: Ministry of Finance publications
[2]IMF statement April 2011
[3]Source of Debt data: Ministry of Finance publications

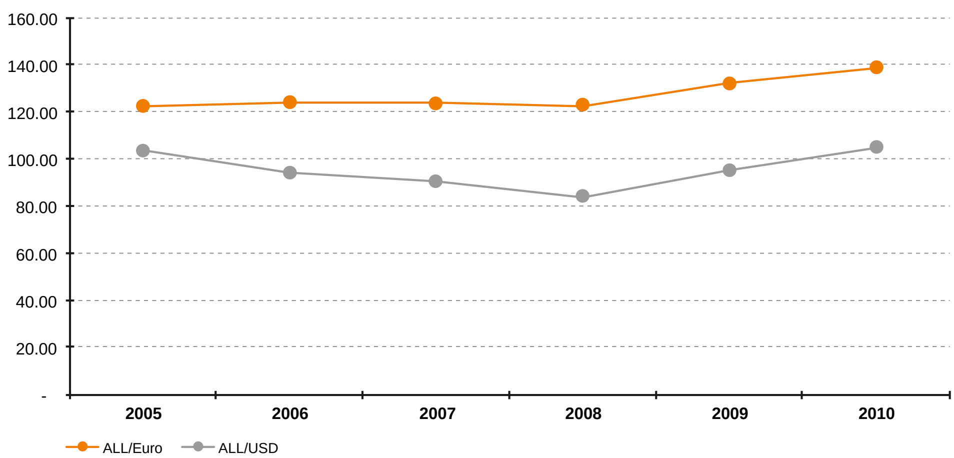
Annual average inflation



Inflationary pressures remained controlled and inflation expectations were anchored throughout the year.

The average annual inflation rate for 2010 was 3.5 per cent [4], remaining within the Bank of Albania's target band of 2-4 per cent. However this rate was considerably higher than 2009 level of 2.2 %.
The unemployment rate stays at the level of 13.5%.

Exchange Rates history



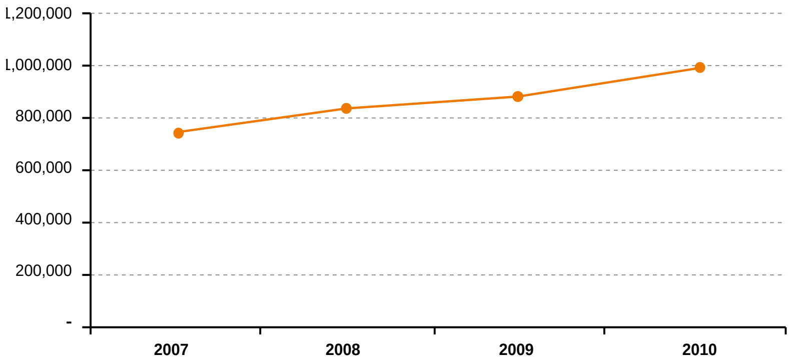
Albania follows (de iure and de facto) a floating exchange rate regime with very limited interventions. After a prolonged period of exchange rate stability, in 2009 and 2010 Lek moderately depreciated against EUR and other foreign currencies.

[4] Source of GDP and Debt Stock data: Ministry of Finance publications

4.2. Banking system

In 2010, total assets of the banking system [5] reached 990.6 Billion Lek, an increase of 11.8% (2009: 6.3%). However, increase is mainly due to higher volume of Treasury and Interbank transactions and Securities (16.5% and 18.5% respectively), while lending, net increased 6.7%. Loans compose 45% of total assets

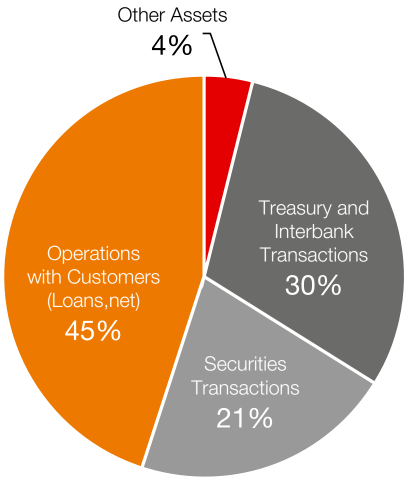
Total assets of banking system



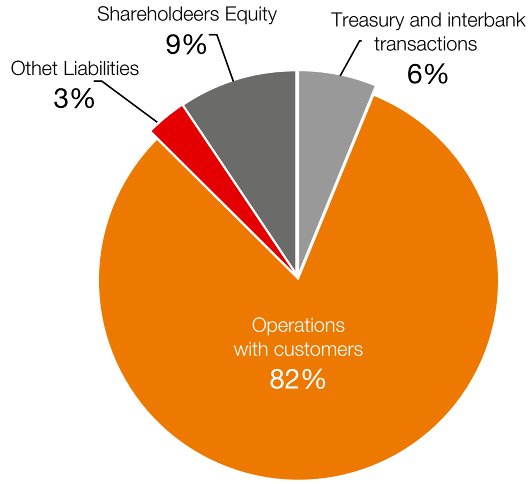
With 27.5% increase, Union Bank has above average assets increase rate resulting in approximately 2.15% of the market share at the end of the year.

Albanian banks are funded primarily by customer deposits (82%), while Shareholders Equity provides 9%.

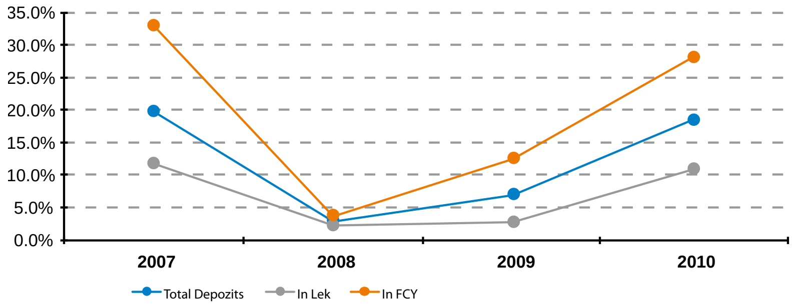
Assets Composition of Banking System 2010



Liabilities Composition of Banking System 2010



Deposits Growth



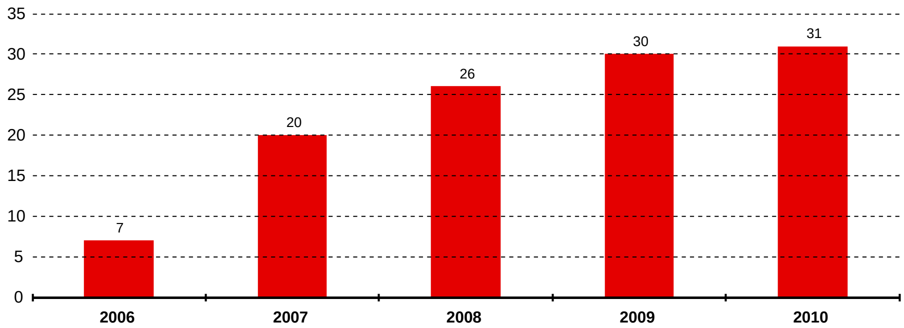
Following a dip due to the crisis, the level of deposits has steadily grown after 2008.

[5] Source Data: Bank of Albania Monthly Statistical Report publication

5. Branch Network

UB has been ambitious by expanding geographically and UB further extended its services throughout the country. Five new outlets were opened in 2010, bringing the total number to 31. In order to make it easier for our customers to access key retail banking services, UB expanded its ATM system to 39 machines both in and outside the branches (35 on site and 4 off-site).

Branch Network expansion in years, in numbers



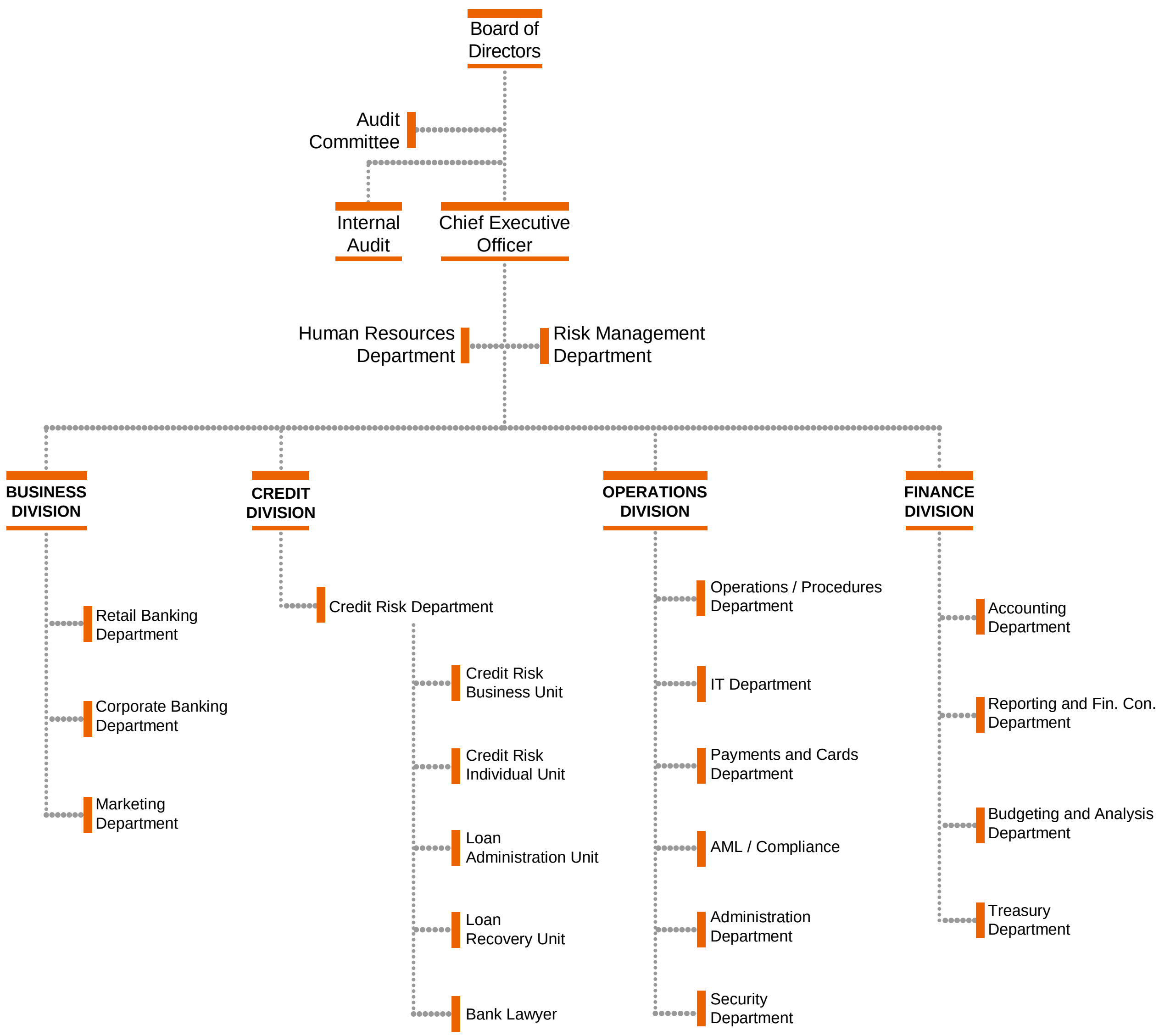
The network expansion is designed to support the general retail orientation of the bank, meet its mission and objectives and embrace its core values.

