UNIONBANK

2011

ANNUAL REPORT

Content

1. 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.

2. The Bank and its Shareholders

2.1. 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 (12.5% 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

2011 Steady growth in total assets despite the financial crisis

2011 Third consecutive year realizing profits;

2011 Contracts signed for the Upgrade of the Core Banking System software

2.2. 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 largest shareholder. Established since 1991, EBRD is the largest financial investor in central Europe, the Western Balkans and Central Asia with a mandate to help countries in these regions to become open, market economies. EBRD is owned by 63 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. In addition, Mr. Leka is the Director of Urban Credit Department (Microfinance Institution) and serves as a Board Executive Member of the "Besa" Fund (Micro credit Financing Foundation).

2.3. Board of Directors

Edmond Leka
(Chairman of the Board)
Niko Leka
(Vice Chairman of the Board)

Varuzhan Piranjani
Paul Nabavi
Gazmend Kadriu
Agim Xhaja
Genc Turku

Varuzhan Piranjani

Mr. Varuzhan Piranjani has been a member of the Union Bank Board since 2005, the Head of its Audit Committee since 2007, and he brings forward a long-time and accomplished experience in business, finance, banking and insurance matters. His early work relates to managerial positions in the accounting field with several enterprises.
From 1992-2006, Mr. Piranjani has been in the insurance industry in the capacity of the Deputy CEO and then later as the CEO of the Insurance Institute of Albania (INSIG).
Mr. Piranjani presently serves as a Board Member of Union Group and of the Unioni Financiar Tirane.

Paul Nabavi

Mr. Paul Nabavi has been a member of the Union Group Board since 2011. He is a Senior Banker at the European Bank for Reconstruction and Development, based in London.
Mr Nabavi's experience spans over thirty years in banking, finance and investments in different regions of the world. From 2007-2008 he was Director at ACTIS LLP (a leading emerging markets private equity firm) and from 2001 to 2008 he was Chief Executive of Caribbean Finance Investments Limited, based in Havana, Cuba.
Prior to that, Mr Nabavi worked for many years at the CDC Group (the UK's development finance institution) where he became Director for the financial institutions team, responsible for new investments and loans to CDC's FI clients in Asia, Africa and Latin America. His early career was spent in corporate finance advisory work and auditing.

Agim Xhaja

Mr. Agim Xhaja serves as a member of the Union Bank Board Group since 2008 and is currently working as the Head of Service for Fixed Income, Foreign Exchange and Real Estate Portfolios for Banque Cantonale Vaudoise, Asset Management based in Switzerland.
Mr. Xhaja's background entails a vast, thorough and international experience in banking, finance and investments with a special focus in Risk-related and portfolio management issues. Some of his previous positions have been in various international firms, the most highlighted of which UBS Zurich, where he dealt with Investment Analysis and Credit Risk Aggregation. While working for other firms, he has also concentrated in mathematics and financial product engineering.

Genc Turku

Mr. Genc Turku serves as the member of the Union Bank Board since 2010 and is presently working as the Executive Director (before that as the Operational Director) of the Financial Union in Prishtina, Kosovo since 2000.
Mr. Turku has established a solid and long work expertise in banking, treasury, foreign exchange, insurance and asset-liability matters. From 1992-2000, Mr. Turku has served in the capacity of the Head of Foreign Exchange, and later as the Head of Treasury within International Division with Savings Bank of Albania in Albania.
Mr. Turku also serves as a Member of the Institution for Change Management Albania (ICLA)

The Board meets on 6-8 times per year or as needed to set the overall strategy and direction for UB, to make major organizational decisions, to approve larger credit decisions and effectively monitor the management of the Bank. In addition, the Board is expected and it does consider, review and approve, at least once a year, all operating policies of the Bank.
The Board has established the Audit Committee and the Human Resource Management Committee.

2.4. Senior Management

Mr. Gazmend Kadriu

Mr. Kadriu serves in the capacity of CEO and Board Member of Union Bank since the beginning of building the bank in 2005.
Mr. Kadriu has a comprehensive and wide-spread experience as a banker, bank regulator and auditor, and has gained an extensive and thorough professional banking and financial experience in three countries in the region (Macedonia, Kosovo, Albania), as well as a broad consulting expertise in a few other transitional countries (Bosnia, Turkey, Armenia).
Mr. Kadriu holds a degree in Economics from the University St. Ciril and Metodius – Skopje. His experience includes five years in Supervision Department of the National Bank of Macedonia, 1993 – 1998, from which the last two as Head of the Department, than as Audit Manager in Ernst & Young, Skopje from 2001 to 2004. He continued his career as the CEO and Board Member of the New Bank of Kosovo.
Mr. Kadriu has been a member of the Board of Directors and Risk Management Committee of Tutunska Banka a.d. Skopje during December 2000 - June 2006 and Board of Trustee Member and Vice-Chairman of Macedonian Enterprise Development Foundation during December 1998 - March 2006.

Mrs. Suela Bokshi

Mrs. Bokshi serves in the capacity of Chief Operations Officer in Union Bank since July 2005.
Mrs. Bokshi has a long term experience in banking. She graduated in Finance and Banking, in the University of Tirana and continued a Master in Banking and Finance for Eastern European Countries in "Giordano Del' Amore Foundation" and CARIPLO Bank, Milan, Italy. Mrs. Bokshi started her career in the National Commercial Bank in 1995. In 1997 she worked in the Bank of Albania in the capacity of Head of Payments Department. In 2000 she joined ProCredit Bank holding the positions of Head of Payments and Treasury and then Chief Operations Officer.

Mr. Ardian Petollari

Mr. Petollari serves in the capacity of Chief Business Officer in Union Bank since August 2007.
Mr. Petollari has a diverse experience including banking, business activity, academic experience etc.
Mr. Petollari graduated in Economy in the University of Tirana. After almost five years of academic and business experience he started his banking career in National Bank of Greece in Korça, holding the positions of Deputy and the Branch Manager for more than four years. Afterwards Mr. Petollari had important positions in state institutions like Deputy Director and then Director of the General Director of Taxes during 2002 – 2005, Deputy Minister in the Ministry of Economy, 2005.

Mr. Arten Zikaj

Mr. Zikaj serves in the capacity of Chief Finance Officer in Union Bank since March 2011.
Mr. Zikaj has an extensive experience in financial accounting, reporting and financial analysis, international and local audit on financial institution, insurance and other commercial companies, IFRS expertise, risk management, treasury operations, etc. Mr. Zikaj graduated in Business Management in the Faculty of Economics, Tirana University. He worked for about 7 years in auditing for KPMG as a Manager in charge for auditing and also financial advisory services for several industries in Albania and Kosovo. In 2004 he has been in the position of Deputy Chief Financial Officer in Procredit Bank of Albania and in 2007-2010 he served in KEP Trust, a MFI in Kosovo in the capacity of Deputy Executive Director. He has also served for several years as a part time lecturer in University of Tirana, Economic Faculty.

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Në mbështetje të vlerave dhe traditave më të mira të kombit

3. Economy Overview

3.1. Global Economy

The global economy during 2011, especially the second half of it, was strongly affected by the gradual extension of the sovereign debt crisis in the Eurozone. Because of that, the economic growth around the world during the year was stalling and there were growing fears and evidence that the global economy was slipping back into a deep recession.

Portugal was the third country to ask for support from the European Union ("EU") and the International Monetary Fund ("IMF") after Greece and Ireland, which applied for support in 2010. During the year, the crisis deepened, with a huge leap in risk premiums on the national debt of Italy and Spain, a phenomenon that was associated with sharp falls in the inflows of foreign capital to these countries.

During the second half of the year, the Eurozone's saw a slowdown in GDP growth. The average annual growth in 2011 was 1.5%, lower than the previous year and the unemployment rate was at 10.3%.
The response to the crises from the affected countries and the European authorities was slow and the political authorities were unable to establish a credible mechanism to effectively manage the critical situation. On the other side, ECB has extended its debt-buying programme to Spanish and Italian government bonds, facilitating the stabilisation of international investors' portfolios and has strengthened its open market operations, broadening the range of assets that can be allocated to refinancing operations.

World stock markets experienced significant volatility throughout the year as the result of growing tensions linked to the sovereign debt crisis, the indecisiveness of European policy-makers in identifying credible and effective solutions to the Eurozone's financial crisis and the slowdown in the global macroeconomic environment. On the other hand, increasing taxation and government spending cuts, necessary to cut government deficits, meant that economic growth forecasts for the coming years have been revised downwards.

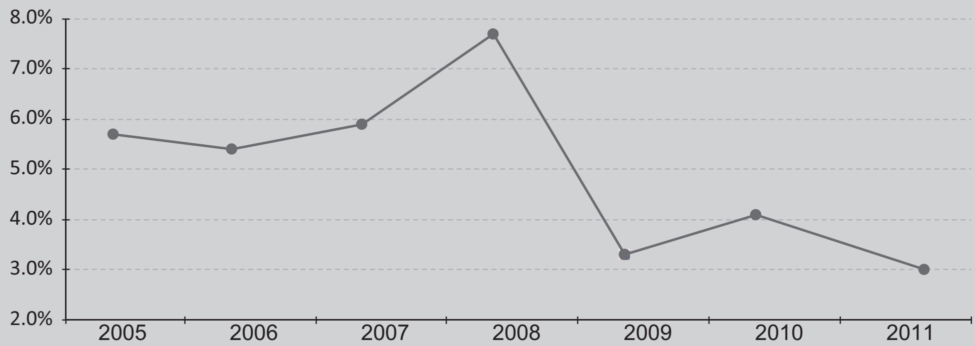
Southeastern European countries were particularly affected by the sovereign debt crisis of the Eurozone countries and volatility in the financial markets. In most of these countries, GDP growth was between0% and 3%.
Eurozone sovereign debt crises also effected the US economy and stock market, after the lengthy debate on the Federal debt ceiling in August, followed by the US government debt downgrade by S&P. US GBP growth during the year was 1.7% and unemployment rate was at 8.9%.

In 2011 the emerging economies slowed down compared with the previous year, while maintaining a growth rate above the global average. According to the latest estimates, GDP growth in emerging countries was 6.2% in 2011, which is lower than previous years, against a global average of 3.8%. The emerging economies of Asia, with an estimated growth of 7.9% in 2011 have remained the most active, followed by Latin American countries at 4.6% growth.

3.2. Macroeconomic Indicators in Albania

Despite its location in Southeast Europe bordering some of the most affected countries (such as Greece and Italy) and its multiple business ties with them, Albania, does not seems to be directly touched by the most crucial issue and the main cause of the current crises that is sovereign debts of the Eurozone countries. Nevertheless, the crisis effects were being felt and there were considerable uncertainties and fears given the fact that a solution to the crisis has not been found.

GBP growth



The year was characterized by a positive but slow economic growth, a stimulating fiscal policy, relative stability of the exchange rate; GDP[1] grew by 3.0 % and the Albanian economy so far has managed to successfully cope with the direct and indirect negative influences of the global financial crisis. Below we quote the 2011 October report of the IMF:

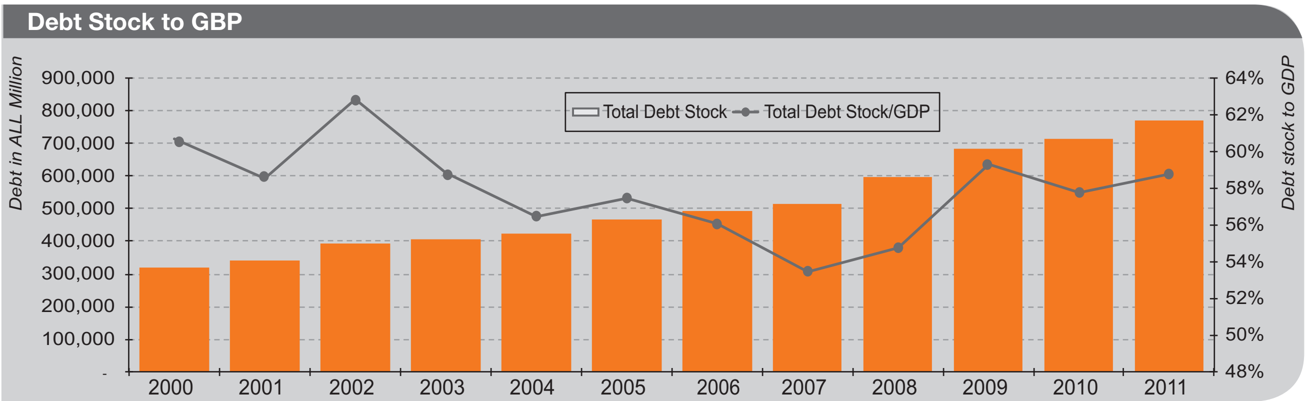
“Albania has weathered the global crisis well, as sound policies implemented during the pre-crisis years provided policy space to mitigate the crisis fallout. The crisis also ushered in the needed rebalancing of the economy, and the very large external imbalance has narrowed. The financial system overcame heightened stress in the immediate aftermath of the crisis and avoided a credit bust, though asset quality declined.

The post-crisis environment has posed significant policy challenges. GDP growth is projected to be around 2.5 percent in 2011, decelerating from above 3 percent in 2009 and 2010. The budget has repeatedly underperformed, prompting large cuts in mid-year budget reviews in both 2010 and 2011, and public debt is approaching its statutory limit of 60 percent of GDP. Despite improvements, external imbalances remain elevated, and foreign demand could not fully offset the domestic demand drain. Politics remain divisive and threaten consensus on reform including measures needed to progress with European Union (EU) candidacy. Short-term risks are elevated given Albania’s large exposure to the euro-area periphery.

The key challenge is to make the policy framework consistent with the achievement of external sustainability, thereby reversing the decline in total factor productivity growth. Fiscal consolidation is the near- and medium-term policy priority, and requires credible measures and sustained efforts. Contingency planning with respect to euro-area periphery developments is essential to safeguard the financial stability, while critical structural reform challenges must be addressed”.

