# AEGEAN BALTIC BANK S.A

**Annual Financial Report**

**31 December 2010**

June 2011

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# Annual Report of the Board of Directors of AEGEAN BALTIC BANK S.A. for the financial year 2010

Dear Shareholders,

We hereby submit for approval the financial statements of Aegean Baltic Bank S.A. (hereinafter “AB Bank” or the “Bank”) for the year ended December 31st, 2010, prepared in accordance with the International Financial Reporting Standards, as adopted by the EU. We also hereby present the Bank’s Annual Report of the Board of Directors for the year ended December 31st, 2010.

AB Bank is a Greek banking institution, specializing in the provision of corporate banking, ancillary, treasury and advisory services to enterprises of the shipping sector.

The Bank operates through its head office at Maroussi, Athens, Greece and, since July 2010, through a branch located in Piraeus. The Bank does not maintain other offices or subsidiaries in Greece or abroad.

## Overview

In a year of unprecedented difficulties for the Greek economy and the country’s financial sector, Aegean Baltic Bank managed to limit the crisis effects on its liquidity, to improve its balance sheet in terms of both proportions and quality, to raise operating income and profit and to continue its organizational development.

In 2010 pre-tax profit increased by 62%, to €2.9 million from €1.8 million last year, following a 20% improvement of Total Operating Income against a 10% increase of Total Expenses, inclusive of credit impairment charges. Total Assets grew by 3% year-on-year, reflecting an increase of equivalent scale of the Loans and the Liquid Assets portfolios. Customer Deposit balances increased marginally by 0.9% whereas balances Due to Banks stood 12% higher than the previous year, 29% thereof comprising borrowings from the ECB (7.6% last year). The Bank’s exemplary capital adequacy was maintained, with the Core and Total Capital Ratios standing above 35%.

Aegean Baltic Bank’s 2010 performance has been assisted by the, generally, fair conditions that prevailed in most shipping markets during the year. AB Bank’s specialization in the shipping sector certainly confines the correlation between developments in the Greek economy and the Bank’s asset quality and performance whereas the proactive credit and liquidity policies which have been followed since the end of 2008 have allowed the Bank to successfully address the challenges of the Greek banking sector. Finally, the opening in July 2010 of the Bank’s first branch outlet, located in Piraeus, contributes to organic growth, integrates the Bank’s financial services profile in the selected sector of specialization and enhances access to potential shipping clientele and ancillary banking business.

## Economic and Financial Environment

### *Global Developments*

Following two years of financial crisis and economic recession, in 2010 the global economy regained momentum. Global economic performance improved by approximately 5.0%, from -0.6% in 2009, through a moderate development rate of 3.0% in the advanced economies (-3.4% in 2009) and a much stronger one of 7.1% achieved by the emerging, mostly Asian, economies (2.6% in 2009). The recovery trend is more apparent in industrial production whereby an 8.2% increase in the OECD area (-14.0% in 2009) was combined with two-digit rates in other large economies like China (15.7% from 11.1% in 2009), India (10.0% from 6.1%), Korea (17.2% from 0.1%) and Brazil (10.9% from -7.1%).

The emergency measures taken in the last quarter of 2008 by central banks and governments in order to halt and reverse the effects of the global financial crisis were maintained in 2010 and, in certain cases, were intensified. Interest rates by the central banks remained unaltered at the symbolic levels of 1% or less, while the provision of substantial amounts of liquidity to the financial sector increased rather than contracted. In the USA the FED enhanced its quantitative easing policy through $600 billion of additional US Treasuries purchases, whereas in Europe although the ECB limited its medium-term liquidity provision scheme to European banks in favor of the short-term, it also inaugurated an active policy of acquiring European government bonds from the secondary market.

The global economic recovery of 2010 had been largely anticipated by the capital markets as demonstrated by their sharply improved performance of the second half of 2009, which was maintained during 2010, albeit at slower pace and amidst fierce volatility. The fiscal distress of Greece and the alarming fiscal imbalances of other countries of the Eurozone's periphery (Ireland, Portugal, Spain) fueled uncertainty and speculation about the future of the Eurozone. In the last quarter of 2010 market sentiment improved, increasing prices in most prime stock exchanges (New York, London, Frankfurt, Singapore, Hong-Kong) some 10%-15% higher than a year ago, whereas values of corporate bonds and commodities also improved. In contrast, spreads of the European sovereign bonds widened, reflecting an unprecedented sovereign debt crisis since the establishment of the European Monetary Union and the Euro.

*Greek Economic Environment*

Year 2010 marked probably the most difficult period in the post-war history of the Greek economy. From the last months of 2009 onwards, Greece found itself in the epicenter of severe criticism by the capital markets and the credit rating agencies for its enormous public deficits and its mounting public debt. By the end of 2009 public debt accounted for 126.7% of the Greek GDP (2008: 110.3%, 2007: 105.0%) and deficit accounted for 15.4% of GDP (2008: 9.4%, 2007: 6.4%). Between December 2009 and April 2010 the credit rating of Greek sovereign debt suffered four consecutive downgrades, to "Junk" level. Government bond prices plummeted in the secondary markets and spreads soared from 170 basis points in December (10-year "benchmark" GGB) to over 700 by the end of April.