Location	Responsible Person	Address	Phone/Fax
Tirana 1 Area	Erovena Shamku	Bulevardi ”Zogu I”	042 389 001 / 042262 183
Tirana 1 (Head Quarters)	Erjola Caraj	Bulevardi ”Zogu I”	042 389 001 / 042262 183
Tirana 2 (Garda)	Klara Shtrepi	Rruga “Dëshmorët e 4 Shkurtit”	042 274 170 / 042 274 171
Tirana 3 (Rruga e Durrësit)	Ilir Ballabani	Rruga e Durrësit, Pallati 81	042 247 476 / 042 250 788
Tirana 4 (Medrese)	Anjeza Sanco	Rruga e Dibrës	042 378 655
Tirana 5 (Kinostudio)	Almir Datja	Rruga “Aleksandër Moisiu”	042 379 672 / 042 379 678
Tirana 6 (Kodër-Kamëz)	Vjollca Mziu	Kodër-Kamëz	047 200 669
Tirana 7 (Kamëz-Qendër)	Ermelinda Buzali	Kamëz-Qendër	047 200 483
Fushë-Krujë	Urim Kulla	Lagjia” Adem Gjeli”	0563 22895
Tirana 2 Area	Anila Karaj	Rruga “Reshit Çollaku”, Pallatet Shallvare 2/18	042 253 570/565/569 / 042 253 56
Tirana 8 (Shallvare)	Suela Xhixhi	Rruga “Reshit Çollaku”, Pallatet Shallvare 2/18	042 253 570/565/569 / 042 253 568
Tirana 9 (Lana)	Suela Vozga	Rruga “Irfan Tomini”, Pallati 8/1	042 236 080 / 042 253 007
Tirana 10 (Ali Demi)	Admira Olloni	Rruga “Ali Demi”	042 379 981 / 042 379 984
Tirana 11 (Laprakë)	Arben Sadikaj	Rruga “Dritan Hoxha”, Pallatet Hawai	042 415 460 / 042 415 461
Tirana 12 (Kashar)		Autostrada Tiranë-Durrës, km 9	048 301 310 / 048 301 311
Tirana 13 (Vorë)		Vorë	047 600 365 / 047 600 382
Durrës	Vilma Lila	Lagjia Nr.1, Rruga Tregtare	052 220 340 / 052 235 700
Durrës 2	Elda Kocilja	Rruga “9 Maji”, Nr.14,	052 239 378 / 052 239 379
Elbasan	Ibrahim Kashari	Bulevardi” Qemal Stafa”	054 245 918 / 054 245 919
Kavajë	Diana Nallbani	Lagjia Nr.2, Sallbeg, Bulevardi kryesor	055 243 414 / 055 243 405
Berat	Leonora Shosha	Lagjia “22 Tetori”	032 238 555 / 032 238 000
Polican	Elisa Tako	Qendër, Polican, Skrapar	0368 24132 / 0368 24133
Vlorë	Qiriako Mita	Lagjia “Lef Sallata”, Qendër-Skelë	033 237 500 / 033 237 600
Kukës	Besarie Halilaj	Lagjia Nr.5	024 224 728 / 024 224 727
Pogradec	Mikel Kereku	Lagjia Nr.1, Bulevardi “Reshit Collaku”	083 226 803 / 082 226 804
Korçë	Anila Selenica	Sheshi i Demostratave	082 254 923 / 082 254 924
South Area	Sadik Arapi	Lagjia Kongresi	035 226 365 / 035 226 366
Lushnje	Suzana Cobo	Lagjia Kongresi	035 226 365 / 035 226 366
Rrogozhinë	Manjola Dafku	Lagjia Nr.2, Pallati 82/3, Shk.1, Ap. 2	0577 23204
Fier	Agim Isufaj	Sheshi “Fitorja”,Ish-Turizmi Apollonia	034 230 258 / 034 230 259
Divjakë	Ruzhdi Sina	Qendër Divjakë	0371 22563 / 0371 22573
North Area	Luan Tafili	Lagjia “Qemal Stafa”, Rruga “13 Dhjetori”	022 251 500
Shkodër	Luan Tafili	Lagjia “Qemal Stafa”, Rruga “13 Dhjetori”	022 251 500
Laç	Drita Martinaj	Lagjia Nr.1	053 222 025 / 053 22 026
Lezhë	Agron Vraja	Rruga “Besëlidhja”	0215 24641 / 0215 24661

6.Organisation structure, Staff and Staff Development

6.1 Organisational structure

In response to growing complexity of the Bank's activity, in May 2010, the Board approved a new organization structure accompanied by new appointments in Head of Department and Head of Unit positions.



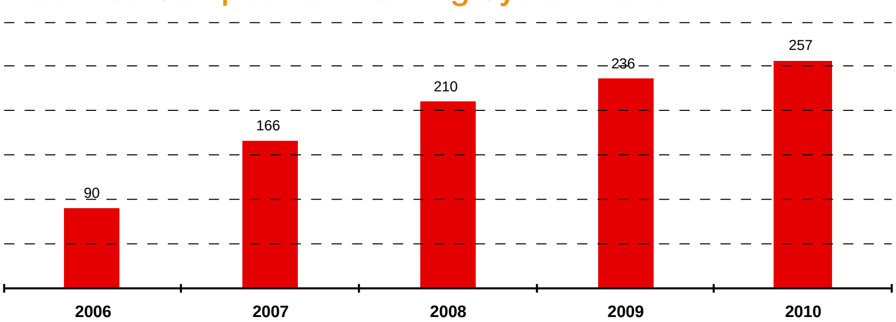
Our Department Managers

Almir Zeneli	*Internal Audit*
Enkeleda Hasho	*Credit Risk*
Enklida Çibuku	*Human Resources*
Plator Ulqinaku	*Risk Management*
Gent Drita	*Corporate Banking*
Valdet Kodra	*Retail Banking*
Dritan Dezhgiu	*AML / Compliance*
Irena Rushaj	*Information Technology*
Jonida Vaso (Lamaj)	*Operations and Procedures*
Marjeta Sejdari	*Administration*
Qirjako Taçe	*Security*
Valbona Banka (Çuçka)	*Payments and Cards*
Adela Haxhiu	*Accounting*
Erida Malosmani	*Reporting and Financial Control*
Elona Kola	*Budgeting and Analysis*
Ilirjan Ligaçaj	*Treasury*

6.2 Staff and Staff Development

Union Bank demands the highest professional and ethical standards from all its staff and is committed to professional higher learning, excellent customer service culture, friendliness, and a very ethical and collegial working environment.

Liabilities Composition Banking System 2010



To ensure the Bank's operational efficiency, 2010 saw further staff recruitment, evaluation and training. By 2010 UB had 257 staff members – 83 in Head Office and 174 in branches network.

The Institutional Building Program (funded by EBRD and implemented with support of external consultants) included 360 degree reviews of the Bank's employees at all levels. We are proud that the survey results were a resounding compliment to our very sincere efforts of providing an excellent working atmosphere.

It is the Bank's belief that by expanding their banking knowledge and expertise through training and formal education, our employees will be more satisfied, but also will be even better able to serve the Bank and its customers. Therefore, the bank provides on-the-job instruction and training to all employees, from the first day of joining the Bank. In 2010, a total of 3,838 hours of training were offered to approximately to 155 employees. Trainings focused in the new bank products and procedures, as well as on the financial analysis and client relationship, sales skills, managerial development, etc. Some of the trainings were offered by foreign experienced bankers, in the framework of the Institutional Building Program.

In terms of benefits, UB goes beyond the benefits mandated by the Albanian Labour Code and other job-related benefits, and offers Health Insurance to its staff.

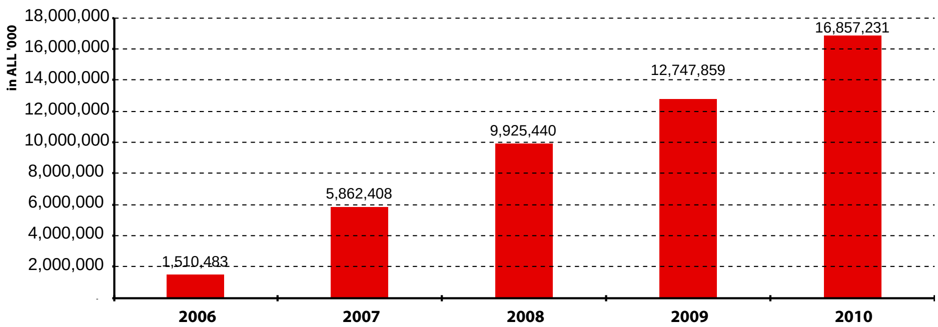
7. Highlights

7.1 Funding and lending

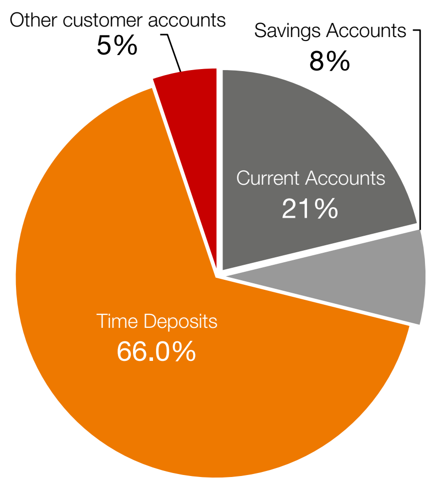
Customers Funds

UB offers various products to its clients including current accounts and saving and term deposits, in both local and foreign currency. UB seeks to provide individual and business clients with service and products which offer security, transparency and flexibility. In 2008, the Bank introduced the Savings Account as a new deposit product which provides maintenance flexibility, and serves as a hybrid between the Current Accounts and Term Deposits. Consumer deposits are vital and form the main source of UB's funding. Such funding has grown consistently and by 2010, customer accounts reached 16.9 Billion Lek, a 32% yearly increase. Along with the entire banking system, UB was also, naturally, significantly impacted, but uniquely, UB managed to be amongst very few banks in the country which increased its deposit base and in certain sense, the Bank emerged even stronger. Again, we are thankful for our clients' confidence, and committed ourselves to the further consolidation of the bank-client relationship.

Customer Accounts developments



Customers Accounts Structure 2010

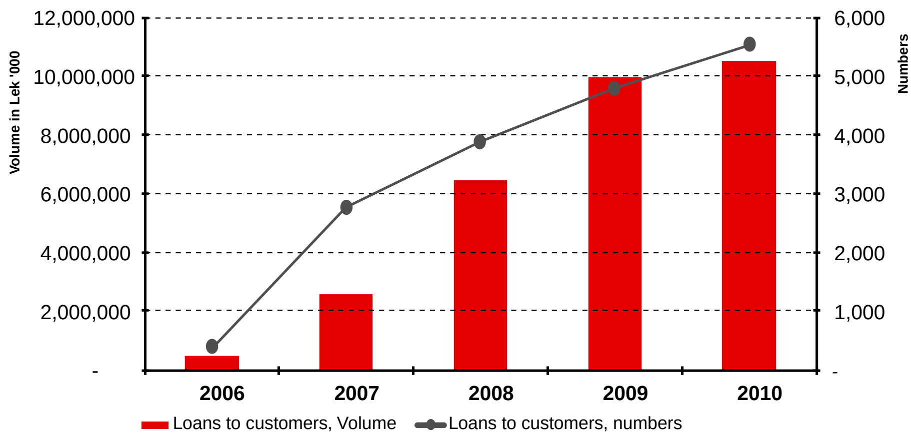


In order to support its growing loan portfolio, the Bank has offered term deposits. In 2010 66% of all Customer Accounts are term funds following impressive and consistent growth. In 2010, time deposits reached LEK 11 Billion, up 2.5 Billion or 30%. This increase was accompanied by an increase in the number of clients thus significantly broadening the bank's client base. UB now is proud to serve 9,000 clients with this produce by end 2010.

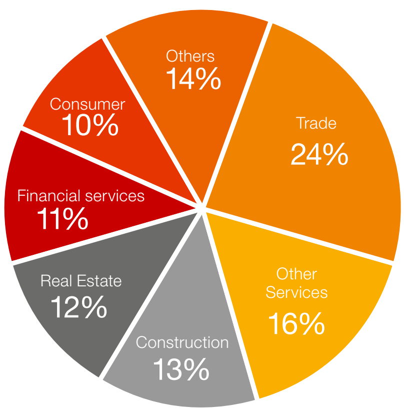
Lending Activity

UB grew quickly, with yearly growth over 200%.
Through cross-selling marketing efforts, telemarketing and direct mail, the increase of numbers of clients has shown a remarkable Increase. Starting with less than 400 clients in 2006, by end 2010, Union Bank provided loans to more than 5,500 individual and business clients.
UB offers a wide range of Loans and Overdrafts. The total loan portfolio reached 10.5 Billion Lek, a yearly addition of 543 Million Lek or 5%. Although this is lower than in earlier years, the slower lending growth can be seen in the context of the global international crises leading to a prudent approach followed by the Bank with very serious focus on quality of assets and also lower demand by our clients (which were also impacted by the crisis). As would be expected during an economic slowdown with some deterioration in loan quality, the Loan Loss Provision increased by 27% compared to previous year reaching the level of 3.2% of the loan portfolio (2009: 2.5%).

Loans to Customers development

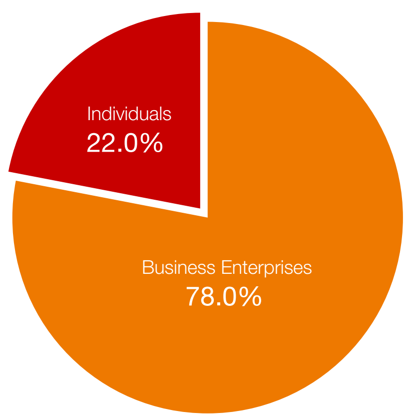


Credit exposure by industry sector



Union Bank offers loans to a wide range of industry sectors. Lending in Trading activities represent 24% of the total loan portfolio followed by Other Services and Construction with 16% and 13% respectively.

Individual vs. Business loans structure in 2010



78% of the portfolio has been provided to business clients; 22% to individuals. It is worth mentioning that growth in individual loans is accelerating recently more strongly than the business loans.