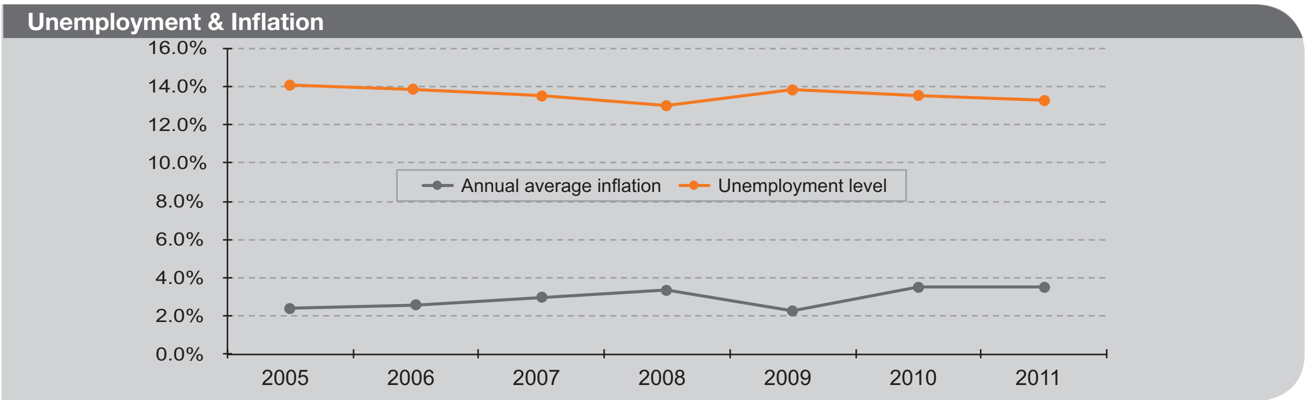
[1] Source of GDP and Debt Stock data: Ministry of Finance publications

Debt Stock to GBP



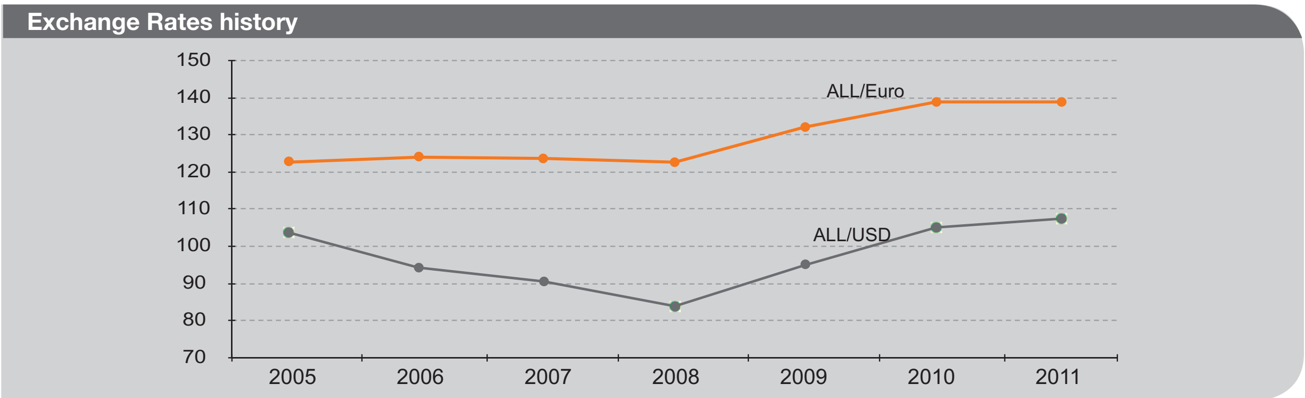
Central Government Debt Stock was at the level of 58.75% of GDP, which is within the legal ceiling of 60 percent. It consisted of 56.8% domestic debt and 43.2% foreign debt. During 2011 the Central Government Debt Stock increased by 8% (2010: 4.8%). With regard to currencies, 69.8% of foreign debt was in Euro followed by 19.6% in USD making the debt quite sensitive to the changes of ALL/Euro exchange rates[2].

Unemployment & Inflation



Inflationary pressures remained controlled and inflation expectations were anchored throughout the year.
The average annual inflation rate for both 2010 and 2011 was 3.5 per cent[3], remaining within the Bank of Albania's target although the year 2011 it is characterised by higher volatility.

Exchange Rates history



The unemployment rate stayed at the level of 13.5%.
Albania follows a floating exchange rate regime with very limited interventions. After a prolonged period of exchange rate stability, after 2009 the Lek moderately depreciated against EUR and other foreign currencies. However, during 2011 the exchange rate was stable.

[2] Source of Debt data: Ministry of Finance publications

[3] Source of Debt data: Ministry of Finance publications

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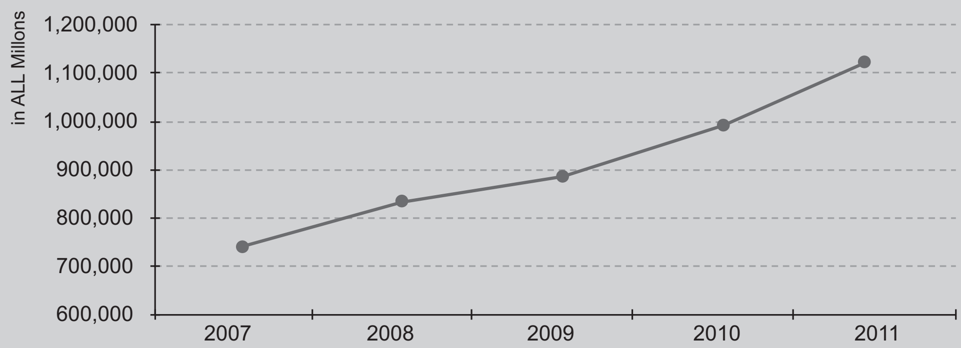
3.3. Banking System in Albania

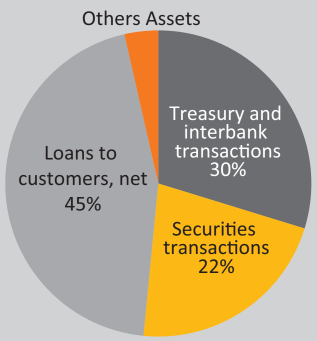
The banking system continues to be the most important the most important part of the financial sector and has a growing role. At the end of 2011, the total assets of the banking system were equal to 85% of the GDP. The banking system continues to be financed largely by customer deposits and is focused on lending, mainly to the private sector (70% or total lending)[4].

Total assets

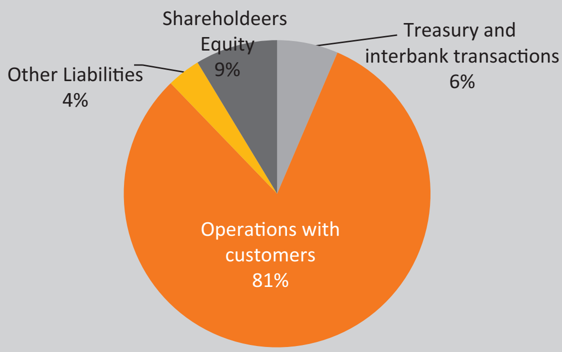


Banking system-wise,deposit and lending growth continued, but the yearly results, especially related to profitability, were significantly lower than in previous years and several banks experienced significant losses and a decrease in their assets. In 2011, total assets of the banking system[5] reached 1,120.2 Billion Lek (2010: 990.6 Billion Lek), an increase of 13.1% (2009: 11.8%). The increase is mainly due to higher volume of Treasury and Interbank transactions[6], Securities and Lending (12.5%, 15.9% and 12.0% respectively). At the end of the year, loans comprised 45% of total assets Customer deposits reached 81.3 %, while Shareholders Equity provides 8.7% of total asset

Banking Sector Assets structure 2011



Banking Sector Liabilities structure 2011



Loan portfolio quality has deteriorated for both business and individual loans. The classified loans reached to the level of 20.8% of the loan portfolio (2010: 15.8%).
From the regulatory prospective, the year was characterized by careful monitoring from the Central Bank and the second part of the year saw new Central Bank regulations aimed at improving the quality of assets and liquidity level of the banks.

[4] Source: BoA Annual report

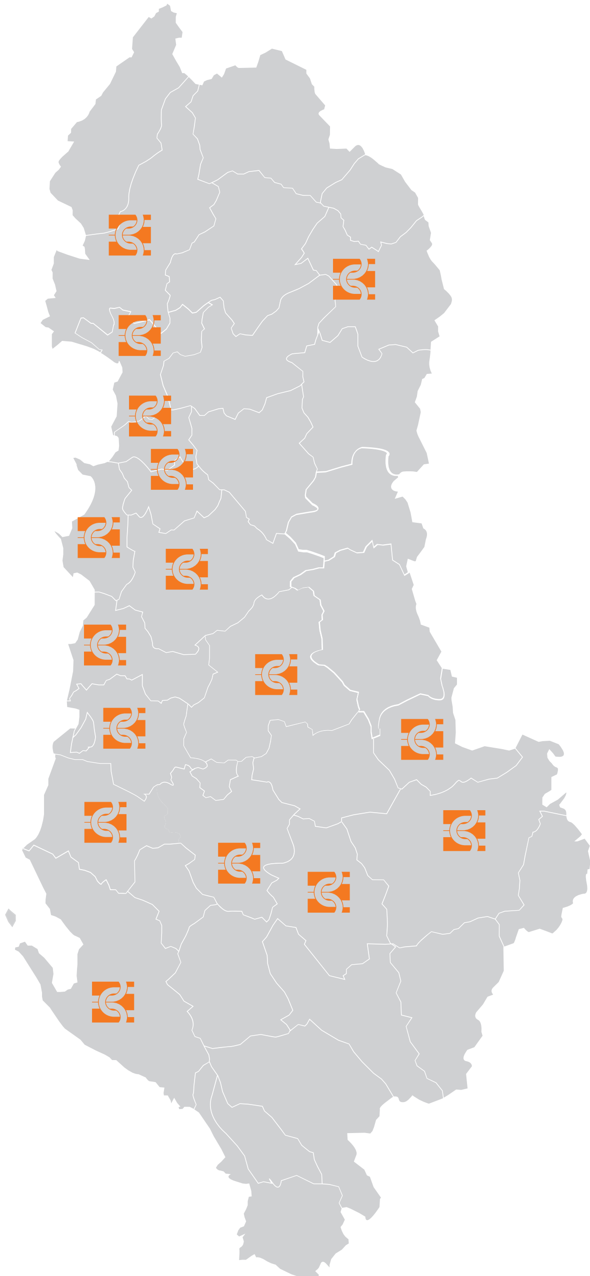
[5] Source Data: Bank of Albania Monthly Statistical Report publication

[6] Treasury Bills are included

4. Network Development

Network development started with the initial phase of Union Bank in 2006 and it grew rapidly. Its main goal was to develop and expand the activity throughout the country by enabling distribution electronic channels and making more convenient ways to clients to have access to Bank's services and products.

The Network includes 29 physical branches and outlet structures, 39 outlets in ATM network and other electronic channels.



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Larmi zgjidhjesh
për nevojat tuaja

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Degët dhe agjencitë në Tiranë dhe rrethe

Dega Qendrore
Blv. "Zogu I" përballë Stacionit të Trenit, Tiranë
Tel: 04 238 9001
Fax: 04 226 2183

Dega Shallvare
Rruga "Reshit Çollaku", Pallatet Shallvare 2/18, Tiranë
Tel: 04 225 3568
Fax: 04 225 3570

Dega Garda
Rruga "Dëshmorët e 4 Shkurtit" (Te Garda e Republikës), Tiranë
Tel: 04 227 4170
Fax: 04 227 4171

Dega Lana
Rruga "Irfan Tomini", Pallati 8/1 (ish-stacioni i fundit i Tiranës së Re), Tiranë
Tel: 04 223 6080
Fax: 04 224 2927

Dega Rruga e Durrësit
Rruga e Durrësit, Pallati 81 (sheshi "Adem Jashari", tek ambasadat), Tiranë
Tel: 04 224 7476
Fax: 04 225 0788

Dega Kinostudio
Rruga "Aleksandër Moisiu", (100 m para stacionit të fundit të urbanit), Kinostudio, Tiranë
Tel: 04 237 9678
Fax: 04 237 9672

Dega Medrese
Rruga e Dibrës, Medrese (godina ngjitur me Klinikën Ortodokse), Tiranë
Tel: 04 237 8655

Dega Ali Demi
Rruga Ali Demi (ngjitur me agjencinë WU, përballë fushës së zezë), Tiranë
Tel: 04 237 9984
Fax: 04 237 9981

Dega Laprakë
Rruga "Dritan Hoxha", Pallatet Hawai, Laprakë, Tiranë
Tel: 04 241 5460
Fax: 04 241 5461

Agjencia Kodër-Kamëz
Kodër-Kamëz, Kamëz, Tiranë
Tel: 04 720 0669

Agjencia Kamëz-Qendër
Kamëz-Qendër (te pika WU, Rruga Nacionale), Tiranë
Tel: 04 720 0483

Dega Durrës
Lagja Nr.1, Rruga Tregtare, Durrës
Tel: 052 220 340
Fax: 052 235 700

Agjencia Durrës-2
Rruga "9 Maji", Nr.14, Durrës
Tel: 052 239 378
Fax: 052 239 379

Dega Elbasan
Bulevardi "Qemal Stafa", Elbasan
Tel: 054 245 918
Fax: 054 245 919

Dega Kavajë
Lagjja Nr. 2, Sallbeg, Bulevardi kryesor, Kavajë
Tel: 055 243 414
Fax: 056 243 405

Agjencia Rrogozhinë
Lagjja Nr.2, Pallati 82/3, Shk.1, Ap.2 (ngjitur me agjencinë WU), Rrogozhinë
Tel: 057 723 204
Fax: 057 723 205

Dega Fushë-Krujë
Lagjja "Adem Gjeli" (sheshi i furgonëve), Fushë-Krujë
Tel: 056 322 895

Dega Laç
Lagjja Nr. 1 (20 m nga pika WU), Laç
Tel: 053 222 025
Fax: 053 222 026

Dega Lezhë
Rruga Besëlidhja, Lezhë
Tel: 021 524 641
Fax: 021 524 661

Dega Shkodër
Lagjja "Qemal Stafa", Rruga "13 Dhjetori", Shkodër
Tel: 022 255 163
Fax: 022 251 500

Dega Kukës
Lagjja Nr.5 (përballë Hotel Amerika), Kukës
Tel: 024 224 728
Fax: 024 224 727

Dega Lushnjë
Lagjja Kongresi (godina pranë Bashkisë), Lushnjë
Tel: 035 226 366
Fax: 035 226 365

Agjencia Divjakë
Qendër Divjakë, Lushnjë
Tel: 037 122 563
Fax: 037 122 573

Dega Fier
Sheshi "Fitorja", Ish-turizmi Apollonia, Fier
Tel: 034 230 258
Fax: 034 230 259

Dega Berat
Lagjja "22 Tetori" (përballë shëtitores), Berat
Tel: 032 238 000
Fax: 032 238 555

Agjencia Poliçan
Qendër, Polican, Skrapar
Tel: 036 824 132
Fax: 036 824 133

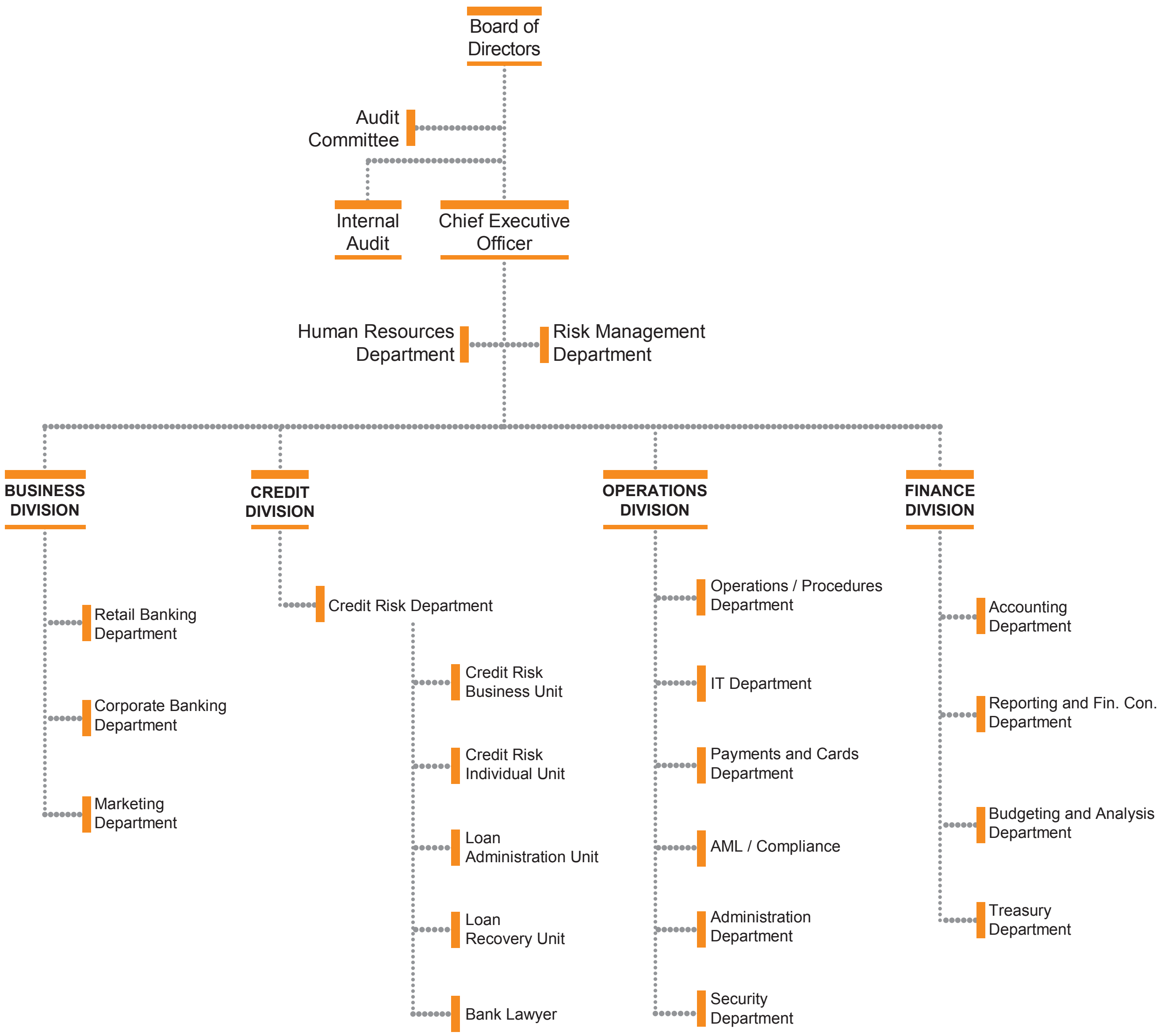
Dega Vlorë
Lagjja "Lef Sallata" (rruga Qendër-Skelë, te Conad), Vlorë
Tel: 033 237 500
Fax: 033 237 600

Dega Pogradec
Lagjja Nr.1,Bulevardi "Reshit Çollaku" (Kapri Center), Pogradec
Tel: 083 226 804
Fax: 083 226 803

Dega Korçë
Sheshi i Demostratave, Korçë
Tel: 082 254 924
Fax: 082 254 923

5.Organisation Structure, Staff and Staff Development

5.1 Organisational Structure

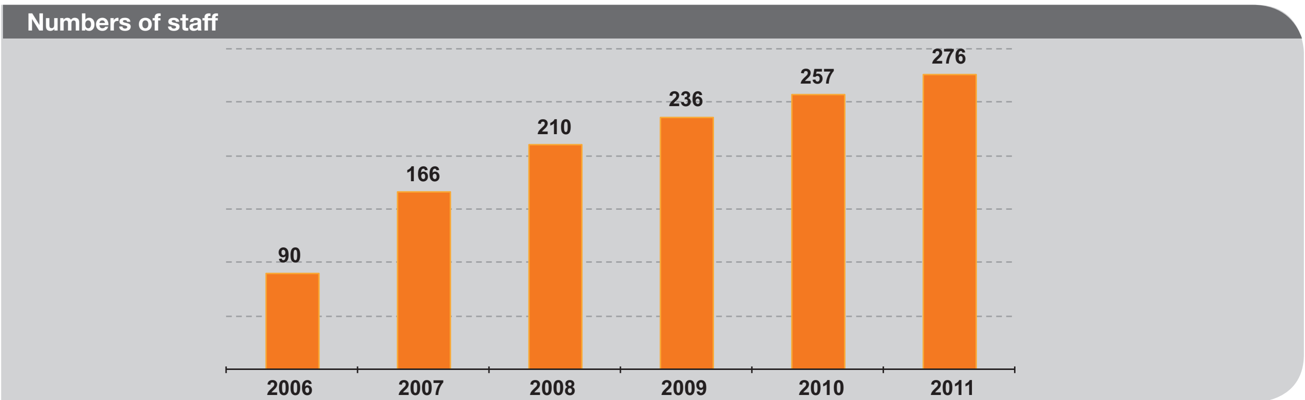


Our Department Managers

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*

5.2 Staff and Staff Development

Year 2011 ended with a total number of staff of 276 (88 in Head Office and 188 in the branch network), which indicates a yearly net addition of 19 or an approximate 7% increase compared to the previous year. The increase is due to the addition of extra support staff and the strengthening managerial capacity in the branches, as well as increasing the capacities of various Head Office departments, including Finance, Marketing, Risk, etc.



During 2011, the Human Resources Committee (HRC) was established. HRC activity is regulated by the HRC charter, approved by the Board, and its main achievement in 2011 was the proposal and approval by the board of a new compensation plan as part of the HR policy.

In order to maintain a healthy and efficient work environment, from time to time the Bank organizes an employee opinion survey and uses the results to identify where it needs to invest more time, energy and resources to create a positive employment experience

Recruitment and Training

The Bank is driven by the motto of recruiting the right people by using the right means of recruitment. It does that by being a participant at various job fairs, newspaper job announcements and collaborations with a recruiting agency. In so doing, it continues to uphold high professional and ethical standards regarding its existing and newly-hired organization members based on the strong belief that the success of the bank relies first and foremost on its staff.

In this regard, the Bank continues to instil and require professional higher learning, first-rate customer service, team-effort, and great ethical working environment, and at the same time bringing and maintaining a positive, challenging attitude, and conveying this organizational culture to its newest members.

Training is a crucial aspect of the Bank and a major focus has been placed on giving the employees an environment at work that encourages and motivates them to take the extra step for the customers and to bring out the best performance as individuals and as teams Therefore, the bank holds before and on-the-job instructions and training to all employees from the first day of joining the Bank aiming to provide them with relevant knowledge prior and during work
During 2011, approximately 20 training courses were organized; the internal ones consisted of several rounds to cover for all branch employees in their respective position, all totalling to 4’850 training hours.

Most of the training sessions for existing and new employees focused on Customer Service Staff, Sales Force Efficiency and Success, Management and Leadership etc.

Staff members are continuously informed about updated security measures and they also participate in sessions accompanied with frequent adequate training to allow their optimal dispersion throughout the bank network. UB puts serious efforts into making banking safer by always increasing controls that protect the customer information, launching fraud prevention programs and investing in new security and technology equipments and procedures.

UB also makes it its core function to ensure the safety, health and wellbeing of its employees.
In terms of benefits, Health Insurance was renewed for almost the entire staff. The scheme covers a regular check up and a high number of employees has benefited.

Renumeration Policy

The goal of Union Bank is to maintain a competitive total compensation program consistent with business conditions, labor dynamics, and the bank values. Compensation serves as one part of a total reward and recognition package that includes the base pay, bonuses and benefits for employees.

All performance compensation actions stem from the overall performance of Union Bank, the individual business unit performance as measured by level of achievement of business targets and individual staff performance as measured by the performance appraisal.

The Bank implements the following salary reviews, complying with respective rules: the initial review, the promotion review, annual performance review and loyalty review, with the main focus in the performance review in order to reward the best performers.

In addition to the base salary, the Bank applies several bonuses, the most important ones related to the achievement of the business targets. Some of the bonuses applied are the annual performance bonus, quarterly sales bonus, New Year bonus and the bonus for exceptional performance.

Furthermore, the bank engages itself to provide a comprehensive benefits scheme to the employees in order to attract and keep good personnel. The bank will offer benefits as determined by the Labor Code. Furthermore, it offers its services and products to the employees under preferential conditions.

6. Risk Management

IIn its business activities, the Bank strives to achieve an optimum balance between the risks taken and returns realized, while steering clear of excessive, unnecessary, and uncontrollable risk exposures.

The Bank's primary defense against the risk of losses is in both its structure of internal controls and operational design. Therefore the Bank has defined adequate procedures for managing all the risks inherent in every business line in which it operates. In this context all the business processes have been designed so that they can allow the control of inherent risks with the respective owners being primarily responsible such control consequently.
To enable this, the Bank has established a comprehensive framework for managing all the risks effectively by identifying, measuring, controlling, monitoring and mitigating the potential events that could impair the ability of the Bank to generate stable and sustainable financial results.

However, in addition to it, the Bank has long now established a risk management function which serves as a centre of excellence for promoting a proactive risk culture across the business. The function is represented on several Committees (i.e. Asset-Liability, and Operational Risk) to provide an independent opinion. It co-ordinates the creation/ maintenance of risk policies, risk parameters, risk appetite with business units and board, and works with them to develop innovative, practical and effective risk management processes, and create effective and meaningful risk reporting.

As required by the board's policy, the risk assessment is validated by a review function, which the department of risk management is, with resources, authority and expertise sufficient to assess the risks, test the effectiveness of risk management activities and make recommendations for remedial action.

Based on its business profile and characteristics, the bank has identified several major risk categories such as Liquidity Risk, Credit Risk, Counterparty Risk, Financial Risks (Asset Risk, Foreign Exchange Risk, and Interest Rate Risk), and Operational Risk. While the performance of each of these risks is explained in detail under the Auditor's report on Financial Statements, in this section we are providing main policies with regards to risk control and mitigation.

Liquidity:
The Bank strives to maintain a well-diversified depositor base and preserve satisfactory access to funding avoiding uncontrolled concentrations and structural imbalances. The marketability of assets, whose availability for sale or adaptability as collateral for refinance, is evaluated under different market scenarios. In addition, the Bank monitors any internal and external factors that might have an impact on its capability to remain liquid.

The bank's ALCO has developed quantitative models for reducing excessive cash and liquid assets balances while observing at all times liquidity risk indicators defined by regulators and Board of Directors.

Credit:
In addition to direct accounting loss, credit risk is viewed in the context of economic exposures taking into consideration the opportunity costs, transaction costs, and expenses associated with a non-performing asset. Credit risk is mitigated by: cash-flow oriented lending, adequate collateral as second-tier protection, appropriate risk-based pricing, effective loan portfolio structuring and diversification, effective bank-wide controls, starting from sales, through risk assessment, loan administration, loan review and workout, and adequate reserve funds and contingencies to protect the bank's position.