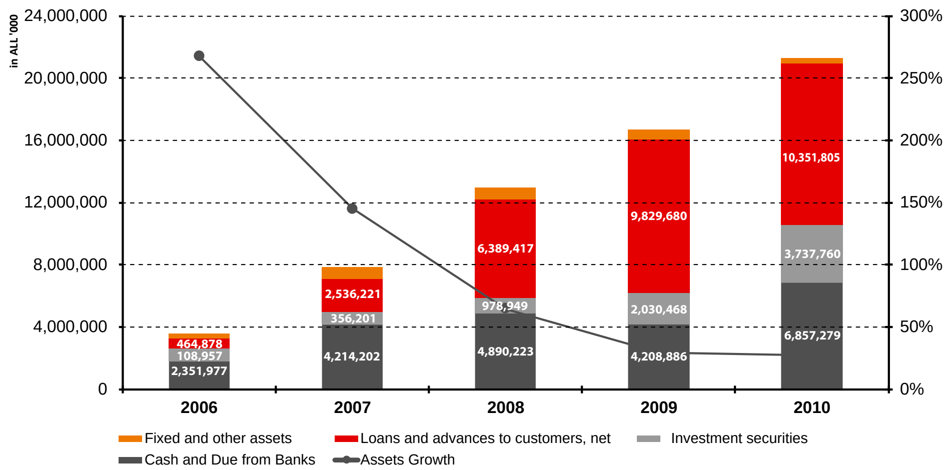
7.2. Financial Results

Main results of the year

	In Lek '000		In euro '000 [6]		Change
	2010	2009	2010	2009	
Balance Sheet					
Total assets	21,343,687	16,743,522	153,806	121,365	27%
Gross loans portfolio	10,520,875	9,977,411	75,815	72,321	5%
Investments in securities	3,737,760	2,030,468	26,935	14,718	84%
Placements with banks	4,273,041	1,862,149	30,792	13,498	129%
Customers accounts	16.857.231	12.747.859	121.476	92.403	32%
Paid in capital	2,049,331	2,049,331	14,768	14,855	0%
Profit and Loss					
Net interest income	646,501	506,438	4,659	3,671	28%
Net fee and commission income	116,914	103,945	843	753	12%
Other operating income	109,339	308,312	788	2,235	-65%
Total operating expenses	(785,848)	(801,235)	(5,663)	(5,808)	-2%
Net Profit before taxes	86,906	117,460	626	851	-26%
Statistics					
Numbers of staff	257	236			8.9%
Number of outlets	31	27			14.8%
Number of Loans outstanding	5,540	4,792			15.6%
Number of Customer accounts	67,721	47,604			42.3%
Kery ratios					
Return on Equity	3.0%	7.4%			
Cost to Income ratio	80.3%	70.5%			
Loans to Deposits ratio	61.4%	77.1%			
Assets Growth rate	27.5%	29.2%			
Loans Growth rate	5.4%	54.7%			
LLP to Loan portfolio	3,2%	2,5%			
Customer Deposit Growth rate	32.2%	28.4%			
Net Interest Margin	3.4%	3.4%			
Capital Adequacy ratio	13.8%	14.9%			
Asset to Employee ratio	83,049	70,947	598	514	17.1%
Assets to Branch ratio	688,506	620,130	4,961	4,495	11.0%

[6]All amounts are translated using respective the year end exchange rates

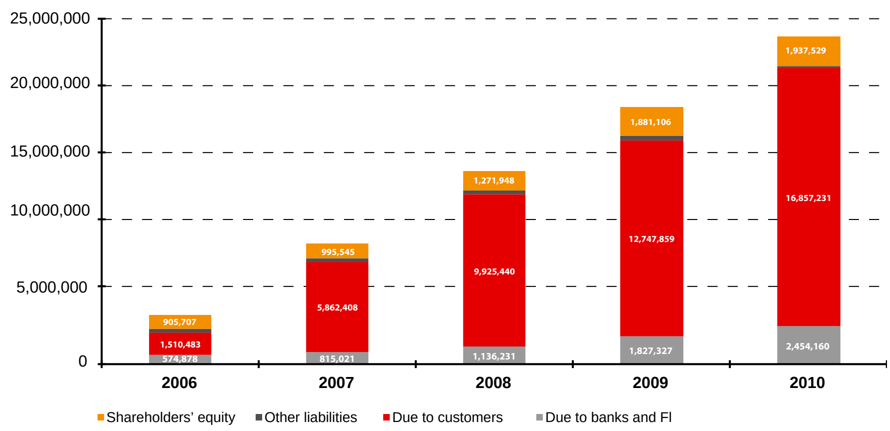
Structure of Assets



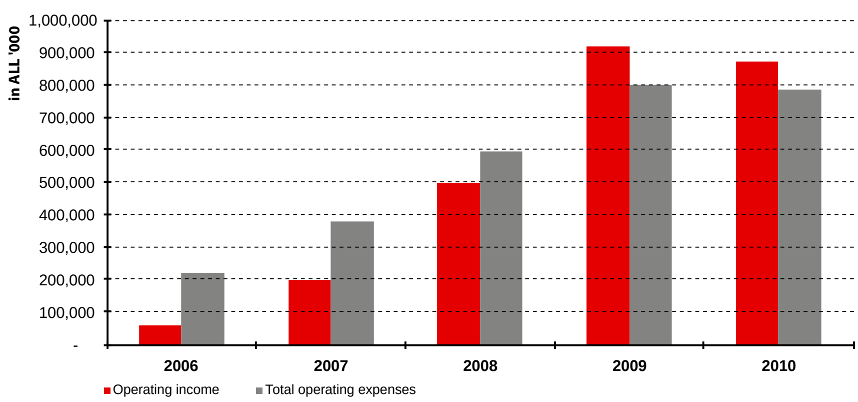
The Bank's assets growth has been strong. The Bank closed 2010 with total assets of 21.3 Billion LEK or 27% more than 2009. Loans to customers reached 48.5% of total assets followed by placements with banks and investment securities with 20% and 17.5% respectively.

Structure of Liabilities and Equity

The liabilities structure is mainly composed by customer accounts, reaching 79% of the Bank's total assets in 2010, followed by Due to Banks with banks with 11.5%. The Shareholders equity represents 9.1% of the total assets of the Bank. The Bank has creates a strong customer base to finance its investments and operations.



Profit and Loss structure



Despite the effects of global crises, Net Interest Income and Net Fees income increased by 28% and 12% respectively. Reduced Total Operating Income was impacted by lower Forex income. The Bank maintained a conservative risk policy regarding Treasury activities.
The Bank was careful to keep its costs under control and in fact Operational Cost decreased by 2% compared to the previous year.

7.3. Risk Management

Throughout 2010 the Bank maintained its overall risk profile. The sustained and controlled growth translated into moderate exposures which, however, were kept within the established parameters, both institutional and regulatory.

Effective management of risks is accomplished at many levels, beginning with the Board established policy and through effective control over Bank operations and establishment of risk management processes (identification, measurement and mitigation).

These policies cover in particular liquidity, interest rate, currency, and credit risks, not to mention operational risks.

- ***Liquidity*** –During 2010 the Bank relied upon stabilized flow of funds and high overall depositor confidence. This combined with reasonably balanced mix of assets and liabilities maturing within given time intervals and prudent planning, has provided adequate cushioning to the liquidity risks. The monitoring of the positions is done frequently and based on systematic reporting.

- ***Interest Rate*** – The interest rate sensitivity has been primarily managed by appropriate management of assets' and liabilities' margins and spreads, and maintaining a mix of assets and liabilities which re-price simultaneously within the policy gap levels. The Bank has had no major issues with, nor has it been hit by, any materialization of interest rate sensitivity.

- ***Foreign Currency*** – The bank is exposed to currency risk by its flow business in currency trading and the mix of assets and liabilities denominated in foreign currencies. During 2010 the bank has controlled for the foreign exchange risk by narrowing the overnight open position limits and adhering strictly to such lower limits.

- ***Credit*** – 2010 saw the bank pursuing the strategy of moderate growth in lending. On yearly basis, the portfolio grew by 7.7% with most of it having been channelled into business loans. The growth of the portfolio brought about a growth in loan loss provisioning, too, as the bank took a conservatory approach to provisioning. However it is worth mentioning that the bank has not incurred losses from written-off loans yet.

The operational delivery of all bank's products and services exposes the Bank to potential losses arising from how the internal processes are designed and executed. The Operational Risk Committee in place periodically monitors the occurrences of operational losses and assigns responsibilities for mitigating losses and providing back-up solutions and risk coverage for activities subject to operational risk.

Audited Financial Statements

UNION BANK SH.A.

Independent Auditor's Report and
Financial Statements as of and
for the year ended December 31, 2010

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and management of Union Bank sh.a.

Report on the Financial Statements

We have audited the accompanying financial statements of Union Bank sh.a (the "Bank"), which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Union Bank sh.a. as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Albania shpk

Tirana, Albania
March 30, 2011

Union Bank sh.a
Statement of financial position as at December 31, 2010
(All amounts are expressed in thousand LEK, unless otherwise stated)

	Notes	As at December 31, 2010	As at December 31, 2009
Assets			
Cash and balances with Central Bank	5	2,584,238	2,346,737
Placements and balances with banks	6	4,273,041	1,862,149
Short term investment securities	7	1,882,550	1,860,481
Loans and advances to customers, net	8	10,351,805	9,829,680
Intangible assets, net	9	78,546	97,997
Property and equipment, net	10	224,179	252,592
Assets held for sale	11	29,397	29,397
Long term investment securities	12	1,855,210	169,987
Other assets	13	46,932	266,290
Deferred tax asset	27	17,789	28,212
Total assets		**21,343,687**	**16,743,522**
Liabilities			
Due to banks and financial institutions	14	2,454,160	1,827,327
Due to customers	15	16,857,231	12,747,859
Other liabilities	16	73,666	286,195
Deferred tax liability	27	20,060	-
Total liabilities		**19,405,117**	**14,861,381**
Subordinated Debt	17	**1,041**	**1,035**
Shareholders' equity			
Share capital	18	2,049,331	2,049,331
Share premium		175,600	175,600
Accumulated loss		(287,402)	(343,825)
Total shareholders' equity		**1,937,529**	**1,881,106**
Total liabilities and shareholders' equity		**21,343,687**	**16,743,522**

These financial statements have been approved by the management of the bank on March 17, 2011 and signed on its behalf by:

Gazmend Kadriu
Chief Executive Officer

Adela Haxhiu
Chief Accountant

UNION BANK TIRANE

The Statement of financial position is to be read in conjunction with the notes to and forming part of these financial statements set out on pages 8-52.

Union Bank sh.a
Statement of comprehensive income for the year ended December 31, 2010
(All amounts are expressed in thousand LEK, unless otherwise stated)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Interest income	**19**	1,324,381	970,291
Interest expense	**20**	(677,880)	(463,853)
Net interest income		**646,501**	**506,438**
Fee and commission income	**21**	145,785	141,608
Fee and commission expenses	**22**	(28,871)	(37,663)
Net fee and commission income		**116,914**	**103,945**
Net foreign exchange gain	**23**	108,815	306,674
Other income, net		524	1,638
		109,339	**308,312**
Operating income		**872,754**	**918,695**
Allowances for losses on loans and advances	**8**	(85,213)	(153,905)
Other charges for provisions	**24**	-	(36,572)
Amortization for intangible assets	**9**	(24,115)	(30,721)
Depreciation of property and equipment	**10**	(48,434)	(55,421)
Personnel costs	**25**	(261,958)	(230,747)
Other operating expenses	**26**	(366,128)	(293,869)
Total operating expenses		**(785,848)**	**(801,235)**
Profit before taxes		**86,906**	**117,460**
Income tax	**27**	(30,483)	(328)
Profit of the year		**56,423**	**117,132**
Other Comprehensive income, net of income tax		**-**	**-**
Total comprehensive income for the year		**56,423**	**117,132**

The Statement of comprehensive income is to be read in conjunction with the notes to and forming part of these financial statements set out on pages 8-52

Union Bank sh.a

Statement of Changes in Equity for the year ended December 31, 2010

(All amounts are expressed in thousand LEK, unless otherwise stated)

	Share capital	Share premium	Accumulated Loss	Total
Balance as at January 1, 2009	**1,557,305**	**175,600**	**(460,957)**	**1,271,948**
Share premium	-	-	-	-
Increase in share capital	492,026	-	-	492,026
Total comprehensive income for the year	-	-	117,132	**117,132**
Balance as at December 31, 2009	**2,049,331**	**175,600**	**(343,825)**	**1,881,106**
Share premium	-	-	-	-
Increase in share capital	-	-	-	-
Total comprehensive income for the year	-	-	56,423	**56,423**
Balance as at December 31, 2010	**2,049,331**	**175,600**	**(287,402)**	**1,937,529**

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of these financial statements set out on pages 8-52