Moreover, factors that could affect the bank's individual and aggregate credit risk exposure (e.g. credit concentration, industry, geographic region, political events, etc) are identified and adequately tackled. The Bank therefore has tailored its credit procedures in such a way that they minimize credit risk, but at the same time comply with Credit Policy intended to extend credit facilities to a targeted clientele.

Counterparty:
The Counterparty Exposure Risk is treated very much like Credit Risk, except that the borrower is a bank or financial institution. In such case, the creditworthiness and loss potential are evaluated individually and limits set accordingly based on the results of such evaluation.

Risk indicators used to measure the inter-bank exposure risk are in line with the definitions provided in regulations of the Bank of Albania such as definition of inter-bank exposure, both with single counterparties and with related parties, definition of risk-weighting, depending upon type of exposure and counterparty, definitions on collateral/ guarantee netting, and those on regulatory capital requirements, including different categories of capital.

As part of the Counterparty Risk, the bank recognizes the Country Risk and many actions in the recent period have been triggered taking into active consideration exactly the country risk.

Financial:
The financial risks include foreign exchange risk, and interest rate risk.

Foreign Exchange Risk arises from changes in foreign exchange rates that affect the value of assets, liabilities and off-balance sheet activities denominated in currencies different from the bank's own currency. It is also the risk of changes in exchange rates causing the net value of the bank to decline in EUR terms, which is the currency that shareholders measure their returns from investment.

The Bank's ALCO has developed rules, procedures, instruments and control mechanisms to cover for the currency revaluation risk. This risk is managed by controlling for daylight both trading and open position limits and overnight open position limits which are fully compliant with the regulatory definitions.

Interest rate risk is defined as the sensitivity of the bank's earnings and equity to changes in interest rates. Interest rate risk results from the differences in the way assets, liabilities and off-balance sheet instruments are affected by interest-rate changes.

To achieve the objective of protecting the bank's net interest margin from changes in market interest rates, the bank actively manages its interest rate risk profile within controlled risk parameters. As a core business risk, it has strived to maintain an interest risk profile that leads to financial performance consistent with its long-term objectives.

The bank's ALCO has established risk control limits which are monitored regularly. The management of interest rate risk encompasses gap analysis, interest spread management, and dynamic pricing of rate-sensitive assets and liabilities in line with the market expectations and movements.

Operational:
Operational risk is incurred on the delivery of all of the bank's products and services and arises on a daily basis as transactions are being processed. It may occur also as a result of inadequate information systems, technology failures, breaks of internal controls, and fraud or unforeseen catastrophes.

To cover for operational risk, the Bank has established a framework that incorporates clear definitions of operational risk throughout the organization and a philosophy of business process self-assessment. It has also developed, and is actively monitoring, the performance of key risk indicators.

The Bank's Operational Risk Committee (ORC) is periodically monitoring the occurrences of operational losses and has assigned responsibilities for mitigating losses and providing back-up solutions and risk coverage for activities subject to operational risk.

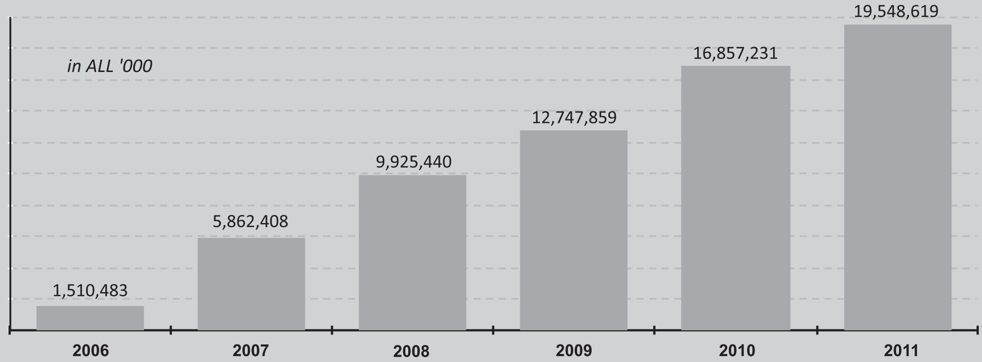
7. Key Highlights

7.1 Retail and Commercial Banking

Customer Funds

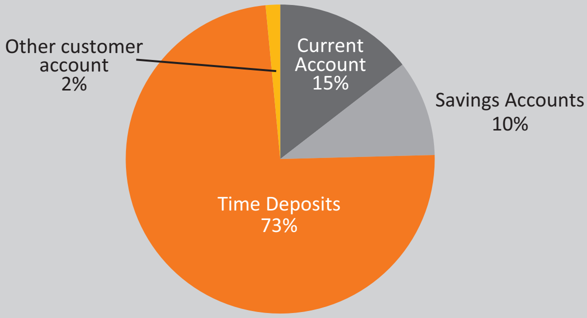
One of the core goals of UB is the provision of services and products to its individual and business clients whose features and parameters offer security, transparency and flexibility. Since the beginning, despite the financial crises, Union Bank has continued to collect funds and has maintained significant growth rates each year by offering various products to its retail and business clients including current accounts, saving and term deposits, in both local and foreign currency. In addition, throughout the years, the sales team continued to build strong relationship with clients, providing them with a wide variety of options to help them reach their financial goals and increase their savings by tailoring to their needs.

Customer Accounts developments



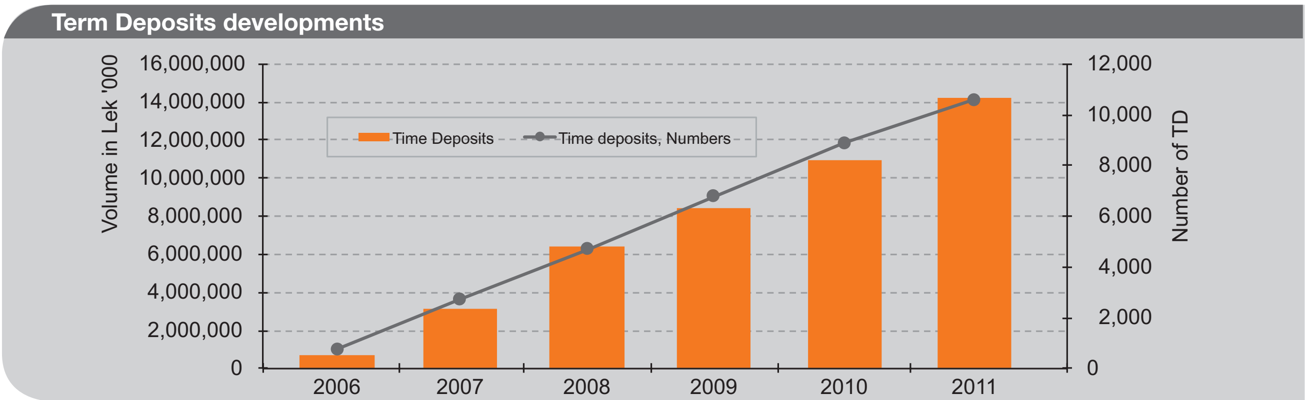
2011 was a year of further significant progress in the increase of the Customer Funds by making sure that the clients are at the heart of the Banks developments strategy. UB managed to be amongst those banks in the country which increased their funds during the year and it emerged even stronger consolidating its position and gaining clients' confidence and meeting its targets. This resulted in Union Bank achieving approximately 2.1% of the market share at the end of the year.

Costumers Accounts Structure 2011



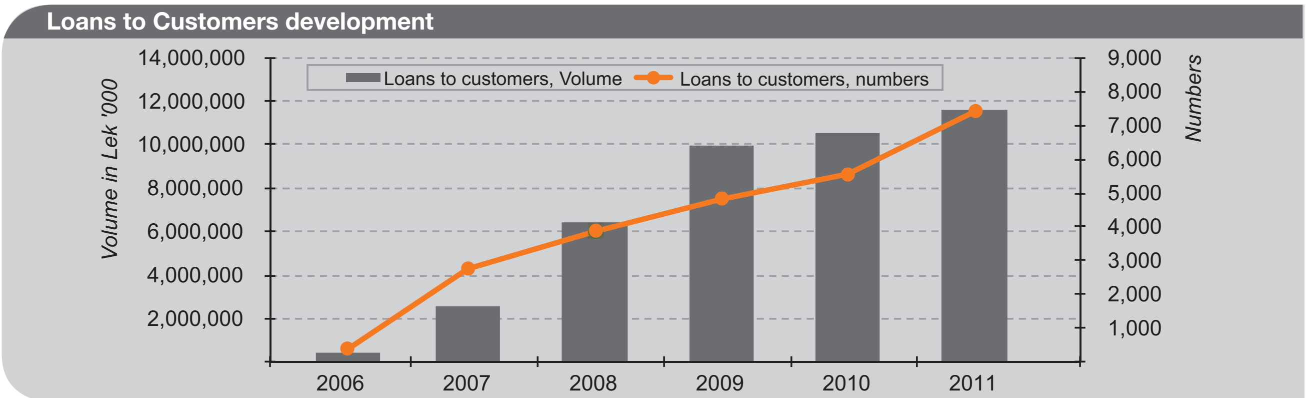
The yearly total of customers' funds reached an amount of 19.5 Billion, which reflects an increase by LEK 2.7 Billion or 16% higher when compared to the prior year. Term, Savings and Current Account with 98% of the total Customers deposit are the core of the Bank' Customer Funds.
The composition of these funds is similar to that of 2010, but the Term Deposits increased their share from 66% to 73%, and in the line with the budgeted levels, Saving Deposits performed in a satisfactory way by increasing their share from 8% to 10% as a successful and relative new product.

As a very strong and steady component of Customer Funds, the Banks' Term Deposits to Individuals and Businesses followed a solid upward path in 2011 as well. Their growth took them to LEK 14.4 Billion, up by 3.3Bilion or 30% higher than 2010. Since Union Bank is committed to developing enduring customer relationships and creating new ones, the growth of these funds was substantiated by a yearly increase of number of these deposits; from 9,000 in the beginning of the period to over 10,600 at the end of it.



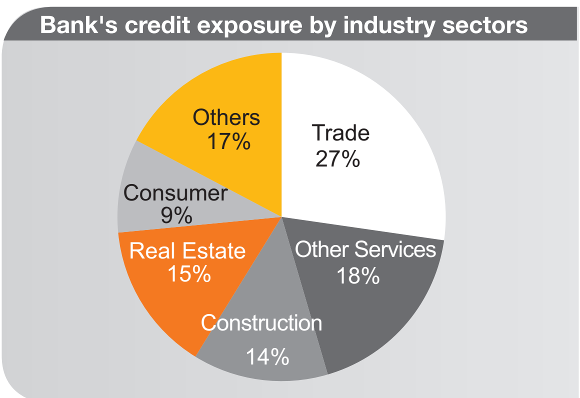
Lending Activity

At the end of 2011 the total Loans portfolio reached a value of LEK 11.7 Billion, reflecting a yearly increase of LEK 1.1 Billion or 11% compared to 2010. The growth has been lightly below the average growth of the system that has been at the range of 12%. Viewed in the lieu of certain factors that influenced these actual results we could mention that the focus of the Bank toward the quality of the loans portfolio and general economic conditions in Albania coupled with developments of the global financial concerns of sovereign debts and the Eurozone have altered the perspective of a large number of clients in the credit process.



Nevertheless, despite all these obstacles, the number of our individual and business clients grew by end 2011 to more than 7,400 (from 5,500 in 2010) who benefited from a diverse product range of loans and overdrafts. This increase in the number of loan clients was conditioned also by the increased focus on retail lending and smaller business loans.

In contrast with recent developments of the portfolio quality deterioration that the national level is experiencing, the quality of the UB portfolio marked significant improvements during 2011: while the entire portfolio increased by 11%, Loan Loss Provisions decreased by 7% (in absolute value) and it went to 4.4% from 4.7% that it was in 2010.



During the third and fourth quarter, the Bank focused especially in the Retail segment of Loans as it intended to diversify more and help boost the individual sector. This effort resulted in the increase of the retail portion of the portfolio, from 20% at the previous period to 22% at the end of the year

The structure of the Union Bank Loan Portfolio supports many economic and industry sectors nationwide. Comparing the figures of the same categories, it is noted that the sector of Trade has gained share from 24% to 27%, Other Services went from 16% to 18%, and Real Estate as well, went from 12% to 15%. The focus of the loans is toward businesses that comprise 78% of the total portfolio vs. 22% of individual loans portion at the end of 2010, however it is to be mentioned the fact that the growth in individual loans is accelerating recently more strongly than the business loans.