Union Bank sh.a

Statement of Cash Flow for the year ended December 31, 2010

(All amounts are expressed in thousand LEK, unless otherwise stated)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Cash flows from operating activities			
Net result for the period before taxation		86,906	117,460
Adjustments to reconcile net loss to net cash flows from operating activities:			
Interest income		(1,324,381)	(970,291)
Interest expense		677,880	463,853
Depreciation of property and equipment		48,434	55,421
Amortization of intangible assets		24,115	30,721
Impairment loss		85,213	153,905
Revaluation effect of cash and cash equivalents		(77,281)	(350,621)
Revaluation effect of subordinated debt		6	-
Other charges for provisions		-	36,572
		(479,108)	**(462,980)**
Changes in operating assets:			
Increase in placements and balances with banks		(654,701)	(270,216)
Increase in loans and advances to customers		(550,200)	(3,505,069)
Decrease / (Increase) in other assets		219,358	(19,601)
Changes in operating liabilities:			
Increase in due to banks and financial institutions		618,401	674,388
Increase in due to customers		4,015,528	2,764,674
(Decrease) / Increase in other liabilities		(212,529)	39,552
		3,435,857	**(316,272)**
Interest received		1,233,239	883,056
Interest paid		(575,603)	(401,547)
Cash generated (used in) from operating activities		**3,614,385**	**(297,743)**
Cash flows from investing activities			
Purchases of intangible assets	**9**	(4,664)	(1,706)
Purchases of property and equipment	**10**	(22,890)	(41,648)
Purchases of assets held for sale		-	(29,397)
Proceeds from disposals of property plant and equipment		2,869	37
Purchases of treasury bills		163,857	(1,127,669)
Purchases of government bonds		(1,653,161)	100,000
Cash used in investing activities		**(1,513,989)**	**(1,100,383)**
Cash flows from financing activities			
Subordinated debt		-	-
Proceeds from capital injection		-	121,661
Cash generated from financing activities		**-**	**121,661**
Net increase / (decrease) in cash and cash equivalents		**2,100,396**	**(1,276,465)**
Cash and cash equivalents at the beginning of the year	**28**	**3,243,032**	**4,168,876**
Revaluation effect of cash and cash equivalents		77,281	350,621
Cash and cash equivalents at the end of the year	**28**	**5,420,709**	**3,243,032**

The Statement of Cash Flows is to be read in conjunction with the notes to and forming part of these financial statements set out on pages 8 - 52

(All amounts are expressed in thousand LEK, unless otherwise stated)

1. INTRODUCTION

Union Bank Sh.a. (the “Bank”) is a financial institution registered as a commercial bank on January 9, 2006 based on Decision no. 101, dated December 28, 2005, of the Supervisory Board of the Bank of Albania (“BoA”). The bank’s activity is subject to Law no. 8269 “On the Bank of Albania” dated December 23, 1997, Law No. 9662 dated December 18, 2006 and all rules and regulations approved by the Supervisory Board of the BoA.

The shareholders of the Bank are Financial Union Tirana Sh.p.k, European Bank for Reconstruction and Development (EBRD), Edmond Leka and Niko Leka with shareholdings of 83.12%, 12.5%, 2.19% and 2.19% respectively.

The Bank is a commercial bank, which provides banking services to individuals and enterprises in the Republic of Albania. The Bank is registered as a joint stock company and has a registration number 33563 dated May 26, 2005, on which date the Bank started its commercial activities. The Bank obtained its license for banking activities on January 9, 2006.

The Headquarter of the Bank is located in Tirana, Albania. As at December 31, 2010 the Bank had 257 employees (2009: 236).

Directors and Management as of 31 December 2010

Board of Directors (Supervisory Board)

Edmond Leka	Chairman
Niko Leka	Vice-Chairman
Varuzhan Piranian	Member
Agim Xhaja	Member
Daniel Berg	Member
Gazmend Kadriu	Member
Genc Turku	Member

Audit Committee

Varuzhan Piranian	Head of Audit Committee
Mirela Lika	Member
Erton Kaleshi	Member

Management Board

Gazmend Kadriu	Chief Executive Officer
Suela Bokshi	Chief Operating Officer
Ardian Petollari	Chief Business Officer

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB).

2.2 Basis of measurement

These financial statements have been prepared on the historical cost basis except for the following:
- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value

(All amounts are expressed in thousand LEK, unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

2.3 Functional and presentation currency

These financial statements are presented in Albanian LEK ("LEK"), which is the Bank's functional currency. Except as indicated, financial information presented in LEK has been rounded to the nearest thousand

2.4 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTS

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

3.1 *Foreign currency transactions*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at year-end. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction.

The applicable exchange rates for the principal currencies as at December 31, 2010 and December 31, 2009 are as follows:

	2010	2009
EUR:LEK	138.77	137.96
USD:LEK	104	95.81
EUR:USD	1.334	1.440

3. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

3.2 *Financial instruments*

i. Classification
Originated loans and receivables comprise loans and advances to customers and credit institutions and loans to employees.
Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

ii. Recognition
Held-to-maturity assets and originated loans and receivables are recognized on the day when cash is disbursed by the Bank.

iii. Measurement
Financial instruments are measured initially at cost, including transaction costs. All originated loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses if any. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument, when applicable.

iv. Specific instruments

Cash and cash equivalents
Cash and cash equivalents comprise cash balances on hand, cash deposited with the Central Bank and short-term highly liquid investments with maturities of three months or less.

Treasury bills Held-to-maturity
Treasury Bills are considered to be investments held-to-maturity as the Bank has the intent and ability to do so.

Investment securities Held-to-maturity
Investment securities held-to-maturity, are debt investments that the Bank has the intent and ability to hold to maturity. As a result they are classified as held-to-maturity assets.

Loans and advances to customers and credit institutions
Loans and advances originated by the Bank are classified as originated loans and receivables. Loans and advances are reported net of allowances for loans impairment to reflect the estimated recoverable amounts (refer to accounting policy (vi)).

v. Derecognition
A financial asset is derecognized when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expired or surrendered. A financial liability is derecognized when it is extinguished. The Bank uses the specific identification method to determine the gain or loss on derecognition. Originated loans and receivables are derecognized on the day they are repaid to the Bank.

3. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

3.2 Financial instruments (continued)

vi. Impairment and uncollectability of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists, the estimated recoverable amount and any impairment loss of that asset is determined, based on the net present value of future anticipated cash flows, and is recognized for the difference between the recoverable amount and the carrying amount as follows.

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event (or events) has an impact on the estimated future cash flows for the financial asset or group of the financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower ;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position;
- Deterioration in the value of the collateral

The Bank first assesses whether objective evidence of impairment exist individually for financial assets that are individually significant. If the Bank determines that no objective evidence of impairment exist for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

The amount of provision is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flow that may result from foreclosure less costs for obtaining and selling the collateral. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (type and amount of the loan). The Bank decided to apply a roll rate model to reasonably identify estimated credit losses on each group. Portfolio in each group is segregated into delinquency buckets and monthly roll rates from one delinquency to the other, adjusted for historical losses when judged as reasonable are calculated. Portfolio performance is traced for several months in order to come to an average loss factor, which is then applied to estimate impairment loss on each group.

When a loan is considered to be uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income to line item “Provision for loan impairment”.

(All amounts are expressed in thousand LEK, unless otherwise stated)

3. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

3.2 Financial instruments (continued)

vi. Impairment and uncollectability of financial assets

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write down the release of the provision is credited to the provision for loan impairment in the statement of comprehensive income.

For financial assets held to maturity – the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance accounts and the amount of the loss is included in the statement of comprehensive income.

3.3 *Repurchase agreements*

Where debt securities are sold under a commitment to repurchase them at a predetermined price, they remain on the balance sheet and the consideration received is recorded in “Loans and advances from credit institutions”. Conversely, debt securities purchased under a commitment to resell are not recognized in the balance sheet and the consideration paid is recorded in “Loans and advances to credit institutions”.

3.4 *Intangible assets*

Intangible assets acquired by the Bank are stated at cost less accumulated amortization and impairment losses, if any. Software is amortized using the reducing balance method with a yearly amortization rate of 25%. Other intangible assets are amortized using the straight line method with a yearly amortization rate of 15%.

3.5 *Property and equipment*

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated using the reducing balance method at the following annual rates:

	Rate per annum
Computers	25%
Office equipment	20%
Electronic equipment	20%
Fixtures and fittings	20%

3.6 *Non-current assets held for sale*

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.
Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

3.7 *Revenue recognition*

Interest income and expense is recognized in the statement of comprehensive income for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on fixed income investments and accrued discount and premium on treasury bills.
When loans become doubtful of collection, they are written down to their recoverable amounts and **no** interest income is thereafter recognized

Fee and commission income arising on financial services provided by the Bank including cash management services, brokerage services and investment advice is recognized on an accrual basis when the related service is provided.

3.8 *Spot foreign exchange transactions*

The Bank, during the normal course of business, enters into spot foreign exchange transactions with settlement dates two days after the trade date. These transactions are recorded as off statement of financial position items on the trade date and recorded in the financial statements on the settlement date.

As at the statement of financial position date, the outstanding spot foreign exchange transactions are marked to market with the resulting gain or loss recognized in the statement of comprehensive income.

3.9 *Impairment*

The carrying amounts of the Bank's assets are reviewed at each statement of financial position date to determine whether any indication of impairment exists. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the statement of income and expenditures whenever the carrying amount of the asset exceeds its recoverable amount.

3.10 *Leases*

The total payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

3. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

3.11 *Taxation*

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the statement of financial position 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. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.12 Adoption of new and revised standards

3.12.1 Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **IFRS 1 (revised) "First-time Adoption of IFRS"** (effective for annual periods beginning on or after 1 July 2009),

- **IFRS 3 (revised) "Business Combinations"** (effective for annual periods beginning on or after 1 July 2009),

- **Amendments to IFRS 1 "First-time Adoption of IFRS"-** Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),

- **Amendments to IFRS 2 "Share-based Payment" -** Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),

- **Amendments to IAS 27 "Consolidated and Separate Financial Statements"** (effective for annual periods beginning on or after 1 July 2009),

- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),

- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),

3. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

3.12.1 Standards and Interpretations effective in the current period (continued)

- **IFRIC 17 "Distributions of Non-Cash Assets to Owners"** (effective for annual periods beginning on or after 1 July 2009),

- **IFRIC 18 "Transfers of Assets from Customers"** (effective for transfer of assets from customers received on or after 1 July 2009) [assuming that no such transfers occurred in the second half of 2009 and that entity has applied IFRIC 18 for the first time in 2010].

These amendments to the existing standards and interpretations have not led to any changes in the Bank's accounting policies, financial position or performance of the Bank.

3.12.2 Standards and interpretations in issue not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010 (listed below), and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except for IFRS 9 *Financial Instruments,* which becomes mandatory for the Bank's 2013 financial statements and could change the classification and measurement of financial assets. The Bank does not plan to adopt this standard early and the extent of the impact has not been determined.

- **IFRS 9 "Financial Instruments"** published by IASB on 12 November 2009. On 28 September 2010 IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss.

- **Amendments to IFRS 1 "First-time Adoption of IFRS"**- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),

- **Amendments to IFRS 1 "First-time Adoption of IFRS"**- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"**- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),

- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),

3. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

3.12.2 Standards and interpretations in issue not yet adopted (continue

- **Amendments to IAS 24 "Related Party Disclosures" -** Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),

- **Amendments to IAS 32 "Financial Instruments: Presentation"** – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),

- **Amendments to various standards and interpretations "Improvements to IFRSs (2010)"** resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),

- **Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" -** Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),

- **IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"** (effective for annual periods beginning on or after 1 July 2010).

3.13 *Comparative information*

The comparative information is presented consistently applying the Bank's accounting policies. Certain amounts in the previous year financial statements have been reclassified to conform to the current year presentation

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 *Impairment losses on loans to customers*

The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgments as to whether there is an observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or 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 estimate and actual loss experience.

4.2 *Held-to maturity investments*

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value not amortized cost. The estimation of the fair value of treasury bills and investments held to maturity is disclosed in note 32**.**

(All amounts are expressed in thousand LEK, unless otherwise stated)

5. CASH AND BALANCES WITH CENTRAL BANK

Cash and balances with the Central Bank consisted of the following:

	As at December 31, 2010	**As at December 31, 2009**
Cash on hand	760,070	1,032,495
Central Bank		
Current account	384,337	111,358
Compulsory reserves	1,439,203	1,202,342
Term Deposits	-	-
Accrued interest	628	542
Total	**2,584,238**	**2,346,737**

Compulsory reserve is the statutory reserve for liquidity purposes; it represents a minimum reserve deposit required by the Central Bank of Albania. Compulsory reserve is calculated as a percentage of 10% of the amount of deposits at the end of each month owed to customers, and is held both in LEK and in foreign currency (USD and EUR). The compulsory reserve is not available for use in the Bank's day to day operations, however according to the applicable regulations; the Bank can make use of up to 40% of the compulsory reserve, provided that the monthly average balance of accounts with the Central Bank (current account plus compulsory reserve) does not fall below the compulsory reserve level.

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

-LEK: 70% of the repurchase agreements rate: 3.5% p.a. as at December 31, 2010 (December 31, 2009: 3.675% p.a.);
-USD: 70% of the one-year USD Base rate: 0.09 % p.a. as at December 31, 2010 (December 31, 2009: 0.09% p.a.);
-EUR: 70% of the one-year EUR Base rate: 1.7% p.a. as at December 2010 (December 31, 2009: 0.70% p.a.).

Current accounts with the Central Bank are non interest bearing.

(All amounts are expressed in thousand LEK, unless otherwise stated)

6. PLACEMENTS AND BALANCES WITH BANKS

Loans and advances to credit institutions are detailed as follows:

	As at December 31, 2010	As at December 31, 2009
Current accounts:		
Resident	-	-
Non-resident	1,416,793	780,478
	1,416,793	**780,478**
Deposits:		
Resident	1,302,513	441,472
Non-resident	1,013,021	491,589
	2,315,534	**933,061**
Other accounts	538,748	148,499
Accrued interest	1,966	112
Total	**4,273,041**	**1,862,149**

Deposits with resident and non-resident banks mature in the range of 3 days to 12 months (2009: 4 days to 12 months) and bear interest in the range of 0.13%p.a. to 5.3%p.a. (2009: 0.09%p.a. to 5%p.a.).

7. SHORT TERM INVESTMENT SECURITIES

Short term investment securities at December 31, 2010 consist of Treasury Bills ("T-Bills") issued by the Albanian Government.

T-Bills bear interest at market rates ranging from 6.43% p.a. to 8.19% p.a. (2009: 8.49% p.a. to 9.43% p.a.) on a compound basis and are all denominated in Lek.

The Bank's investment in T-Bills is considered to be of low risk.

T-Bills by original maturity are presented as follows:

	As at December 31, 2010			As at December 31, 2009		
	Nominal value	Accrued discount	Book Value	Nominal value	Accrued discount	Book Value
6 months	-	-	-	-	-	-
12 months	1,960,000	(77,450)	1,882,550	1,960,000	(99,519)	1,860,481
Total	**1,960,000**	**(77,450)**	**1,882,550**	**1,960,000**	**(99,519)**	**1,860,481**

(All amounts are expressed in thousand LEK, unless otherwise stated)

8. LOANS AND ADVANCES TO CUSTOMERS, NET

	As at December 31, 2010	As at December 31, 2009
Loans	6,080,036	5,548,737
Overdrafts	4,412,222	4,134,394
Loans to Government	-	275,920
Other advances to customers	28,617	18,359
	10,520,875	**9,977,411**
Accrued interest	192,303	135,164
Allowances for losses on loans and advances	(332,649)	(247,668)
Deferred income	(28,724)	(35,227)
Total	**10,351,805**	**9,829,680**

The following table presents the distribution of the Bank's credit exposure by industry sector for loans and advances to customers as at December 31, 2010:

	As at December 31, 2010	%	As at December 31, 2009	%
Trade	2,569,510	24%	2,794,451	28%
Other Services	1,640,021	15%	1,437,393	14%
Construction	1,377,485	13%	1,288,211	13%
Real Estate	1,301,777	12%	1,242,934	12%
Financial services	1,187,634	11%	929,015	9%
Processing Industry	1,020,348	10%	828,575	8%
Consumer	1,010,769	10%	819,376	8%
Education	303,958	3%	270,083	3%
Agriculture and Forestry	80,374	1%	59,561	1%
Production and transmission of electricity, gas and water	28,999	1%	31,891	1%
Public sector	-	0%	275,920	3%
Total	**10,520,875**		**9,977,411**	

The above loans and overdrafts in Lek bear interests in the range of 3.5% p.a. to 20.0% p.a. (2009: 3.5% p.a. to 20.0% p.a.), in Euro bear interests in the range of 3.16% p.a. to 15.5% p.a. (2009: 3.5% p.a. to 16.19% p.a.) and in USD bear interest in the range of 1.8% p.a. to 10.8% p.a. (2009: 1.8% p.a. to 15.0% p.a.)

Loans to customers are collaterized by securities, such as cash collateral, mortgages, inventory and other assets pledged in favor of the Bank from its borrowers, totaling an amount of LEK 28,870,467 thousand (2009: LEK 25,935,593 thousand).

(All amounts are expressed in thousand LEK, unless otherwise stated)

8. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

Loan by type

	31 December 2010		31 December 2009	
	Amount in LEK	**%**	**Amount in LEK**	**%**
Business Enterprises	8,208,329	78%	7,639,181	76%
Individuals	2,312,546	22%	2,062,310	21%
Public Sector	-	0%	275,920	3%
Total	**10,520,875**	**100%**	**9,977,411**	**100%**

Allowance for impairment

Reconciliation of allowance account for losses on loans and advances is as follows:

	As at December 31, 2010	As at December 31, 2009
Balance at the beginning of the year	**247,668**	**79,112**
Provision for the year, net	85,213	153,905
Loans written-off during the year	-	-
Foreign exchange revaluation differences	(232)	14,651
Balance at the end of the year	**332,649**	**247,668**

(All amounts are expressed in thousand LEK, unless otherwise stated)

9. INTANGIBLE ASSETS, NET

	Software	Other intangible assets	Intangible assets in progress	Total
At 1 January 2009				
Cost	120,937	11,135	12,084	144,156
Accumulated amortization	(12,619)	(4,526)	-	(17,145)
Net book amount	**108,318**	**6,609**	**12,084**	**127,011**
Year ended December 2009				
Opening net book amount	108,318	6,609	12,084	127,011
Additions	613	13,177	-	13,790
Disposals	-	-	-	-
Amortization charge	(27,169)	(3,551)	-	(30,720)
Adjustments			(12,084)	(12,084)
Closing net book amount	**81,762**	**16,235**	**-**	**97,997**
At 31 December 2009				
Cost	121,550	24,312	-	145,862
Accumulated amortization	(39,788)	(8,077)	-	(47,865)
Net book amount	**81,762**	**16,235**	**-**	**97,997**
Year ended December 2010				
Opening net book amount	81,762	16,235	-	97,997
Additions	652	-	4,012	4,664
Disposals	-	-	-	-
Amortization charge	(20,468)	(3,647)	-	(24,115)
Adjustments	-	-	-	-
Closing net book amount	**61,946**	**12,588**	**4,012**	**78,546**
At 31 December 2010				
Cost	122,202	24,312	4,012	150,526
Accumulated amortization	(60,256)	(11,724)	-	(71,980)
Net book amount	**61,946**	**12,588**	**4,012**	**78,546**

Under “Other intangible assets” are included payments directed to First Data Hellas (“FDH”) for developing ATM network supporting systems, setting up of on-line link between FDH’s ATM host system and the Bank’s host and installation, customization and certification services as well as payments directed to Society for Worldwide Interbank Financial Telecommunication (SWIFT) and CIS for fees joining SWIFT, SWIFT Alliance interface, and SWIFT Alliance access installation.

(All amounts are expressed in thousand LEK, unless otherwise stated)

10. PROPERTY AND EQUIPMENT, NET

	Computer equipments	Electronic equipment	Office Furniture	Other tangible assets	Fixed assets in progress	Leasehold improvements	Total
At 1 January 2009							
Cost	127,881	72,302	30,193	10,761	15,426	128,679	385,242
Accumulated depreciation	(51,275)	(18,116)	(8,218)	(2,241)	-	(38,990)	(118,840)
Net book amount	**76,606**	**54,186**	**21,975**	**8,520**	**15,426**	**89,689**	**266,402**
Year ended December 2009							
Opening net book amount	76,606	54,186	21,975	8,520	15,426	89,689	266,402
Additions	15,283	6,467	6,946	-	-	21,359	50,055
Disposals	(89)	-	-	-	-	-	(89)
Depreciation charge	(20,805)	(11,041)	(4,955)	(1,704)	-	(16,916)	(55,421)
Adjustments	52	-	-	-	(8,407)	-	(8,355)
Closing net book amount	**71,047**	**49,612**	**23,966**	**6,816**	**7,019**	**94,132**	**252,592**
At 31 December 2009							
Cost	143,075	78,769	37,139	10,761	7,019	150,038	426,801
Accumulated depreciation	(72,028)	(29,157)	(13,173)	(3,945)	-	(55,906)	(174,209)
Net book amount	**71,047**	**49,612**	**23,966**	**6,816**	**7,019**	**94,132**	**252,592**
Year ended December 2010							
Opening net book amount	71,047	49,612	23,966	6,816	7,019	94,132	252,592
Additions	3,155	6,039	2,618	6,649	3,837	592	22,890
Disposals	(517)	(347)	(171)	(3,866)	-	-	(4,901)
Depreciation charge	(17,964)	(10,574)	(5,125)	(1,598)	-	(13,173)	(48,434)
Adjustments	303	174	95	1,460	-	-	2,032
Closing net book amount	**56,024**	**44,904**	**21,383**	**9,461**	**10,856**	**81,551**	**224,179**
At 31 December 2010							
Cost	145,713	84,461	39,586	13,544	10,856	150,630	444,790
Accumulated depreciation	(89,689)	(39,557)	(18,203)	(4,083)	-	(69,079)	(220,611)
Net book amount	**56,024**	**44,904**	**21,383**	**9,461**	**10,856**	**81,551**	**224,179**

Leasehold improvements relate to the expenditures made by the Bank for the reconstruction of a leased site that the Bank uses for branches.

(All amounts are expressed in thousand LEK, unless otherwise stated)

11. ASSETS HELD FOR SALE

Assets held for sale are properties acquired through enforcement of security over loans and advances to customers. The Bank intents and is taking steps on selling them to the best offer within a year from their foreclosure.

Assets held for sale as at December 31, 2010 are measured with the lower of its carrying amount and fair value less costs to sell, amounting LEK 29,397 thousand (2009: LEK 29,397 thousand).

12. LONG TERM INVESTMENT SECURITIES

Bonds in Lek bear interest at market rates ranging from 7.65%p.a. to 9.25%p.a.(2009:8.2%p.a. to 8.35% p.a.) and in Eur 7.5%p.a. This interest is paid semiannually.

The Bank's investment in Government Bonds is considered to be of low risk.

Government Bonds by original maturity are presented as follows:

				As at December 31, 2010			**As at December 31, 2009**
	Purchase value	**Unamortized Discount**	**Accrued interest**	**Book Value**	**Purchase value**	**Accrued interest**	**Book Value**
24 months	1,819,882	(2,032)	37,360	1,855,210	164,688	5,299	169,987
Total	**1,819,882**	**(2,032)**	**37,360**	**1,855,210**	**164,688**	**5,299**	**169,987**

13. OTHER ASSETS

Other assets are comprised of the following:

	As at December 31, 2010	**As at December 31, 2009**
Sundry debtors	16,439	38,283
Prepayments	14,152	8,001
Accrued income	12,411	6,474
Inventories	2,697	1,760
Guarantee deposit paid	694	690
Payment in transit	521	1,483
Monetary values in transit	18	61,074
Temporarily FX result	-	6,495
Fiscal Administration	-	236
Margin trading- asset	-	141,794
Total	**46,932**	**266,290**

Payment in transit represent international money transfers outbound whose settlement date, as agreed upon, fall in the first days of the following year. Accrued income represents commissions recognized but not yet liquidated to customer accounts. Margin trading assets as of December 31, 2009 represent bank's claim on FX transactions with customers.

(All amounts are expressed in thousand LEK, unless otherwise stated)

14. DUE TO BANKS AND FINANCIAL INSTITUTIONS

Loans and advances from credit institutions are detailed as follows:

	As at December 31, 2010	As at December 31, 2009
Current accounts:		
Resident	791,094	270,062
Non-resident	3,739	73,249
	794,833	**343,311**
Term deposits:		
Resident	1,029,673	894,526
Non-resident	-	14,037
	1,029,673	**908,563**
Borrowings:		
Resident	-	130,000
Non-resident	527,326	275,920
	527,326	**405,920**
Other accounts:		
Resident	76,008	151,645
	76,008	**151,645**
Accrued interest	26,320	17,888
Total	**2,454,160**	**1,827,327**

Term deposits from financial institutions mature in a range from 3 to 12 months and bear interest in range of 4%p.a. to 5.5%p.a. (2009: 0.2%p.a. to 6%p.a.). These deposits are deposited by Financial Union and are held as collateral for loans issued by the bank.

Borrowings mature in a rage from 11 days to 40 months and bear interest of 1%p.a. to 6.015% p.a. (2009: 2.0%p.a. to 4.6% p.a.).

As at December 23, 2009 the bank entered into a loan agreement with EBRD, contracted loan amount was equal to EUR 2 mln. As per contract agreement loan disbursements are performed based on the bank requests 60 days after the contract date. Disbursement requests made from the bank to lender during 2010 were equal to EUR 1.3 mln equivalent to LEK 180,401 thousand.

Short term borrowing of EUR 2.5 mln equivalent to LEK 346,925 thousand with NLB Pristine has an initial maturity of 14 days.

Other accounts are accounts of resident financial institutions held as collateral of guarantee issued by the Bank. These balances bear interest in range of 2.5% p.a. to 5.5% p.a. (2009: 3.1% p.a. to 5.5% p.a.) and an initial maturity of 12 months, related to the guarantee issued.