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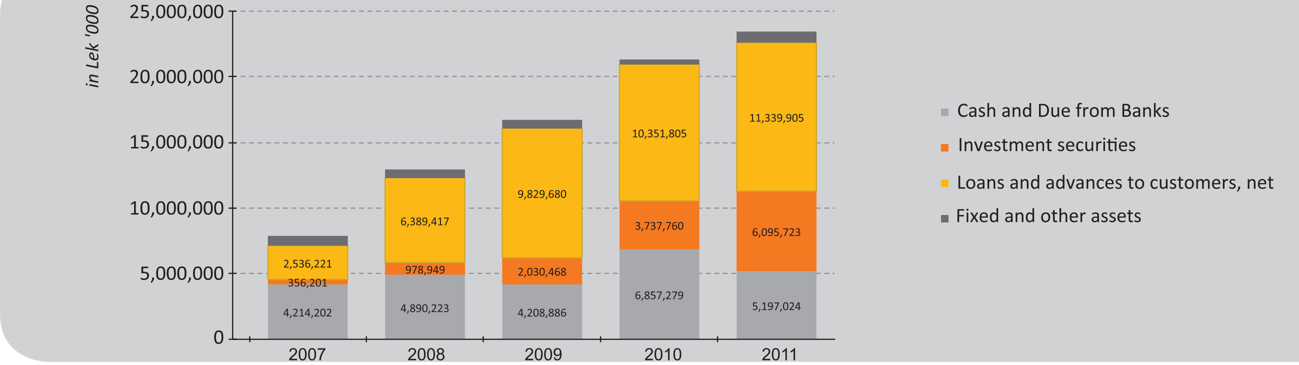
7.2 Financial Results

Main Results of the Year

	In Lek '000		In euro '000*		Change
Balance Sheet	2011	2010	2011	2010	2011
Total assets	23,415,942	21,343,687	168,545	153,806	10%
Gross loans portfolio	11,642,169	10,520,875	83,799	75,815	11%
Investments in securities	6,095,723	3,737,760	43,876	26,935	63%
Placements with banks	2,677,364	4,273,041	19,271	30,792	-37%
Customer accounts	19,548,619	16,857,231	140,708	121,476	16%
Paid in capital	2,159,743	2,049,331	15,546	14,768	5%
Profit and Loss					
Net interest income	721,255	646,501	5,197	4,659	12%
Net fee and commission income	139,708	116,914	1,007	843	19%
Other operating income	64,892	109,339	468	788	-41%
Operating income	925,855	872,754	6,672	6,289	6%
Total operating expenses	(794,600)	(785,848)	(5,726)	(5,663)	1%
Net Profit before taxes	131,255	86,906	945	626	51%
Statistics					
Numbers of staff	276	257			7%
Number of outlets	29	31			-6%
Number of Loans outstanding	7,367	5,540			33%
Number of Clients	74,015	66,440			11%
Kery ratios					
Return on Equity	6.0%	3.0%			
Cost to Banking Income Ratio	83.6%	80.3%			
Loans to Deposits ratio	58.0%	61.4%			
Assets Growth Rate	9.7%	27.5%			
Customer Deposit Growth Rate	16.0%	32.2%			
Loans Growth Rate	10.7%	5.4%			
LLP to Loan portfolio	3.0%	3.2%			
Net Interest Margin	3.2%	3.4%			
Capital Adequacy ratio	13.85%	13.76%			
Asset to Employee Ratio	84,840	83,049	611	598	2.2%
Assets to Branch ratio	807,446	688,506	5,812	4,961	17.3%

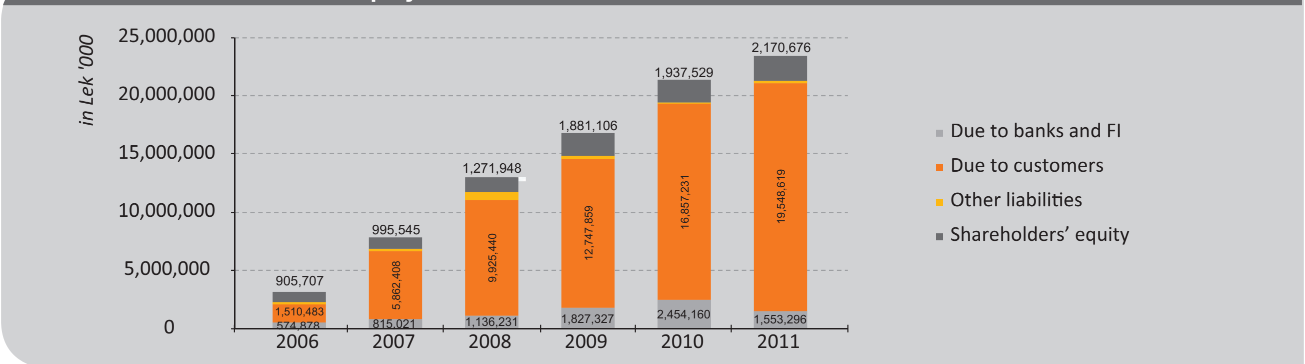
[7] All amounts are translated using respective the year end exchange rates

Structure of Assets



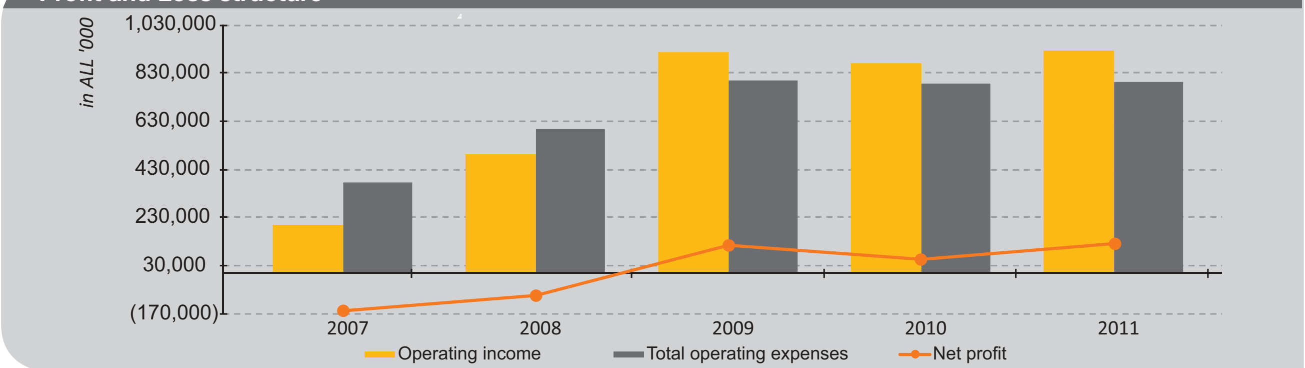
The assets growth during the years has been strong and solid. The Bank closed 2011 at a total assets value of 23.4 Billion LEK or 10% more than 2010. The assets structure is mainly composed by *Loans to customers*, reaching 48.4% of the Bank's total assets, followed by *Cash and due from banks and Investment securities* with 22.2% and 26.0% respectively. Investments Securities are exclusively Treasury Bills and Albanian Government bonds.

Structure of Liabilities and Equity



The liabilities structure is mainly composed by customer accounts, reaching 83.5% of the Bank's total assets in 2011, followed by Due to Banks with banks with 6.6%. The Shareholders equity represents 9.3% of the total assets of the Bank. The Bank has created a strong customer base to finance its investments and operations.

Profit and Loss structure



Year 2011 was the third consecutive year which Union Bank turned a profit in the amount of Lek 122.7 Million, (almost double 2010) where Net Interest Income and Net Fees income increased by 12% and 19% respectively. Total operating income has increased by 6% while the Bank was careful to keep its costs under control with only 1% increase of its Operational Cost compared to the previous year.

8. Plans for 2012

The Bank's platform for Y2012 is that it will grow and prosper by following the established mission and core strategy. The bank plans to continue to be ambitious despite the difficult economic environment and will seek opportunities to grow its business rather than simply survive the crisis in a defensive way. The bank will continue to work to achieve a reasonable level of profitability and to maintain the quality of its assets.

Lending

Union Bank plans a 22% Loan Portfolio increase with much stronger growth on the retail side.
On the retail lending side, the basic plan is for the progress to be merely continued and finetuned, with some additional changes regarding products and credit scoring system.

It is the business loans side that will be the focus of the overall attention, with demands for securing the required credit growth combined with demands for better loan monitoring and stronger cross-sell efforts.
The bank believes that it will keep the qood quality of the loan portofolio.

Funding

The Bank's growth target for Deposits, that are the core source of the banking activities is at the level of 25%. During 2011 it was demonstrated that the bank has a strong capacity to generate deposits with all time deposit components growing, and even exceeding the plan.

For next year there aro no major changes of strategy for this segment, which consists with firstly sustaining the main product range, and then improving and tailoring a few product characteristics just be competitive and to keep the deposit products fresh.
The bank will continue to focus on taking advantage of cross-sale opportunities through aggressive marketing and brand campaigns and the newly-established Retail Sales Department.

Main Marketing Projects for 2012

UB plans to undertake several projects during Y2012 that will not only boost its entire activity and improve the bank's image, but it will greatly help its clients to facilitate and quicken their daily and long-term financial transaction, and at the same time educate them on deeper understanding of contemporary banking products.

UB has formulated e handful of products and services (but not limited to) that might be attractive and useful for all clients. Such projects involve:

- Quick Personal Loan and on-line application for all Credit and Advances
- Offering of Special Deposit products for the Bank's 6th anniversary
- Provide all its clients with Maestro and Master Card with a Chip platform
- Introduce the new product: UB-Mobile, etc.

During Y2012, UB will continue to proudly sponsor the Albanian National Soccer Team

New Core Banking Software

During the year UB has decided to go for the Upgrade of the Core Banking Software, a project that is expected to be completed early 2013. This will enable the bank to improve the quality of the services, offer a wider range of products and improve processing and reporting capacities.

Branches Network

The bank has planned the refurbishment of several branches. In addition, to reach the projected growth and widen its geographic network in the upcoming years, it has also has planned to open 2 new branches.

9. Audited Financial Statements

UNION BANK SH.A.

Independent Auditor's Report and Financial Statements for the year ended December 31, 2011

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Place of registration: Tirana Court, Decision 16016
VAT (NUIS) No:J62329003N

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, 2011, 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, 2011, 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 29, 2012

Union Bank sh.a
Statement of financial position as at December 31, 2011
(All amounts are expressed in thousand LEK)

	Notes	As at December 31, 2011	As at December 31, 2010
Assets			
Cash and balances with Central Bank	4	2,519,660	2,584,238
Placements and balances with banks	5	2,677,364	4,273,041
Short term investment securities	6	2,099,146	1,882,550
Long term investment securities	7	3,996,577	1,855,210
Loans and advances to customers, net	8	11,339,905	10,351,805
Intangible assets, net	9	87,231	78,546
Property and equipment, net	10	201,078	224,179
Non-current assets held for sale	11	253,143	29,397
Other assets	12	236,130	46,932
Deferred tax asset	26	5,708	17,789
Total assets		**23,415,942**	**21,343,687**
Liabilities			
Due to banks and financial institutions	13	1,301,077	2,454,160
Due to customers	14	19,548,619	16,857,231
Treasury bills sold under repurchased agreements	15	252,219	-
Other liabilities	16	125,810	73,666
Deferred tax liability	26	16,499	20,060
Subordinated Debt	17	1,042	1,041
Total liabilities		**21,245,266**	**19,406,158**
Shareholders' equity			
Share capital	18	2,159,743	2,049,331
Share premium		175,600	175,600
Accumulated loss		(164,667)	(287,402)
Total shareholders' equity		**2,170,676**	**1,937,529**
Total liabilities and shareholders' equity		**23,415,942**	**21,343,687**

These financial statements have been approved by the management of the bank on March 19, 2012 and signed on its behalf by:

Gazmend Kadriu
Chief Executive Officer

Arten Zikaj
Chief Financial Officer

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 8-53.

(All amounts are expressed in thousand LEK)

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
Interest income	**19**	1,527,131	1,324,381
Interest expense	**20**	(805,876)	(677,880)
Net interest income		**721,255**	**646,501**
Fee and commission income	**21**	168,651	145,785
Fee and commission expenses	**22**	(28,943)	(28,871)
Net fee and commission income		**139,708**	**116,914**
Net foreign exchange gain	**23**	68,831	108,815
Other (expense) / income, net		(3,939)	524
		64,892	**109,339**
Operating income		**925,855**	**872,754**
Allowances for losses on loans and advances	**8**	(20,992)	(85,213)
Amortization for intangible assets	**9**	(20,115)	(24,115)
Depreciation of property and equipment	**10**	(41,756)	(48,434)
Personnel costs	**24**	(303,216)	(261,958)
Other operating expenses	**25**	(408,521)	(366,128)
Total operating expenses		**(794,600)**	**(785,848)**
Profit before tax		**131,255**	**86,906**
Income tax	**26**	(8,520)	(30,483)
Profit of the year		**122,735**	**56,423**
Other Comprehensive income, net of income tax		**-**	**-**
Total comprehensive income for the year		**122,735**	**56,423**

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 8-53

(All amounts are expressed in thousand LEK)

	Share capital	Share premium	Accumulated Loss	Total
Balance as at January 1, 2010	**2,049,331**	**175,600**	**(343,825)**	**1,881,106**
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**
Increase in share capital	110,412	-	-	**110,412**
Total comprehensive income for the year	-	-	122,735	**122,735**
Balance as at December 31, 2011	**2,159,743**	**175,600**	**(164,667)**	**2,170,676**

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 8-53

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

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
Cash flows from operating activities			
Profit before tax		131,255	86,906
Adjustments for non-cash items:			
Interest income	**19**	(1,527,131)	(1,324,381)
Interest expense	**20**	805,876	677,880
Depreciation of property and equipment	**10**	41,756	48,434
Amortization of intangible assets	**9**	20,115	24,115
Impairment loss	**8**	20,992	85,213
Revaluation effect of cash and cash equivalents		(26,212)	(77,281)
Revaluation effect of subordinated debt		1	6
Written of property and equipment		3,380	-
Net loss from sale of property and equipment		1,725	-
		(528,243)	**(479,108)**
Increase in placements and balances with banks		(75,242)	(654,701)
Increase in loans and advances to customers		(1,350,430)	(550,200)
(Increase)/ Decrease in other assets		(189,198)	219,358
(Decrease)/ Increase in due to banks and financial institutions		(1,137,911)	618,401
Increase in due to customers		2,671,536	4,015,528
Increase in Treasury bills sold under repurchased agreements		251,050	-
Increase/ (Decrease) in other liabilities		52,144	(212,529)
Interest received		1,587,072	1,233,239
Interest paid		(800,027)	(575,603)
Net Cash generated from operating activities		**480,751**	**3,614,385**
Cash flows from investing activities			
Purchases of intangible assets	**9**	(28,800)	(4,664)
Purchases of property and equipment	**10**	(25,864)	(22,890)
Proceeds from disposals of property plant and equipment		2,104	2,869
Proceeds from sale of non-current assets held for sale		17,965	-
Purchases of treasury bills		223,297	163,857
Purchases of government bonds		(2,100,898)	(1,653,161)
Net Cash used in investing activities		**(1,912,196)**	**(1,513,989)**
Cash flows from financing activities			
Subordinated debt		-	-
Proceeds from capital injection		110,412	-
Net Cash generated from financing activities		**110,412**	**-**
Cash and cash equivalents at the beginning of the year		**5,420,709**	**3,243,032**
Net cash provided by operating activities		480,751	3,614,385
Net cash used in investing activities		(1,912,196)	(1,513,989)
Net Cash generated from financing activities		110,412	-
Revaluation effect of cash and cash equivalents		26,212	77,281
Cash and cash equivalents at the end of the year	27	**4,125,888**	**5,420,709**

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 - 53

(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 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, 2011 the Bank had 276 employees (2010: 257).