(All amounts are expressed in thousand LEK, unless otherwise stated)

15. DUE TO CUSTOMERS

Customer accounts for enterprises, private entrepreneurs and individuals consisted of current and deposit accounts as follows:

	As at December 31, 2010	As at December 31, 2009
Government and public admin accounts	**9,906**	**94,148**
Current accounts:		
Local currency	1,897,056	1,500,011
Foreign currency	1,626,804	1,442,605
	3,523,860	**2,942,616**
Saving accounts:		
Local currency	325,527	173,847
Foreign currency	946,726	407,619
	1,272,253	**581,466**
Term deposits:		
Local currency	5,136,645	3,532,859
Foreign currency	5,813,535	4,924,665
	10,950,180	**8,457,524**
Other customer accounts:		
Local currency	333,752	353,838
Foreign currency	522,850	167,681
	856,602	**521,519**
Subtotal	**16,612,801**	**12,597,273**
Accrued interest	244,430	150,586
Total	**16,857,231**	**12,747,859**

Current and saving accounts in different currencies bear interest in the range of 0.2% p.a. to 0.4%p.a. (2009: 0.2%p.a. to 0.4%p.a.) and term deposits in different currencies bear interest ranging as follows:

- in LEK: 2.90%p.a. to 8.90%p.a. (2009: 3.40%p.a. to 9.50%p.a.)
- in USD: 0.40%p.a. to 3.10%p.a. (2009: 0.20%p.a. to 3.50%p.a.)
- in EUR: 1.30%p.a. to 6.20%p.a. (2009: 0.80%p.a. to 6.80%p.a.)
- in GBP: 0.30%p.a. to 1.00%p.a. (2009: 0.30%p.a. to 2.00%p.a.)

Other customer accounts represent blocked accounts for tender/contract guarantees, other bank guarantees and initial capital blocked by customers in the process of their own companies’ establishment.

(All amounts are expressed in thousand LEK, unless otherwise stated)

15. DUE TO CUSTOMERS (CONTINUED)

Customer accounts and deposits could be further analyzed as follows:

	As at December 31, 2010			As at December 31, 2009		
	LEK	**Foreign currency**	**Total**	**LEK**	**Foreign currency**	**Total**
Current accounts	**1,897,056**	**1,636,710**	**3,533,766**	**1,500,011**	**1,536,753**	**3,036,764**
Saving accounts	**325,527**	**946,726**	**1,272,253**	**173,847**	**407,619**	**581,466**
Term deposits:						
One month	51,816	150,550	202,366	252,638	270,453	**523,091**
Three months	357,952	513,242	871,194	246,441	432,170	**678,611**
Six months	402,244	821,428	1,223,672	435,981	1,383,950	**1,819,931**
Twelve months	2,299,816	2,472,588	4,772,404	1,922,902	2,058,740	**3,981,642**
Other	2,024,817	1,855,727	3,880,544	674,896	779,353	**1,454,249**
Total deposits	**5,136,645**	**5,813,535**	**10,950,180**	**3,532,858**	**4,924,666**	**8,457,524**
Other customer accounts:						
On demand	15,168	11,044	26,212	42,706	15,082	**57,788**
One month	-	-	-	-	-	**-**
Three months	-	-	-	1,000	9,657	**10,657**
Six months	300	-	300	-	-	**-**
Twelve months	8,295	210,417	218,712	6,283	96,696	**102,979**
Other	309,989	301,389	611,378	303,848	46,247	**350,095**
Total other customer accounts	**333,752**	**522,850**	**856,602**	**353,837**	**167,682**	**521,519**
Total	**7,692,980**	**8,919,821**	**16,612,801**	**5,560,553**	**7,036,720**	**12,597,273**

“Other” includes deposits with initial maturity 4 months, 7 months, 14 months, 21 months and 24 months:

(All amounts are expressed in thousand LEK, unless otherwise stated)

16. OTHER LIABILITIES

Other liabilities are comprised of the following:

	As at December 31, 2010	As at December 31, 2009
Payments in transit	26,764	108,270
Invoices to be received	25,107	26,087
Other	11,995	6,768
Accrued expenses	9,170	1,049
Sundry creditors	630	316
Margin trading- liability	-	143,705
Total	**73,666**	**286,195**

Payment in transit accounts represent international money transfers outbound whose agreed settlement dates fall in the first days of the following year.

Margin trading liability as of December 31, 2009 represents bank's liability on FX transactions with customers.

17. SUBORDINATED DEBT

The amounts of subordinated debt represent the commitment of the existing Bank's shareholders to maintain the minimum capital regulatory requirements until the newly joint-in shareholder, EBRD, would have paid its share of capital, which had previously committed to and eventually did pay on October 8th 2008. By the time the new shareholder honored the capital commitment, the regulatory treatment requires the subordinated debt amounts to be regarded as commitment for future capital injection and not reverted back to its owners in any form other than paid-in capital. The amount of the subordinated debt of EUR 2,292.5 thousand (LEK 409,194.45 thousand at transaction exchange rate) has been used for increase in the share capital of the Bank during 2009.

	As at December 31, 2010	As at December 31, 2009
Subordinated debt	1,041	1,035
Total	**1,041**	**1,035**

18. SHARE CAPITAL

Paid-up capital:
Movement in the Bank's paid-up share capital is detailed as follows:

	As at December 31, 2010		As at December 31, 2009	
	No. of shares	Value of shares	No. of shares	Value of shares
Balance at the beginning of the year	1,617,143	2,049,331	1,257,143	1,557,305
Capital injection during the year	-	-	360,000	492,026

Paid up share capital	**1,617,143**	**2,049,331**	**1,617,143**	**2,049,331**

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Notes to the Financial Statements for the year ended December 31, 2010
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18. SHARE CAPITAL (CONTINUED)

The paid up capital structure is as follows:

Financial Union Tirana Sh.p.k	83.12%
European Bank for Reconstruction and Development (EBRD)	12.50%
Edmond Leka	2.19%
Niko Leka	2.19%

Subscribed capital:
The Bank's subscribed capital consists of 1,617,143 shares (2009: 1,617,143 shares) at EUR 10 per share and is detailed as follows. The translation exchange rate used is the rate of the date of registration of the capital in the court and from 2008 injections' is the rate of the date of registration in national registration center:

	As at December 31, 2010		**As at December 31, 2009**	
	No. of shares	**Value of shares**	**No. of shares**	**Value of shares**
Subscribed Capital	1,617,143	2,048,053	1,617,143	2,048,053

Paid-up share capital represents ordinary share capital and has no preferences or restrictions attached thereto.

19. INTEREST INCOME

Interest income was earned on the following assets:

	Year ended December 31, 2010	**Year ended December 31, 2009**
Loans and advances to customers	1,014,365	810,850
Investment securities	241,100	103,353
Loans and advances to banks & financial institutions	42,143	41,353
Loans and advances to Government	26,773	14,735
Total	**1,324,381**	**970,291**

Interest income accrued on impaired financial assets is LEK 24,898 thousand (2009: LEK 7,944 thousand).

(All amounts are expressed in thousand LEK, unless otherwise stated)

20. INTEREST EXPENSE

Interest expense was incurred on the following liabilities:

	Year ended December 31, 2010	Year ended December 31, 2009
Due to customers	617,751	424,178
Loans and advances from financial institutions	60,105	28,664
Subordinated debt	24	10,827
Repurchase agreements	-	184
Total	**677,880**	**463,853**

21. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Banking services	109,124	100,722
Other	32,247	39,519
Lending activity	4,414	1,367
Total	**145,785**	**141,608**

22. FEE AND COMMISSION EXPENSES

Fees and commissions expense were comprised as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Fee charged for services offered from the agents of Financial Union	18,852	23,282
Treasury operations	4,647	9,230
Banking services	4,294	4,306
Other	1,078	845
Total	**28,871**	**37,663**

23. NET FOREIGN EXCHANGE GAIN

Net foreign exchange gain represents the net revaluation of the Bank's foreign currency monetary assets and liabilities as well as off balance sheet position on FX trading. Net gain from foreign transaction the year ended December 31, 2010 is LEK 108,815 thousand (2009: LEK 306,674 thousand).

(All amounts are expressed in thousand LEK, unless otherwise stated)

24. OTHER CHARGES FOR PROVISIONS

Other charges for provisions denote provisions for receivables other than loans and advances that arise from bank operations and the insurance contract for the bank's assets.

25. PERSONNEL COSTS

	Year ended December 31, 2010	Year ended December 31, 2009
Salaries	191,717	167,944
Social insurance	26,592	25,799
Other	22,842	18,161
Management remuneration	20,807	18,843
Total	**261,958**	**230,747**

"Other" includes expenses for bonuses LEK 19,809 thousand (2009: LEK 15,399 thousand), training LEK 335 thousand (2009: LEK 348 thousand) and board remuneration LEK 2,698 thousand (2009: LEK 2,414 thousand.

26. OTHER OPERATING EXPENSES

	Year ended December 31, 2010	Year ended December 31, 2009
Rent	111,246	92,953
Other external services	65,048	47,481
Communication expenses	35,668	30,390
Security services	26,800	27,025
Marketing	25,334	21,646
Utilities	17,190	13,240
Software maintenance	13,793	12,902
Maintenance & repairs	14,404	11,310
Office supply	13,150	10,844
Premium insurance of deposits	28,196	10,840
Consulting & Legal fees	5,082	7,710
Insurance	5,593	3,919
Transportation & business travel expenses	3,979	2,267
Representation	645	1,342
Total	**366,128**	**293,869**

27. INCOME TAX

	Year ended December 31, 2010	Year ended December 31, 2009
Current tax expense	-	-
Deferred tax expense	(30,483)	(328)
Total tax income/expense	**(30,483)**	**(328)**

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

(All amounts are expressed in thousand LEK, unless otherwise stated)

27. INCOME TAX (CONTINUED)

The following represents a reconciliation of the accounting profit to the taxable profit for the year ended December 31, 2010 and 2009:

	Year ended December 31, 2010	Year ended December 31, 2009
IFRS accounting profit/loss before tax	**86,906**	**117,460**
Adjustment for loan loss provision (impairment of loans)	(172,288)	52,735
Adjustment for start up costs	(3,507)	(3,507)
Add non-deductible expenses:	13,253	40,596
Representative expenses	256	545
Staff expenses	4,623	1,357
Office expenses	2,372	248
Other	5,985	38,394
Fine, penalties	17	52
Fiscal profit/loss	**(75,636)**	**207,284**
Losses carry forward from prior years	**-**	**(207,284)**
Taxable profit	-	-
Tax on profit @ 10%	-	-

As of December 31, 2010, the Bank has carried forward losses for fiscal purposes amounting to LEK 198,220 thousand (2009: LEK 266,089 thousand). Under the Albanian Tax Law, for tax purposes the Bank can compensate the carried forward losses with the profits of the three next taxable periods, according to principle “the first loss before the last one”.

The movement on the deferred tax is presented as follows:

	As at December 31, 2010	As at December 31, 2009
Deferred tax asset at the beginning of the year	28,212	28,540
Recognized in statement of comprehensive income	10,423	328
Deferred tax asset at the end of the year	**17,789**	**28,212**
Deferred tax liability at the beginning of the year	-	-
Recognized in statement of comprehensive income	20,060	-
Deferred tax liability at the end of the year	**20,060**	**-**

(All amounts are expressed in thousand LEK, unless otherwise stated)

27. INCOME TAX (CONTINUED)

As at December 31, 2010 and 2009 deferred tax assets and liabilities are attributable to the following items:

	As at December 31, 2010	As at December 31, 2009
Deferred tax asset:		
Start up expenses	583	934
Carry forward tax losses	17,206	26,609
Allowances for losses on loans and advances	-	669
	17,789	**28,212**
Deferred tax liability:		
Allowances for losses on loans and advances	20,060	-
	20,060	**-**

Based on Albanian Accounting Law and Bank of Albania regulation the Bank, starting January 1, 2008 should start publishing only IFRS financial statements. As a basis on calculating the Income tax the Bank should use the financial results, calculated based on IFRS.

Losses carried forward include losses of 2008 and 2010. Deferred tax assets recognized in respect of tax losses extended to the management future estimate of probable taxable profit that will be available against which the losses can be utilized.

28. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	As at December 31, 2010	As at December 31, 2009
Cash on hand	760,071	1,032,495
Accounts with Central Bank	384,337	111,359
Accounts with financial institutions with maturity of less than 3 months	3,732,328	1,741,131
Treasury bills with maturity of less than 3 months	543,973	358,047
Total	**5,420,709**	**3,243,032**

(All amounts are expressed in thousand LEK, unless otherwise stated)

29. RELATED PARTIES

Parties are considered to be related if one of them has the ability to control the other or exercise significant influence over the one making financial and operating decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not the merely to the legal form.

As at each statement of financial position date the Bank has following balances to its related parties:

	As at December 31, 2010	As at December 31, 2009
Assets:		
Loans and advances to customers		
Parent company	4,202	4,715
Associated entities	1,620,595	1,139,493
Management and other relatives	62,269	48,870
Other Assets		
Parent company	1,316	-
Associated entities	268	-
Management and other relatives	5	21
Other shareholders	-	
Liabilities:		
Due to banks and FI		
Parent company	1,921,114	1,334,034
Other shareholders	182,330	-
Due to customers		
Associated entities	472,728	590,321
Management and other relatives	184,069	175,630
Other Liabilities		
Parent company	-	598
Associated entities	5,141	2,617
Management and other relatives	509	-
Other shareholders	86	-
Subordinated debt		
Parent company	1,041	1,035
Shareholders' equity:		
Parent company	1,705,000	1,705,000
Other shareholders	344,331	344,331

(All amounts are expressed in thousand LEK, unless otherwise stated)

29. RELATED PARTY TRANSACTIONS (CONTINUED)

	As at December 31, 2010	As at December 31, 2009
Share premium		
Other shareholders	175,600	175,600
Off Balance Sheet		
Un-drawn credit facilities from the Bank		
Associated entities	36,059	30,240
Management and other relatives	21,519	19,585
Guarantees received		
Parent company	1,466,736	793,159
Associated entities	892,285	930,647
Management and other relatives	355,647	60,475
Guarantees given		
Parent company	20	34,951
Associated entities	428,312	23,324
Commitments received		
Parent company		
Associated entities		205,112
Other shareholders	97,139	275,920
Commitments given		
Associated entities	141,686	198,184

The Bank has entered into the following transactions with related party;

	Year ended December 31, 2010	Year ended December 31, 2009
Operating expenses:		
Parent company	2,205	2,122
Associated entities	31,543	12,865
Management and other relatives	51,761	48,710
Funds/loans transferred to the Bank		
Parent company		-
Fees and commission:		
Parent company	16,997	24,034
Associated entities	6,806	1,659
Management and other relatives	222	209
Interest expense:		
Parent company	51,601	39,015
Associated entities	29,154	3,658
Management and other relatives	4,855	3,964
Other shareholders	7,258	
Interest income:		
Parent company	454	449
Associated entities	97,579	52,803
Management and other relatives	4,240	3,058

The above mentioned outstanding balances and transactions arose from the ordinary course of business and were made on terms equivalent to those that prevail in arm's length transactions.

(All amounts are expressed in thousand LEK, unless otherwise stated)

30. COMMITMENTS AND CONTINGENCIES INCLUDING OFF-STATEMENT OF FINANCIAL POSITION ITEMS

Commitments and contingencies include the following:

	As at December 31,2010	As at December 31,2009
Contingent assets		
Guarantees given in favor of customers	845,906	393,621
Un-drawn credit facilities	706,389	465,745
Commitments for Letter of Credits	36,717	36,024
Total Contingent assets	**1,589,012**	**895,390**

Guarantees and commitments

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted. Guarantees received from customers and credit institutions include cash collateral, mortgages pledged in favor of the bank from its borrowers.

Commitments represent the undrawn balances of loans, overdraft and card limits granted to the customers.

Legal

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 at 31 December 2009.

Operating lease commitments

The Bank has entered into non-cancelable lease commitments. Such commitments as at December 31, 2010 and December 31, 2009 are composed as follows:

	As at December 31, 2010	As at December 31, 2009
Not later than 1 year	112,448	110,233
Later than 1 year and not later than 5 years	512,285	505,279
Later than 5 years	507,451	566,899
Total	**1,132,184**	**1,182,411**

31. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and the operational risks are inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems.

The most important types of risk are discussed below.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to repay the obligation and cause the Bank to incur a loss. The Bank is subject to credit risk through its lending activities, and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees in this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations.

The Board of Directors has delegated responsibility for the oversight of credit risk to its Bank Credit Committee. A separate Bank Credit Department, reporting to the Bank Executive Management is responsible for management of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Credit facilities approvals and renewals require approval by Credit Department, Head of Credit Department, Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Bank Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances).
- Developing and maintaining the Bank's risk gradings 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. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Bank’s Executive Management.
- Reviewing compliance of business units with agreed exposure limits. Regular reports on the credit quality of local portfolios are provided to Bank Credit Department who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Bank’s Credit Department and Credit Committee. Each business unit has a responsible officer who reports on all credit related matters to local management and the Bank Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval Regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Maximum credit exposure
Maximum exposure to credit risk before collateral held or other credit enhancements as of December 31, 2010 and 2009 is as follows:

	As at December 31, 2010	As at December 31, 2009
Short term investment securities	1,882,550	1,860,481
Placements and balances with banks	4,273,041	1,862,149
Loans and advances to customers, net	10,351,805	9,829,680
Long term investment securities	1,855,210	169,987
Financial guarantees	845,906	393,621
Standby letters of credit	36,717	36,024
Commitments to extend credit	705,029	465,745
Maximum exposures to credit risk	**19,950,258**	**14,617,687**

Exposure to credit risk is also managed in part by obtaining collateral and guarantees. The principal collateral types are:
- Mortgage over residential properties
- Pledges over business assets and inventories
- Deposits and accounts placed (cash collateral)
- Personal guarantor for the loan

In addition to the term loans and business overdrafts that are secured by the above type of collateral, overdrafts on payroll accounts are extended to individuals as well. No pledges are taken for these advances as the monthly salary offsets the used part of the limit given. Financial guaranties and stand-by letters of credit are cash-collateralized.

Impaired loans and advances
Impaired loans and advances are loans and advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s).

Past due but not impaired loans
Loans and advances 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.

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 independently from eventual satisfactory performance after restructuring.

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Allowances for impairment
The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. It consists in the specific loss component that relates to individually significant exposures.

Loans and advances are summarized as follows:

As at December 31, 2010	Loans and advances to customers				Placements and balances with banks
	Retail	Corporate	Advances	Total Loans	
Neither past due nor impaired	1,430,973	2,336,016	4,389,719	8,156,708	4,273,041
Past due but not impaired	471,779	856,125	88,509	1,416,413	
Individually impaired	121,637	879,786	109,910	1,111,333	
Total Gross	**2,024,389**	**4,071,927**	**4,588,138**	**10,684,454**	**4,273,041**
Less: allowance for individually impaired loans	58,169	151,376	39,754	249,299	
Less: allowance for collectively impaired loans	17,645	35,977	29,728	83,350	-
Total Allowance for impairment	**75,814**	**187,353**	**69,482**	**332,649**	**-**

As at December 31, 2009	Loans to Government	Loans and advances to customers				Placements and balances with banks
		Retail	Corporate	Advances	Total Loans	
Neither past due nor impaired	277,007	1,509,503	2,539,892	3,997,858	8,324,260	1,862,149
Past due but not impaired		254,809	997,165	211,136	1,463,110	
Individually impaired		58,859	198,156	32,963	289,978	
Total Gross	**277,007**	**1,823,171**	**3,735,213**	**4,241,957**	**10,077,348**	**1,862,149**
Less: allowance for individually impaired loans		36,720	82,331	32,963	152,014	
Less: allowance for collectively impaired loans		15,819	46,432	33,403	95,654	-
Total Allowance for impairment	**-**	**52,539**	**128,763**	**66,366**	**247,668**	**-**

The total impairment provision for loans and advances is LEK 332,649 thousand (2009: LEK 247,668 thousand).

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Loans and advances neither pas due nor impaired
As per Bank's internal credit rating, loans and advances that are neither pass due or impaired are classified as below:

As at December 31, 2010

Rating	**Loans and advances to customers**				**Placements and balances with banks**
	Retail	**Corporate**	**Advances**	**Total Loans**	
Good	1,430,969	2,333,542	3,577,327	7,341,838	4,273,041
Acceptable	-	2,474	589,498	591,972	
Close monitoring	4		222,894	222,898	
Unacceptable					
Total	**1,430,973**	**2,336,016**	**4,389,719**	**8,156,708**	**4,273,041**

As at December 31, 2009

Rating	**Loans and advances to customers**					**Placements and balances with banks**
	Government	**Retail**	**Corporate**	**Advances**	**Total Loans**	
Good	277,007	1,476,301	2,539,892	3,995,639	8,288,839	1,862,149
Acceptable	-	29,824	-	2,219	32,043	-
Close monitoring	-	3,378	-	-	3,378	-
Unacceptable	-	-	-	-	-	-
Total	**277,007**	**1,509,503**	**2,539,892**	**3,997,858**	**8,324,260**	**1,862,149**

Loans and advances past due but not impaired

Below is the ageing analysis of loans past due but not individually impaired.

As at December 31, 2010

	Loans and advances to customers			
Time band	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 30 days	423,817	700,277	22,830	1,146,924
Past due 31-60 days	37,271	76,882	12,288	126,441
Past due 61-90 days	8,753	39,836	15,247	63,836
Past due 91-180 days	39	38,443	21,647	60,129
Past due over 180 days	1,899	687	16,497	19,083
Total	**471,779**	**856,125**	**88,509**	**1,416,413**
Estimation of fair value of collateral	**1,126,315**	**4,025,335**	**255,388**	**5,407,038**

Loans and advances past due over 180 days are collateralized by cash amounting at LEK 16,062 thousand.

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

As at December 31, 2009

Time band	Loans and advances to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
Past due up to 30 days	189,816	735,244	62,985	988,045
Past due 31-60 days	6,802	31,569	12,186	50,557
Past due 61-90 days	31,599	139,716	46,985	218,300
Past due 91-180 days	13,364	89,954	36,876	140,194
Past due over 180 days	13,229	682	52,105	66,016
Total	**254,810**	**997,165**	**211,137**	**1,463,112**
Estimation of fair value of collateral	**660,188**	**2,783,700**	**309,481**	**3,753,369**

Loans and advances individually impaired

The individually impaired loans and advances before taking into consideration the cash flows from collateral held is LEK 1,111,333 thousand (2009: LEK 289,978 thousand).

The breakdown of the gross amount of the individually impaired loans and advances by class, along with the fair value of the collateral held by the Bank as security, are as follows:

As at December 31, 2010	Loans and advances to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
Individually impaired	121,637	879,786	109,910	1,111,333
Fair value of collateral	179,274	1,387,123	95,577	1,661,974

As at December 31, 2009	Loans and advances to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
Individually impaired	58,859	198,156	32,963	289,978
Fair value of collateral	68,777	717,237	123,113	909,127

Loans and advances renegotiated
Restructuring activities include extended payment agreements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with other similar accounts.
Total portfolio restructured is of LEK 114,473 thousand (2009: LEK 12,892 thousand)

Write-off policy
The Bank writes off a loan / security balance (and any related allowances for impairment losses) when Risk Committee 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, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. 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. The collateral structure referring to loans past due but not impaired is similar to the collaterals structure referring to impaired loans presented below.

	Against individually impaired	Against collectively impaired	Total
Property	1,522,260	19,141,743	20,664,003
Pledge	139,714	4,902,606	5,042,320
Cash	-	3,164,144	3,164,144
Total	**1,661,974**	**27,208,493**	**28,870,467**

(b) Liquidity risk

Liquidity risk is the risk that the bank will encounter difficulty in raising funds to meet commitments associated with financial instruments, and, in general to retain continuity of its core business lines. On an operational basis, the Bank monitors the performance of its customer deposits, and on that basis adjusts the balance of its current assets' access to funding, in order to maintain a satisfactory payment capability. On a more strategic level, the bank through its Asset and Liability Committee manages this risk by continually monitoring expected cash flows from financial instruments and adjusting its investments to match the timing of payments and receipts. An analysis of the Bank's expected timing of cash flows is shown in note 31.

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

An analysis of assets and liabilities according to their maturities is as follows:

							As at December 31, 2010
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**over 5 years**	**Total**
Assets							
Cash and balances with Central Bank	2,584,238	-	-	-	-	-	**2,584,238**
Placements and balances with banks	3,732,619	-	404,476	130,497	-	5,448	**4,273,040**
Short term investment securities	-	543,973	194,454	1,050,517	93,606	-	**1,882,550**
Loans and advances to customers, net	2,151,195	531,997	1,111,156	2,457,794	1,244,965	2,854,699	**10,351,806**
Long term investment securities	20,170	7,391	4,838	4,962	1,403,571	414,278	**1,855,210**
Other assets	34,462	-	-	11,776	-	694	**46,932**
Total	**8,522,684**	**1,083,361**	**1,714,924**	**3,655,546**	**2,742,142**	**3,275,119**	**20,993,776**
Liabilities							
Due to banks and Financial institutions	1,141,862	13,915	1,929	1,116,053	180,401	-	**2,454,160**
Due to customers	6,308,884	2,246,495	2,150,311	5,173,472	978,069	-	**16,857,231**
Other liabilities	73,665	-	-	-	-	-	**73,665**
Subordinated debt	-	-	-	-	1,041	-	**1,041**
Total	**7,524,411**	**2,260,410**	**2,152,240**	**6,289,525**	**1,159,511**	**-**	**19,386,097**
Liquidity risk at December 31, 2010	**998,273**	**(1,177,049)**	**(437,316)**	**(2,633,979)**	**1,582,631**	**3,275,119**	**1,607,679**
Cumulative	**998,273**	**(178,776)**	**(616,092)**	**(3,250,071)**	**(1,667,440)**	**1,607,679**	**3,215,358**

The monitoring and control function for the Bank's investments are performed by the Asset-Liability Management Committee (ALCO). Bank's ALCO policy includes sets of daily, weekly and monthly reports to be prepared and analyzed. Daily report, "Liquidity Position Report", controls respectively daily inflows/outflows of liquidity till 1-year maturity, under business usual scenario. Monthly reports include gap analyses under separate bank specific and market crisis scenarios. Reports are produced for each single currency LEK, USD and EUR and for the total balance sheet as well.