Directors and Management as at 31 December 2011

Board of Directors (Supervisory Board)

Edmond Leka	Chairman
Niko Leka	Vice-Chairman
Varuzhan Piranian	Member
Agim Xhaja	Member
Paul Nabavi	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 Operations Officer
Ardian Petollari	Chief Business Officer
Arten Zikaj	Chief Financial Officer

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Statement of compliance

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

2.2 Basis of preparation

These financial statements have been prepared on the historical cost basis except for the derivative financial instruments, financial instruments at fair value through profit or loss and available-for-sale financial assets, which have been measured at fair value.

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

2. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

2.2 Basis of preparation (continued)

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

2.3 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.

Management believes that the underlying assumptions are appropriate and that the financial statements therefore present the financial position and results fairly.

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 3.

2.4 Foreign currency transactions

(a) Functional currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that requires settlement, in a foreign currency are translated into the functional currency using the exchange rate ruling at the date of the transaction.

Monetary items denominated in foreign currencies are translated at the exchange rate ruling at year-end. Non-monetary items denominated in foreign currencies, which are stated at historic cost, are translated at the exchange rate ruling at the date of the transaction; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined.

Foreign exchange differences arising on translation are recognized in the statement of comprehensive income.

The applicable exchange rates for the principal currencies are as follows:

	2011	**2010**
EUR:LEK	138.93	138.77
USD:LEK	107.54	104.00
EUR:USD	1.292	1.334

2. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

2.5 Financial instruments initial recognition and subsequent measurement

Financial assets and liabilities are recognized in the statement of financial position and measured in accordance with their assigned category.

2.5.1 Financial assets

Financial assets are allocated to the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets.

Management determines the classification of its financial instruments at initial recognition.

a) Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading and financial assets designated as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Financial instruments included in this category are recognized initially at fair value; transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly to the income statement and are reported as “Operating Income”. The instruments are derecognized when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognizing.

Financial assets designated upon initial recognition as at fair value through profit or loss (fair value option), cannot subsequently be changed.

Financial assets for which the fair value option is applied are recognized in the statement of financial position as “Financial assets designated at fair value”. Fair value changes relating to financial assets designated at fair value through profit or loss are recognized in “Operating Income”

b) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and advances are initially recognized at fair value- which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortized cost using the effective interest rate method. Loans and advances are reported in the statement of financial position as loans and advances to banks or customers. Interest on loans is included in the statement of comprehensive income and is reported as “Interest income”. In case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the statement of comprehensive income as “Allowance for losses on loans and advances”.

c) Held to maturity financial assets

Held to maturity investments are non- derivative financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity.

These are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest rate method.

Interest on held to maturity investments is included in the income statement and reported as “Interest income”. In case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognized in the income statement as “Operating income”.

2. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

2.5. Financial instruments initial recognition and subsequent measurement (continued)

2.5.1 Financial assets (continued)

d) Available for sale financial assets

Available for sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response of needs for liquidity or changes in interest rates, exchange rates or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available for sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. If an available for sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income, is recognized in the income statement.

2.5.2 Financial liabilities

Financial liabilities are grouped in two main categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

a) Financial liabilities at fair value through profit or loss

This category comprises two subcategories; financial liabilities classified as held for trading and financial liabilities designated as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Gains or losses arising from the changes in fair value of financial liabilities classified as held for trading are included in income statement and are reported as “Operating income”. Interest expenses on financial liabilities held for trading are included in “Net interest income”.

Financial liabilities designated upon initial recognition as at fair value through profit or loss (fair value option), cannot subsequently be changed.

Financial liabilities for which the fair value option is applied are recognized in the statement of financial position as “Financial liabilities designated at fair value”. Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognized in “Operating income”.

b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost are deposits from banks, deposits from customers, debt securities in issue for which the fair value option is not applied and subordinated debts.

2. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

2.5. Financial instruments initial recognition and subsequent measurement (continued)

2.5.3 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.

2.5.4 Impairment 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.

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:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the lender, for economic or legal reasons relating to the borrowers financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   (i) adverse changes in the payment status of borrowers in the portfolio; and
   (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

2. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

2.5. Financial instruments initial recognition and subsequent measurement (continued)

2.5.4 Impairment of financial assets (continued)

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 foreseen cash payments and 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). Based on historical data for each of these groups a loss factor is calculated, 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 "Allowances for losses on loans and advances".

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.

2.6 Repurchase agreements

When debt securities are sold under a commitment to repurchase them at a predetermined price, they are recorded in "Loans and advances from credit institutions". Securities purchased under a commitment to resell are recorded as "Loans and advances to credit institutions".

2.7 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%.

2. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

2.8 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are charged to other operating expenses during the financial period in which they are incurred.

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%

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

2.9 Non-current assets held for sale

Non-current assets are classified as held for sale as 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. If an extension of the sale period incur it does preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

2.10 Interest income and expense

Interest income and expense for all interest-bearing financial instruments is recognized in the statement of comprehensive income using the effective interest method. Interest income includes coupons earned on fixed income investments and accrued discount and premium on treasury bills.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When loans become doubtful of collection, they are written down to their recoverable amounts and no interest income is thereafter recognized

2. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

2.11 Fee and commission income

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. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

2.12 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.

2.13 Impairment of non-financial assets

Banks assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the statement of comprehensive income for the amount by which the assets carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an assets fair value less costs to sell and value in use.

2.14 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.

2.15 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.

a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible as required under Albanian legislation .

b) Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

2. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED

2.15 Taxation (continued)

b) Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

2.16 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.17 Adoption of new and revised standards

2.17.1 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:

- **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 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).

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.

2. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED

2.17 Adoption of new and revised standards (continued)

2.17.2 Standards and interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2015), (effective for annual periods beginning on or after 1 January 2015), 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.
- **IFRS 13 "Fair Value Measurement"** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2013),
- **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 IFRS 7 "Financial Instruments: Disclosures" -** Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" –** Mandatory Effective Date and Transition Disclosures,
- **Amendments to IAS 1 "Presentation of financial statements" -**Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 "Income Taxes" -** Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- **Amendments to IAS 19 "Employee Benefits"** - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 32 "Financial instruments: presentation"** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"** (effective for annual periods beginning on or after 1 January 2013).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

2. SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

2.18 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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in note 2, 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.

3.1 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.

3.2 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 31**.**

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

4. CASH AND BALANCES WITH CENTRAL BANK

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

	As at December 31, 2011	**As at December 31, 2010**
Cash on hand	595,410	760,070
Central Bank:		
Current account	21,882	384,337
Compulsory reserves	1,901,681	1,439,203
Accrued interest	687	628
Total	**2,519,660**	**2,584,238**

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, 2011
(December 31, 2010: 3.5% p.a.);
-USD: 70% of the one-year USD Base rate: 0.09 % p.a. as at June 30, 2011
(December 31, 2010: 0.09% p.a.);
-EUR: 70% of the one-year EUR Base rate: 0.875% p.a. as at June 30, 2011
(December 31, 2010: 0.70% p.a.).

Starting from July 2011, the Central Bank stopped paying interest on foreign currency balances on statutory reserve.

Current accounts with the Central Bank are non interest bearing.

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

5. PLACEMENTS AND BALANCES WITH BANKS

Placements and balances with banks are detailed as follows:

	As at December 31, 2011	As at December 31, 2010
Current accounts:		
Resident	-	-
Non-resident	581,830	1,416,793
	581,830	**1,416,793**
Deposits:		
Resident	275,740	1,302,513
Non-resident	1,667,160	1,013,021
	1,942,900	**2,315,534**
Other accounts	151,511	538,748
Accrued interest	1,123	1,966
Total	**2,677,364**	**4,273,041**

Deposits with resident and non-resident banks mature in the range of 4 days to 3 months (2010: 3 days to 12 months) and bear interest in the range of 0.15%p.a. to 4.75%p.a. (2010: 0.13%p.a. to 5.3%p.a.).

6. SHORT TERM INVESTMENT SECURITIES

Short term investment securities at December 31, 2011 consist of Treasury Bills ("T-Bills") issued by the Albanian Government.

T-Bills bear interest at market rates ranging from 6.68% p.a. to 7.66% p.a. (2010: 6.43% p.a. to 8.19% 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, 2011			As at December 31, 2010		
	Nominal value	**Accrued discount**	**Book Value**	**Nominal value**	**Accrued discount**	**Book Value**
12 months	2,158,433	(59,287)	2,099,146	1,960,000	(77,450)	1,882,550
Total	**2,158,433**	**(59,287)**	**2,099,146**	**1,960,000**	**(77,450)**	**1,882,550**

7. LONG TERM INVESTMENT SECURITIES

Long term investment securities consist of Treasury Bonds ("Bonds") issued by the Albanian Government Bonds in Lek bear interest at market rates ranging from 7.38% p.a. to 9.25% p.a. (2010:7.65%p.a. to 9.25% p.a.) and in Eur 7.5% p.a. This interest is paid semiannually.

Government Bonds by original maturity are presented as follows:

As at December 31, 2011

	Purchase value	Unamortized Discount	Accrued interest	Book Value
24 months	3,800,361	(1,613)	75,256	3,874,004
36 months	120,000	-	2,573	122,573
Total	**3,920,361**	**(1,613)**	**77,829**	**3,996,577**

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

7. LONG TERM INVESTMENT SECURITIES (CONTINUED)

As at December 31, 2010

	Purchase value	Unamortized Discount	Accrued interest	Book Value
24 months	1,819,882	(2,032)	37,360	1,855,210
36 months	-	-	-	-
Total	**1,819,882**	**(2,032)**	**37,360**	**1,855,210**

8. LOANS AND ADVANCES TO CUSTOMERS, NET

	As at December 31, 2011	As at December 31, 2010
Loans	7,354,523	6,080,036
Overdrafts	4,241,626	4,412,222
Other advances to customers	46,020	28,617
	11,642,169	**10,520,875**
Accrued interest	92,676	192,303
Allowances for losses on loans and advances	(349,812)	(332,649)
Deferred income	(45,128)	(28,724)
Total	**11,339,905**	**10,351,805**

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, 2011		As at December 31, 2010	
	Amount	%	Amount	%
Trade	3,175,723	27%	2,569,510	24%
Other Services	2,116,487	18%	1,136,182	10%
Real Estate	1,708,465	15%	1,301,777	12%
Construction	1,553,403	13%	1,377,485	13%
Consumer	1,076,862	9%	1,010,769	10%
Hotels and Restaurants	542,371	5%	112,472	1%
Processing Industry	466,648	4%	1,020,348	10%
Education	328,302	3%	303,958	3%
Production and transmission of electricity, gas and water	283,806	2%	28,999	1%
Transportation, Storing and Telecommunication	244,933	2%	391,367	4%
Financial services	100,357	1%	1,187,634	11%
Agriculture and Forestry	44,812	1%	80,374	1%
Total	**11,642,169**		**10,520,875**	

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

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

Loans and advances to customers in Lek bear interests in the range of 3.5% p.a. to 20.0% p.a. (2010: 3.5% p.a. to 20.0% p.a.), in Euro bear interests in the range of 3.1% p.a. to 15.5% p.a. (2010: 3.16% p.a. to 15.5% p.a.) and in USD bear interest in the range of 1.8% p.a. to 10.8% p.a. (2010: 1.8% p.a. to 10.8% p.a.).

Loans and advances to customers are collateralized 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 35,687,882 thousand (2010: LEK 28,870,467 thousand).

Loan by type are presented as follows:

	As at December 31, 2011		As at December 31, 2010	
	Amount	**%**	**Amount**	**%**
Business Enterprises	8,856,842	76%	8,208,329	78%
Individuals	2,785,327	24%	2,312,546	22%
Total	**11,642,169**	**100%**	**10,520,875**	**100%**

Allowance for impairment

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

	As at December 31, 2011	As at December 31, 2010
Balance at the beginning of the year	**332,649**	**247,668**
Provision for the year, net	20,992	85,213
Loans written-off during the year	-	-
Foreign exchange revaluation differences	(3,829)	(232)
Balance at the end of the year	**349,812**	**332,649**

(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 2010				
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)
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**
Year ended December 2011				
Opening net book amount	61,946	12,588	4,012	78,546
Additions	25,906	-	2,894	28,800
Disposals	-	-	-	-
Amortization charge	(16,468)	(3,647)	-	(20,115)
Closing net book amount	**71,384**	**8,941**	**6,906**	**87,231**
At 31 December 2011				
Cost	148,108	24,312	6,906	179,326
Accumulated amortization	(76,724)	(15,371)	-	(92,095)
Net book amount	**71,384**	**8,941**	**6,906**	**87,231**

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 equipment's	Electronic equipment	Office Furniture	Other tangible assets	Fixed assets in progress	Leasehold improvements	Total
At 1 January 2010							
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)
Depreciation charge for disposals	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**
Year ended December 2011							
Opening net book amount	56,024	44,904	21,383	9,461	10,856	81,551	224,179
Additions	10,198	2,897	2,806	-	7,403	2,560	25,864
Disposals	(621)	(965)	(166)	(4,643)	(224)	(10,542)	(17,161)
Depreciation charge	(14,533)	(9,191)	(4,476)	(1,815)	-	(11,741)	(41,756)
Depreciation charge for disposals	451	409	92	2,728	-	6,272	9,952
Closing net book amount	**51,519**	**38,054**	**19,639**	**5,731**	**18,035**	**68,100**	**201,078**
At 31 December 2011							
Cost	155,290	86,393	42,226	8,901	18,035	142,648	453,493
Accumulated depreciation	(103,771)	(48,339)	(22,587)	(3,170)	-	(74,548)	(252,415)
Net book amount	**51,519**	**38,054**	**19,639**	**5,731**	**18,035**	**68,100**	**201,078**

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. NON-CURRENT ASSETS HELD FOR SALE

Non-current 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.