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

As at December 31, 2009

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	over 5 years	Total
Assets							
Cash and balances with Central Bank	2,346,737	-	-	-	-	-	**2,346,737**
Placements and balances with banks	1,713,597	27,592	-	115,939	-	5,021	**1,862,148**
Short term investment securities		258,047	340,521	1,261,913	-	-	**1,860,481**
Loans and advances to customers, net	1,039,218	520,074	927,201	2,878,467	3,505,651	959,069	**9,829,681**
Long term investment securities	103,781	1,518	-	64,688			**169,987**
Other assets	258,169	2,793	1,951	2,688	10,498	690	**276,789**
Total	**5,461,502**	**810,024**	**1,269,673**	**4,323,695**	**3,516,149**	**964,780**	**16,345,823**
Liabilities							
Due to banks and Financial institutions	1,002,804	-	14,070	810,453	-	-	**1,827,327**
Due to customers	4,957,164	2,097,379	1,252,291	3,897,122	543,904	-	**12,747,860**
Other liabilities	286,195						**286,195**
Subordinated debt					1,035		**1,035**
Total	**6,246,163**	**2,097,379**	**1,266,361**	**4,707,575**	**544,939**	-	**14,862,417**
Liquidity risk at December 31, 2009	**(784,661)**	**(1,287,355)**	**3,312**	**(383,880)**	**2,971,210**	**964,780**	**1,483,406**
Cumulative	**(784,661)**	**(2,072,016)**	**(2,068,704)**	**(2,452,584)**	**518,626**	**1,483,406**	**2,966,812**

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

The Bank is exposed to the market a risk whenever the fair value or future cash flows of a financial instrument fluctuates because of changes in market prices. Market risks arise from opened statement of financial position positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

Currency risk
The Bank is exposed to currency risk through transactions in foreign currencies. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. As the currency in which the Bank presents it financial statements is the LEK, the Bank's financial statements are affected by movements in the exchange rates between the LEK and other currencies.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of comprehensive income. These exposures comprise the monetary assets and liabilities of the Bank that are not denominated in the measurement currency of the Bank The analysis of monetary assets and liabilities as at December 31, 2010 by the foreign currencies in which they were denominated is shown below.

					As at December 31, 2010
	LEK	**USD**	**EUR**	**Others**	**Total**
Assets					
Cash and balances with Central Bank	1,309,125	157,250	1,022,930	94,933	2,584,238
Placements and balances with banks	345,067	503,429	3,414,295	10,250	4,273,041
Short term investment securities	1,882,550	-	-	-	1,882,550
Loans and advances to customers, net	1,924,455	392,528	8,034,822	-	10,351,805
Long term investment securities	1,435,970	-	419,240	-	1,855,210
Other assets	20,162	2,035	24,470	265	46,932
Total	**6,917,329**	**1,055,242**	**12,915,757**	**105,448**	**20,993,776**
Liabilities					
Due to banks and financial institutions	2,630	316,246	2,135,270	14	2,454,160
Due to customers	7,857,627	916,936	8,012,547	70,121	16,857,231
Other liabilities	33,365	5,333	34,904	63	73,665
Subordinated debt	-	-	1,041	-	1,041
Total	**7,893,622**	**1,238,515**	**10,183,762**	**70,198**	**19,386,097**
Net Position	**(976,293)**	**(183,273)**	**2,731,995**	**35,250**	**1,607,679**

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Currency risk (continued)

					As at December 31, 2009
	LEK	**USD**	**EUR**	**Others**	**Total**
Assets					
Cash and balances with Central Bank	1,008,602	296,546	958,660	82,929	2,346,737
Placements and balances with banks	-	444,356	1,337,265	80,528	1,862,149
Short term investment securities	1,860,481	-	-	-	1,860,481
Loans and advances to customers, net	1,897,847	345,054	7,586,779		9,829,680
Long term investment securities	169,987				169,987
Other assets	99,332	49,391	67,408	60,657	276,788
Total	**5,036,249**	**1,135,347**	**9,950,112**	**224,114**	**16,345,822**
Liabilities					
Due to banks and financial institutions	131,334	250,914	1,371,198	73,881	1,827,327
Due to customers	5,643,969	687,376	6,328,924	87,590	12,747,859
Other liabilities	23,195	55,020	173,947	34,033	286,195
Subordinated debt			1,035		1,035
Total	**5,798,498**	**993,310**	**7,875,104**	**195,504**	**14,862,416**
Net Position	**(762,249)**	**142,037**	**2,075,008**	**28,610**	**1,483,406**

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Bank attempts to mitigate this risk by maintaining the Repricing Gap fully matched, so that both its assets and liabilities mature and re-price simultaneously. This limits the risk of the Bank becoming over-sensitive to interest rate changes. The Bank's interest rate gap as at December 31, 2010 is analyzed in note 31. As at December 31, 2010, majority of the Bank's short-term financial assets and liabilities, except for the loan portfolio, carry fixed interest rates. The majority of Bank's loans and advances to customers, representing 51% (2009: 57%) of the total statement of financial position, carry floating interest rates.

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Interest rate risk (continued)

i. Effective yield information

The average effective yields of significant categories of financial assets and liabilities of the Bank as at December 31, 2010 and December 31, 2009 were as follows:

	Weighted average interest rate (LEK)		**Weighted average interest rate (USD)**		**Weighted average interest rate (EUR)**		**Weighted average interest rate (other)**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Assets:								
Placements and balances with banks	4.87%	N/A	N/A	0.09%	0.63%	1.23%	N/A	0.42%
Investment securities	7.86%	8.38%	N/A	N/A	7.50%	N/A	N/A	N/A
Loans and advances to customers, net	12.51%	13.78%	8.37%	10.10%	8.70%	8.80%	N/A	N/A
Liabilities:								
Due to banks and financial institutions	N/A	4.56%	N/A	0.77%	4.51%	3.90%	N/A	0.20%
Due to customers	7.19%	7.42%	2.32%	2.18%	4.19%	4.63%	0.94%	1.46%
Subordinated debt	N/A	N/A	N/A	N/A	2.21%	2.55%	N/A	N/A

ii. Interest rate repricing analysis

The following table presents the interest rate repricing dates for the Bank's assets and liabilities. Variable-rate assets have been reported according to their next rate change date. Fixed-rate assets and liabilities have been reported according to their scheduled principal repayment dates.

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

	Up to 1 month	1-3 Month	3-6 Months	6-12 Months	Over 1 year	As at December 31, 2010 Non interest bearing	Total
Assets							
Cash and balances with Central Bank	1,439,203	-	-	-	-	1,145,035	**2,584,238**
Placements and balances with banks	3,397,269	-	402,854	130,444	5,449	337,025	**4,273,041**
Short term investment securities	543,973	194,454		1,050,517	93,606	-	**1,882,550**
Loans and advances to customers, net	2,409,823	1,137,268	2,122,240	4,566,986	476,862	(361,374)	**10,351,805**
Property, equipment and intangible assets	-	-	-	-	-	332,122	**332,122**
Long term investment securities	250,000	300,000	853,571	414,278		37,361	**1,855,210**
Other assets	-	-	-	-	-	64,721	**64,721**
Total	**8,040,268**	**1,631,722**	**3,378,665**	**6,162,225**	**575,917**	**1,554,890**	**21,343,687**
Liabilities							
Due to banks and financial institutions	398,400	13,877	242,512	1,029,673	-	769,698	**2,454,160**
Due to customers	6,194,976	2,212,710	2,083,302	5,140,151	975,032	251,060	**16,857,231**
Other liabilities	-	-	-	-	-	93,726	**93,726**
Subordinated debt	1,041						**1,041**
Shareholders' equity	-	-	-	-	-	1,937,529	**1,937,529**
Total	**6,594,417**	**2,226,587**	**2,325,814**	**6,169,824**	**975,032**	**3,052,013**	**21,343,687**
Gap	**1,445,851**	**(594,865)**	**1,052,851**	**(7,599)**	**(399,115)**	**(1,497,123)**	**-**
Cumulative gap	**1,445,851**	**850,986**	**1,903,837**	**1,896,238**	**1,497,123**	**-**	**-**

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

						As at December 31, 2009	
	Up to 1 month	1-3 Month	3-6 Months	6-12 Months	Over 1 year	Non interest bearing	Total
Assets							
Cash and balances with Central Bank	1,202,342	-	-	-	-	1,144,395	**2,346,737**
Placements and balances with banks	1,711,194	27,592	115,886		5,020	2,457	**1,862,149**
Short term investment securities		258,047	340,521	1,261,913	-	-	**1,860,481**
Loans and advances to customers, net	971,447	1,156,165	2,161,942	4,958,056	864,965	(282,895)	**9,829,680**
Property, equipment and intangible assets	-	-	-	-	-	379,985	**379,985**
Long term investment securities	100,000			64,688		5,299	**169,987**
Other assets	-	-	-	-	-	276,789	**276,789**
Total	**3,984,983**	**1,441,804**	**2,618,349**	**6,284,657**	**869,985**	**1,526,030**	**16,725,808**
Liabilities							
Due to banks and financial institutions	739,530		14,037	792,698	-	281,062	**1,827,327**
Due to customers	4,780,284	2,075,734	1,210,103	3,861,325	542,953	277,460	**12,747,859**
Other liabilities	-	-	-	-	-	286,195	**286,195**
Subordinated debt	1,035	-	-	-	-	-	**1,035**
Shareholders' equity		-	-	-	-	1,863,392	**1,863,392**
Total	**5,520,849**	**2,075,734**	**1,224,140**	**4,654,023**	**542,953**	**2,708,109**	**16,725,808**
Gap	**(1,535,866)**	**(633,930)**	**1,394,209**	**1,630,634**	**327,032**	**(1,182,079)**	**-**
Cumulative gap	**(1,535,866)**	**(2,169,796)**	**(775,587)**	**855,047**	**1,182,079**	**-**	**-**

(All amounts are expressed in thousand LEK, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Sensitivity analyses
The sensitivity analysis below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The following is a stipulation of effects of changes in interest rate in the net profit, assuming all the other variables are held constant:

	2010	**2009**
Interest rate increases by 2%	93,624	19,503
Interest rate increases by 1.5%	70,218	14,627
Interest rate increases by 1%	46,812	9,751
Interest rate decreases by 1%	(46,812)	(9,751)
Interest rate decreases by 1.5%	(70,218)	(14,627)
Interest rate decreases by 2%	(93,624)	(19,503)

The sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates based on information available after the balance sheet date. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the change in exchange rates as described above.

Below is a stipulation of effects of changes in exchange rates in the net profit, assuming that all the other variables are held constant:

	2010	**2009**
Lek depreciates by 5%	108,699	107,863
Lek appreciates by 5%	(108,699)	(107,863)

(All amounts are expressed in thousand LEK, unless otherwise stated)

32. DISCLOSURE AND ESTIMATION OF FAIR VALUE

Fair value estimates are based on existing statement of financial position financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

The table below summarizes the carrying amounts and fair values of financial assets and liabilities.

	As at December 31, 2010		As at December 31, 2009	
Financial assets	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Short term investment securities	1,882,550	1,888,223	1,860,481	1,860,151
Placements and balances with banks	4,273,041	4,273,041	1,862,149	1,862,149
Loans and advances to customers, net	10,684,562	10,684,562	10,094,215	10,094,215
Government bonds	1,855,210	1,853,597	169,987	169,938
Financial liabilities				
Due to other banks and financial institutions	2,454,160	2,430,219	1,827,327	1,807,048
Due to customers	16,857,231	16,560,062	12,747,859	12,504,349
Subordinated debt	1,041	1,041	1,035	1,035

Investment securities
Investment securities include treasury bills which are held to maturity. Since no active market exists for treasury bills, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

Due from other banks
Due from other banks 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
Loans and advances are net of allowances for impairment. The Bank's loan portfolio has an estimated fair value approximately equal to its book value due either to their short term nature or to underlying interest rates which approximate market rates. The majority of the loan portfolio is subject to re-pricing within a year.

Due to other banks
The Bank's loans and advances from credit institutions have an estimated fair value approximately equal to its book value due either to their short term nature or to underlying interest rates which approximate market rates.

Due to customers
The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount repayable on demand.

33. 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".

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 is 12%.
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. Five categories of risk weights (0%, 20%, 50%, 100%, 150%) 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.

The Bank's policy is to maintain a strong capital base so as to sustain future development of the business and to maintain market confidence. The impact of the level of capital on future shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing within regulatory and prudential limits 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.

34. EVENTS AFTER THE REPORTING DATE

On January 2011 it was approved the law no 10364, dated 16.12.2010 amending article 25 "Specific provisions of banks and insurance companies " of the law no. 8438, dated 28.12.1998 "On income tax", amended. According to the new law, for the purpose of calculating the bank's taxable profits, only bank provisions recognized in accordance with standards issued by the International Accounting Standards Board and certified without exceptions by independent auditors will be considered as deductible, however, in any case, such provisions should not exceed the limits set by the Bank of Albania in this respect. Reversals of such provisions and reserves will be added to taxable profits.

Such amendment to the law does not impact 2010 financial results as it enters into force during 2011 however it may impact taxable profits in following years in case provisions recognized in accordance with IFRS exceed those recognized based on the limits set by the Bank of Albania in this respect.

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