Non-current assets held for sale as at December 31, 2011 are measured with the lower of its carrying amount and fair value less costs to sell, amounting LEK 253,143 thousand (2010: LEK 29,397 thousand).

12. OTHER ASSETS

Other assets are comprised of the following:

	As at December 31, 2011	**As at December 31, 2010**
Monetary values in transit	181,438	18
Prepayments	19,038	14,152
Sundry debtors	17,683	16,439
Accrued income	14,854	12,411
Inventory	1,845	2,697
Guarantee deposit paid	695	694
Payment in transit	577	521
Total	**236,130**	**46,932**

Monetary values in transit represent cash sold with banks 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.

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

13. DUE TO BANKS AND FINANCIAL INSTITUTIONS

Due to banks and financial institutions are detailed as follows:

	As at December 31, 2011	As at December 31, 2010
Current accounts:		
Resident	340,342	791,094
Non-resident	33,739	3,739
	374,081	**794,833**
Term deposits:		
Resident	863,035	1,029,673
Non-resident	52,793	-
	915,828	**1,029,673**
Borrowings:		
Resident	-	-
Non-resident	-	527,326
	-	**527,326**
Other accounts:		
Resident	20	76,008
	20	**76,008**
Accrued interest	11,148	26,320
Total	**1,301,077**	**2,454,160**

Term deposits from resident financial institutions mature in 12 months and bear interest in range of 3.3%p.a. to 4.5%p.a. (2010: 4%p.a. to 5.5%p.a.). These deposits are deposited by Financial Union of Tirana and are held as collateral for loans issued by the bank.

Term deposits from non-resident financial institutions comprises balances of term deposits placed by “Banka per Biznes sha” amounting LEK 41,679 thousand (2010: nil) and “Union of Financial Corners” amounting LEK 11,114 thousand (2010: nil). Deposits from “Banka per Biznes sha” are of 5 days maturity and bear interest of 0.35% p.a and those of “Union of Financial Corners”, held as collateral for loans issued by the bank, are of 12 months maturity and bear interest of 4.2% 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. The outstanding balance of EUR 1.3 mln was fully prepaid at 31 October 2011.

Other accounts are accounts of resident financial institutions held as collateral of guarantee issued by the Bank.

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

14. DUE TO CUSTOMERS

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

	As at December 31, 2011	As at December 31, 2010
Government and public admin accounts	**21,823**	**9,906**
Current accounts:		
Local currency	1,864,414	1,897,056
Foreign currency	935,680	1,626,804
	2,800,094	**3,523,860**
Saving accounts:		
Local currency	507,954	325,527
Foreign currency	1,427,244	946,726
	1,935,198	**1,272,253**
Term deposits:		
Local currency	7,239,248	5,136,645
Foreign currency	6,995,757	5,813,535
	14,235,005	**10,950,180**
Other customer accounts:		
Local currency	68,705	333,752
Foreign currency	223,512	522,850
	292,217	**856,602**
Subtotal	**19,284,337**	**16,612,801**
Accrued interest	264,282	244,430
Total	**19,548,619**	**16,857,231**

Current and saving accounts in different currencies bear interest in the range of 0.2% p.a. to 0.4% p.a. (2010: 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 8.40%p.a. (2010: 2.90%p.a. to 8.90%p.a.)
- in USD: 0.20%p.a. to 2.90%p.a. (2010: 0.40%p.a. to 3.10%p.a.)
- in EUR: 1.20%p.a. to 5.50%p.a. (2010: 1.30%p.a. to 6.20%p.a.)
- in GBP: 0.90%p.a. to 1.05%p.a. (2010: 0.30%p.a. to 1.00%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)

14. DUE TO CUSTOMERS (CONTINUED)

Customer accounts and deposits could be further analyzed as follows:

	As at December 31, 2011			As at December 31, 2010		
	LEK	Foreign currency	Total	LEK	Foreign currency	Total
Current accounts	**1,864,414**	**957,503**	**2,821,917**	**1,897,056**	**1,636,710**	**3,533,766**
Saving accounts	**507,954**	**1,427,244**	**1,935,198**	**325,527**	**946,726**	**1,272,253**
Term deposits:						
One month	64,175	109,933	**174,108**	51,816	150,550	**202,366**
Three months	402,736	485,426	**888,162**	357,952	513,242	**871,194**
Six months	400,086	606,219	**1,006,305**	402,244	821,428	**1,223,672**
Twelve months	3,261,341	3,421,625	**6,682,966**	2,299,816	2,472,588	**4,772,404**
Twenty-four months	403,379	429,840	**833,219**	269,554	398,907	**668,461**
Other	2,707,531	1,942,714	**4,650,245**	1,755,263	1,456,820	**3,212,083**
Total deposits	**7,239,248**	**6,995,757**	**14,235,005**	**5,136,645**	**5,813,535**	**10,950,180**
Other customer accounts:						
On demand	12,883	6,460	**19,343**	15,168	11,044	**26,212**
One month	-	-	**-**	-	-	**-**
Three months	-	-	**-**	-	-	**-**
Six months	300	-	**300**	300	-	**300**
Twelve months	12,726	110,331	**123,057**	8,295	210,417	**218,712**
Other	42,796	106,721	**149,517**	309,989	301,389	**611,378**
Total other customer accounts	**68,705**	**223,512**	**292,217**	**333,752**	**522,850**	**856,602**
Total	**9,680,321**	**9,604,016**	**19,284,337**	**7,692,980**	**8,919,821**	**16,612,801**

"Other" includes deposits with initial maturity 4 months, 7 months, 14 months and 21 months.

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

15. TREASURY BILLS SOLD UNDER REPURCHASE AGREEMENTS

	As at December 31, 2011	As at December 31, 2010
Treasury bills sold under repurchased agreements	251,050	-
Accrued interest	1,169	-
Total	**252,219**	**-**

Treasury bills sold under repurchase agreements "Repos" are short term liquidity management instruments issued by Central Bank in order to temporary inject liquidity in the banking system Repos bear interest at market rates ranging from 5.45% p.a. to 5.5% p.a and are all denominated in Lek.

16. OTHER LIABILITIES

Other liabilities are comprised of the following:

	As at December 31, 2011	As at December 31, 2010
Payment in transit	80,166	26,764
Invoices to be received	27,960	25,107
Other	13,277	11,995
Other provisions for risk and expenses	2,132	-
Deferred income and accrued expenses	1,350	9,170
Sundry creditors	925	630
Total	**125,810**	**73,666**

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

17. SUBORDINATED DEBT

The amounts of subordinated debt represents a residual amount of an earlier commitment of then-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 8^{th} 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.

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

18. SHARE CAPITAL

Paid-up capital:

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

	As at December 31, 2011		As at December 31, 2010	
	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	1,617,143	2,049,331
Capital injection during the year	80,000	110,412	-	-
Paid up share capital	**1,697,143**	**2,159,743**	**1,617,143**	**2,049,331**

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 1,697,143 shares (2010: 1,617,143 shares) at EUR 10 per share and is detailed as follows.

	As at December 31, 2011		As at December 31, 2010	
	No. of shares	**Value of shares**	**No. of shares**	**Value of shares**
Subscribed Capital	1,697,143	2,159,197	1,617,143	2,048,053

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.

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:

	2011	**2010**
Loans and advances to customers	1,073,022	1,014,365
Investment securities	384,987	241,100
Loans and advances to banks & financial institutions	69,122	42,143
Loans and advances to Government	-	26,773
Total	**1,527,131**	**1,324,381**

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

20. INTEREST EXPENSE

Interest expense was incurred on the following liabilities:

	2011	2010
Due to customers	732,959	617,751
Loans and advances from financial institutions	66,933	60,105
Repurchase agreements	5,955	-
Subordinated debt	29	24
Total	**805,876**	**677,880**

21. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

	2011	2010
Banking services	132,629	109,124
Other	31,910	32,247
Lending activity	4,112	4,414
Total	**168,651**	**145,785**

22. FEE AND COMMISSION EXPENSES

Fees and commissions expense were comprised as follows:

	2011	2010
Fee charged for services offered from the agents of Financial Union	18,146	18,852
Banking services	4,450	4,294
Other	3,458	1,078
Treasury operations	2,889	4,647
Total	**28,943**	**28,871**

23. NET FOREIGN EXCHANGE GAIN

Net foreign exchange gain represents FX trading income and 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, 2011 is LEK 68,831 thousand (2010: LEK 108,815 thousand).

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

24. PERSONNEL COSTS

	2011	2010
Salaries	208,629	191,717
Social insurance	29,726	26,592
Other	26,742	22,842
Management remuneration	38,119	20,807
Total	**303,216**	**261,958**

"Other" includes expenses for bonuses LEK 23,142 thousand (2010: LEK 19,809 thousand), training LEK 866 thousand (2010: LEK 335 thousand) and board remuneration LEK 2,734 thousand (2010: LEK 2,698 thousand).

25. OTHER OPERATING EXPENSES

	2011	2010
Rent	115,776	111,246
Other external services	66,856	65,048
Deposit insurance premium	42,832	28,196
Communication expenses	37,486	35,668
Security services	30,701	26,800
Marketing	30,188	25,334
Utilities, energy, water etc.	18,867	17,190
Software maintenance	16,153	13,793
Maintenance & repairs	16,052	14,404
Office supply	13,796	13,150
Insurance	6,634	5,593
Transportation & business trip exp	6,380	3,979
Consulting & Legal fees	5,966	5,082
Representation	834	645
Total	**408,521**	**366,128**

26. INCOME TAX

	2011	2010
Current tax expense	-	-
Deferred tax expense	(8,520)	(30,483)
Total tax income/expense	**(8,520)**	**(30,483)**

Income tax in Albania is assessed at the rate of 10% (2010: 10%) of taxable income.

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

26. INCOME TAX (CONTINUED)

The following represents a reconciliation of the accounting profit to the taxable profit:

	2011	**2010**
IFRS accounting profit before tax	**131,255**	**86,906**
Adjustment for loan loss provision (impairment of loans)	-	(172,288)
Adjustment for start up costs	(3,507)	(3,507)
Add non-deductible expenses:	15,725	13,253
Representative expenses	-	256
Staff expenses	3,467	4,623
Office expenses	-	2,372
Other	5,276	5,985
Fine, penalties	2,547	17
Loan loss provisions exceeding limits	4,435	-
Taxable profit/(loss)	**143,473**	**(75,636)**
Losses carry forward from prior years	**(198,220)**	**(122,584)**
Taxable profit	**-**	**-**
Tax on profit @ 10%	**-**	**-**

As of December 31, 2011, the Bank has carried forward losses of 2010 for fiscal purposes amounting to LEK 54,747 thousand (2010: LEK 198,220 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”.

	2011	**2010**
Tax losses from 2008 (expire in 2011)	-	122,584
Tax losses from 2009 (expire in 2012)	-	-
Tax losses from 2010 (expire in 2013)	54,747	75,636
Tax losses from 2011 (expire in 2014)	-	-
Total	**54,747**	**198,220**

The movement on the deferred tax is presented as follows:

	As at December 31, 2011	**As at December 31, 2010**
Deferred tax asset at the beginning of the year	17,789	28,212
Recognized in statement of comprehensive income	(12,081)	(10,423)
Deferred tax asset at the end of the year	**5,708**	**17,789**
Deferred tax liability at the beginning of the year	20,060	-
Recognized in statement of comprehensive income	(3,561)	20,060
Deferred tax liability at the end of the year	**16,499**	**20,060**

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

26. INCOME TAX (CONTINUED)

Deferred tax assets and liabilities are attributable to the following items:

	As at December 31, 2011	As at December 31, 2010
Deferred tax asset:		
Startup expenses	233	583
Carry forward tax losses	5,475	17,206
Allowances for losses on loans and advances	-	-
	5,708	**17,789**
Deferred tax liability:		
Allowances for losses on loans and advances	16,499	20,060
	16,499	**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 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.

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	As at December 31, 2011	As at December 31, 2010
Cash on hand	595,410	760,071
Accounts with Central Bank	21,882	384,337
Accounts with financial institutions with maturity of less than 3 months	2,524,730	3,732,328
Treasury bills with maturity of less than 3 months	983,866	543,973
Total	**4,125,888**	**5,420,709**

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

28. 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, 2011	As at December 31, 2010
Assets:		
Loans and advances to customers:		
Parent company	-	4,202
Associated entities	1,322,518	1,620,595
Management personnel of the entity or its parent and their relatives	50,148	62,269
Other Assets:		
Parent company	994	1,316
Associated entities	282	268
Management personnel of the entity or its parent and their relatives	9	5
Liabilities:		
Due to banks and FI:		
Parent company	1,214,481	1,921,114
Associated entities	11,301	14
EBRD	-	182,330
Due to customers:		
Associated entities	398,162	472,714
Management personnel of the entity or its parent and their relatives	222,178	184,069
Other Liabilities:		
Parent company	625	-
Associated entities	2,983	5,141
Management personnel of the entity or its parent and their relatives	-	509
EBRD	-	86
Subordinated debt:		
Parent company	1,042	1,041
Shareholders' equity:		
Parent company	1,796,770	1,705,000
Other shareholders	362,973	344,331
Share premium:		
EBRD	175,600	175,600

Loans to associated entities in the amount of LEK 1,002,943 thousand are covered by cash collateral and the remaining balance is covered by other collaterals provided by the parent company and associated entities.

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

28. RELATED PARTY TRANSACTIONS (CONTINUED)

	As at December 31, 2011	As at December 31, 2010
Off Balance Sheet		
Un-drawn credit facilities from the Bank:		
Associated entities	15,366	36,059
Management personnel of the entity or its parent and their relatives	19,040	21,519
Guarantees received:		
Parent company	1,366,606	1,466,736
Associated entities	691,031	892,285
Management personnel of the entity or its parent and their relatives	365,275	355,647
Guarantees given:		
Parent company	20	20
Associated entities	34,854	428,312
Commitments received:		
Parent company	-	-
Associated entities	-	-
EBRD	-	97,139
Commitments given:		
Associated entities	73,147	141,686

The Bank has entered into the following transactions with related parties:

	2011	2010
Interest income:		
Parent company	465	454
Associated entities	97,130	97,579
Management personnel of the entity or its parent and their relatives	4,495	4,240
Interest expense:		
Parent company	59,450	51,601
Associated entities	11,959	29,154
Management personnel of the entity or its parent and their relatives	4,367	4,855
EBRD	12,259	7,258
Fees and commission income:		
Parent company	4,772	16,997
Associated entities	4,928	6,806
Management personnel of the entity or its parent and their relatives	348	222
Fees and commission expense:		
EBRD	1,418	-
Operating income:		
Associated entities	1,494	-
Operating expense:		
Parent company	2,361	2,205
Associated entities	36,023	31,543
Management personnel of the entity or its parent and their relatives	118,216	98,637

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)

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

Commitments and contingencies include the following:

	As at December 31, 2011	As at December 31, 2010
Contingent assets		
Guarantees given in favor of customers	637,027	845,906
Un-drawn credit facilities	787,834	706,389
Commitments for Letter of Credits	-	36,717
Total Contingent assets	**1,424,861**	**1,589,012**

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 was involved in various claims and legal proceedings of a nature considered normal to its business as at December 31, 2011. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years. The Bank's management is of the opinion that no material losses will be incurred in relation to legal claims.

Operating lease commitments

The Bank has entered into non-cancelable lease commitments. Such commitments are composed as follows:

	As at December 31, 2011	As at December 31, 2010
Not later than 1 year	80,013	74,154
Later than 1 year and not later than 5 years	361	361
Later than 5 years	-	-
Total	**80,374**	**74,515**

30. 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.

30. 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 grading in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk 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. In addition, regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

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

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Maximum credit exposure
Maximum exposure to credit risk before collateral held or other credit enhancements are as follows:

	As at December 31, 2011	As at December 31, 2010
Short term investment securities	2,099,146	1,882,550
Placements and balances with banks	2,677,364	4,273,041
Loans and advances to customers, net	11,339,905	10,351,805
Long term investment securities	3,996,577	1,855,210
Financial guarantees	637,027	845,906
Standby letters of credit	-	36,717
Commitments to extend credit	860,981	705,029
Maximum exposures to credit risk	**21,611,000**	**19,950,258**

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)

30. 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, 2011			**Loans and advances to customers**		**Placements and balances with**
	Retail	**Corporate**	**Advances**	**Total Loans**	**banks**
Neither past due nor impaired	2,026,430	3,591,537	3,176,750	8,794,717	2,677,364
Past due but not impaired	313,261	828,216	967,520	2,108,997	-
Individually impaired	68,739	530,306	186,958	786,003	-
Total Gross	**2,408,430**	**4,950,059**	**4,331,228**	**11,689,717**	**2,677,364**
Less: allowance for individually impaired loans	51,593	132,520	71,227	255,340	-
Less: allowance for collectively impaired loans	18,969	46,612	28,891	94,472	-
Total Allowance for impairment	**70,562**	**179,132**	**100,118**	**349,812**	**-**

As at December 31, 2010			**Loans and advances to customers**		**Placements and balances with**
	Retail	**Corporate**	**Advances**	**Total Loans**	**banks**
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**	**-**

The total impairment provision for loans and advances is LEK 349,812 thousand (2010: LEK 332,649 thousand).

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

30. 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, 2011

Rating	Loans and advances to customers				Placements and balances with banks
	Retail	Corporate	Advances	Total Loans	
Good	1,990,429	3,555,785	2,966,242	8,512,456	2,677,364
Acceptable	34,893	27,383	-	62,276	-
Close monitoring	1,108	8,369	210,508	219,985	-
Unacceptable	-	-	-	-	-
Total	**2,026,430**	**3,591,537**	**3,176,750**	**8,794,717**	**2,677,364**

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**

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, 2011

	Loans and advances to customers			
Time band	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 30 days	241,836	685,128	134,801	1,061,765
Past due 31-60 days	47,807	27,591	116,201	191,599
Past due 61-90 days	22,226	75,333	98,417	195,976
Past due 91-180 days	898	35,729	543,963	580,590
Past due over 180 days	494	4,435	74,138	79,067
Total	**313,261**	**828,216**	**967,520**	**2,108,997**
Estimation of fair value of collateral	**1,941,218**	**4,059,601**	**1,629,389**	**7,630,208**

Loans and advances past due over 90 days are collateralized by cash amounting at LEK 334,957 thousand (2010: LEK 64,917 thousand).

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

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

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 individually impaired

The individually impaired loans and advances before taking into consideration the cash flows from collateral held is LEK 786,003 thousand (2010: LEK 1,111,333 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, 2011	Loans and advances to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
Individually impaired	68,739	530,306	186,958	786,003
Fair value of collateral	205,526	6,727,390	272,635	7,205,551

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

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 130,345 thousand (2010: LEK 114,473 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)

30. 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	6,608,733	21,077,122	**27,685,855**
Pledge	596,818	5,114,725	**5,711,543**
Cash	-	2,290,485	**2,290,485**
Total	**7,205,551**	**28,482,332**	**35,687,883**

(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 below.

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

30. 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, 2011
	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	2,519,660	-	-	-	-	-	**2,519,660**
Placements and balances with banks	2,525,852	-	55,572	90,305	-	5,635	**2,677,364**
Short term investment securities	399,234	486,288	505,244	708,380	-	-	**2,099,146**
Long term investment securities	332,798	317,426	172,638	658,539	2,515,176	-	**3,996,577**
Loans and advances to customers, net	963,837	924,136	1,206,614	2,928,732	3,591,863	1,724,723	**11,339,905**
Other assets	218,753	2,375	1,741	10,108	2,458	695	**236,130**
Total	**6,960,134**	**1,730,225**	**1,941,809**	**4,396,064**	**6,109,497**	**1,731,053**	**22,868,782**
Liabilities							
Due to banks and Financial institutions	415,828	-	-	885,249	-	-	**1,301,077**
Due to customers	6,756,764	2,068,630	2,450,288	7,534,381	738,556	-	**19,548,619**
Treasury bills sold under repurchase agreement	-	252,219	-	-	-	-	**252,219**
Other liabilities	125,810	-	-	-	-	-	**125,810**
Subordinated debt	-	-	-	-	1,042	-	**1,042**
Total	**7,298,402**	**2,320,849**	**2,450,288**	**8,419,630**	**739,598**	**-**	**21,228,767**
Liquidity risk at December 31, 2011	**(338,268)**	**(590,624)**	**(508,479)**	**(4,023,566)**	**5,369,899**	**1,731,053**	**1,640,015**
Cumulative	**(338,268)**	**(928,892)**	**(1,437,371)**	**(5,460,937)**	**(91,038)**	**1,640,015**	**-**

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)

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

							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**
Long term investment securities	20,170	7,391	4,838	4,962	1,403,571	414,278	**1,855,210**
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**
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**	**-**

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

30. 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, 2011 by the foreign currencies in which they were denominated is shown below.

	As at December 31, 2011				
	LEK	**USD**	**EUR**	**Others**	**Total**
Assets					
Cash and balances with Central Bank	1,176,457	191,257	1,082,702	69,244	**2,519,660**
Placements and balances with banks	168,244	457,403	2,017,458	34,259	**2,677,364**
Short term investment securities	2,099,146	-	-	-	**2,099,146**
Long term investment securities	3,576,434	-	420,143	-	**3,996,577**
Loans and advances to customers, net	2,286,247	405,610	8,648,048	-	**11,339,905**
Other assets	21,191	145,475	26,932	42,532	**236,130**
Total	**9,327,719**	**1,199,745**	**12,195,283**	**146,035**	**22,868,782**
Liabilities					
Due to banks and financial institutions	674	28,790	1,271,597	16	**1,301,077**
Due to customers	9,857,836	1,113,502	8,493,631	83,650	**19,548,619**
T bills sold under repurchase agreement	252,219	-	-	-	**252,219**
Other liabilities	42,838	8,719	73,431	822	**125,810**
Subordinated debt	-	-	1,042	-	**1,042**
Total	**10,153,567**	**1,151,011**	**9,839,701**	**84,488**	**21,228,767**
Net Position	**(825,848)**	**48,734**	**2,355,582**	**61,547**	**1,640,015**

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

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Currency risk (continued)

	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**
Long term investment securities	1,435,970	-	419,240	-	**1,855,210**
Loans and advances to customers, net	1,924,455	392,528	8,034,822	-	**10,351,805**
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**

Interest rate risk

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, 2011 is analyzed below. As at December 31, 2011, 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 57% (2010: 51%) of the total statement of financial position, carry floating interest rates.

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

30. 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 were as follows:

	Weighted average interest rate (LEK)		Weighted average interest rate (USD)		Weighted average interest rate (EUR)		Weighted average interest rate (other)	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Assets:								
Placements and balances with banks	4.78%	4.87%	0.70%	N/A	0.56%	0.63%	N/A	N/A
Investment securities	7.82%	7.86%	N/A	N/A	7.50%	7.50%	N/A	N/A
Loans and advances to customers, net	12.01%	12.51%	7.80%	8.37%	8.16%	8.70%	N/A	N/A
Liabilities:								
Due to banks and financial institutions	5.48%	N/A	N/A	N/A	4.12%	4.51%	N/A	N/A
Due to customers	6.62%	7.19%	1.99%	2.32%	4.43%	4.19%	0.99%	0.94%
Subordinated debt	N/A	N/A	N/A	N/A	2.99%	2.21%	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)

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

							As at December 31, 2011
	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	957,788	-	-	-	-	1,561,872	**2,519,660**
Placements and balances with banks	2,491,344	-	55,572	90,305	5,635	34,508	**2,677,364**
Short term investment securities	399,234	486,288	505,244	708,380	-	-	**2,099,146**
Long term investment securities	300,000	300,000	150,000	653,571	2,515,176	77,830	**3,996,577**
Loans and advances to customers, net	1,250,878	1,492,901	2,148,115	5,301,020	1,541,931	(394,940)	**11,339,905**
Property, equipment and intangible assets, net	-	-	-	-	-	541,452	**541,452**
Other assets	-	-	-	-	-	241,838	**241,838**
Total	**5,399,244**	**2,279,189**	**2,858,931**	**6,753,276**	**4,062,742**	**2,062,560**	**23,415,942**
Liabilities							
Due to banks and financial institutions	119,573	-	-	874,150	-	307,354	**1,301,077**
Due to customers	6,533,237	2,039,357	2,410,462	7,487,197	734,371	343,995	**19,548,619**
Treasury bills sold under repurchase agreement	-	251,050	-	-	-	1,169	**252,219**
Other liabilities	-	-	-	-	-	142,309	**142,309**
Subordinated debt	1,042	-	-	-	-	-	**1,042**
Shareholders' equity	-	-	-	-	-	2,170,676	**2,170,676**
Total	**6,653,852**	**2,290,407**	**2,410,462**	**8,361,347**	**734,371**	**2,965,503**	**23,415,942**
Gap	**(1,254,608)**	**(11,218)**	**448,469**	**(1,608,071)**	**3,328,371**	**(902,943)**	**-**
Cumulative gap	**(1,254,608)**	**(1,265,826)**	**(817,357)**	**(2,425,428)**	**902,943**	**-**	**-**

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

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

As at December 31, 2010

	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	1,439,203	-	-	-	-	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**
Long term investment securities	250,000	300,000	853,571	414,278		37,361	**1,855,210**
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, net	-	-	-	-	-	332,122	**332,122**
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)

30. 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:

	As at December 31, 2011	**As at December 31, 2010**
Interest rate increases by 2%	(47,089)	93,624
Interest rate increases by 1.5%	(35,317)	70,218
Interest rate increases by 1%	(23,545)	46,812
Interest rate decreases by 1%	23,545	(46,812)
Interest rate decreases by 1.5%	35,317	(70,218)
Interest rate decreases by 2%	47,089	(93,624)

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:

	As at December 31, 2011	**As at December 31, 2010**
Lek depreciates by 5%	123,293	108,699
Lek appreciates by 5%	(123,293)	(108,699)

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

31. 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, 2011		**As at December 31, 2010**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Short term investment securities	2,099,146	2,102,136	1,882,550	1,888,223
Placements and balances with banks	2,677,364	2,677,364	4,273,041	4,273,041
Loans and advances to customers, net	11,339,905	11,339,905	10,351,805	10,351,805
Government bonds	3,996,577	3,992,917	1,855,210	1,853,597
Financial liabilities				
Due to other banks and financial institutions	1,301,077	1,279,073	2,454,160	2,430,219
Due to customers	19,548,619	20,464,416	16,857,231	16,560,062
Treasury bills sold under repurchase agreement	252,219	252,219	-	-
Subordinated debt	1,042	1,042	1,041	1,041

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 banks and financial institutions
Due to banks and financial 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.

32. 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.

33. EVENTS AFTER THE REPORTING DATE

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