In May 2010 the Greek Government requested financial assistance from the IMF and signed an agreement with the IMF, the EU and the ECB as co-lenders, for a € 110 Billion three-year fiscal support program incorporating measures of rapid fiscal stabilization. The joint action of the IMF-EU-ECB "troika" together with the size of the program had the dual purpose to assist Greece in its vast funding problems, also containing possible spillover effects to the rest of EU's periphery. The program includes a tight schedule of gradual drawings with the purpose to cover the financing requirements of deficits and sovereign bond maturities through 2012, subject to Greek government's performance towards pre-specified intermediate targets of fiscal consolidation.

Reversal of the economic fundamentals of Greece would require thorough reforms with rapid, high yielding and lasting effects leading to fiscal rationalization and GDP growth. By the end of 2010 a 5% deficit contraction had been achieved through the implementation of austerity measures and tax reforms, including horizontal cuts of public sector salaries and pensions, large increases in VAT rates and one-off extraordinary tax contributions for businesses and individuals. Nevertheless, GDP also retracted by more than 4% due to the impact on domestic demand of the austerity measures and the inflationary pressures from the tax rate increases.

*Developments in the Financial Sector*

In 2010 the international banking system provided evidence of gradual recovery and stabilization. Improvement of economic performance in the USA, the North and Western Europe as well as the large Asian economies has interacted with the recovery of the global financial sector. Government and central banks interventions of 2009 through liquidity enhancement measures and banks bail-outs were pivotal to the restoration of interbank markets operation and credit availability, the rationalization of assets portfolios and the slow but steady strengthening of capital adequacy. Nevertheless, the consequences to fiscal stability of the increased public debt, as a result of the aforesaid interventions, still raise skepticism as to the sustainability of economic recovery.

During the peak of the global financial crisis (2008-2009) the Greek banking system demonstrated persisting financial strength in comparison to several larger European peers. Such strength was supported by business development through traditional banking (expansion in developing countries of the southeast European and Mediterranean regions rather than in "sub-prime" and other "toxic" assets), funding mainly based on customer deposits and to a lesser extent on the wholesale money markets and conservative capital adequacy policies. It is noteworthy that despite the Greek banks also suffered from the international money markets crunch, at the end of 2009 they utilized less than 50% of the then available €28 billion Greek government support scheme.

The Greek sovereign credit rating drop of 2010 dragged along the credit rating of Greek banks, discontinuing abruptly their access to the international money markets. Greek banks' liquidity was further hampered by a significant outflow from the country of customer deposits. The combined effect of money market contraction and deposit losses is estimated to have exceeded 20% of the system's liquidity in 2010. The softening by ECB of the asset eligibility criteria for banks funding, in parallel with the Greek Government's liquidity support schemes through guarantees, were instrumental to replenish, through borrowings from the Eurosystem, a large part of the missed funding capacity. The combination of fiscal deterioration, economic recession and austerity measures has had diminishing effects on Greek business' and household income and capital reserves, impairing their debt servicing capacity and, hence, the perceived quality of Greek loans and other Greek assets of banks.

**Developments in Shipping and Shipping Finance**

*Shipping Markets*

For most sectors of shipping 2010 was a year of acute volatility. Demand for seaborne transportation was benefitted by improved global economic conditions which contributed to a 12% growth in world trade and allowed yearly average freight rates to hover at better than expected levels. Nevertheless, significant influx of new tonnage and a large newbuildings orderbook raised oversupply concerns, exercising downward pressure to freight rates in the latter part of the year.

Major beneficiaries of world trade growth were the liner companies and consequently the containerships sector. At the same time, the dry bulk market initially showed signs of stabilization at relatively strong levels, which later proved unsustainable due to the impact of the flow of newbuildings entering the market. The tanker market developed on mixed grounds of mildly improved freight rates in the spot market and slightly reduced ones in the time-charter market as new ship deliveries competed with a sluggishly recovering energy consumption. In particular:

<u>Containerships:</u> Containership charter rates improved for all ship sizes by approximately 50% although the operating fleet was enlarged by a significant number of newly delivered (1.38 million TEU) and re-commissioned tonnage (1.18 million TEU). Further to world trade growth, the reorganization of the liner shipping market on a Slow Steaming basis (i.e. containerships sailing at 75% of their full speed) has been a major contributor to the sector's supply-demand equilibrium. At the end of 2010 containership charter rates stood twice as high as at the end of 2009 but only 45% of the average rates at the market's peak year (2007). Ship values followed a similar trend and at the end of 2010 price levels stood double those of a year ago, not exceeding however 60% of those recorded at the peak.

<u>Bulk Carriers:</u> 2010 was a year of great volatility for the bulk carrier sector, whereby the significant improvement in charter rates of the first half of the year was reversed in the second half. The larger vessels (predominantly the Capesize and, to a lesser extent, the Panamax) account for the largest part of such volatility, smaller sizes (Supramax, Handymax, Handysize etc.) fairing much better. With the exception of Capesize bulkers, average yearly time-charter rates stood in 2010 about 40% higher than those of the previous year. Rates at year-end were about 20% lower than those of the 2009 year-end, however still standing at acceptable levels, whereas ship market values were in all, but the Capesize segment, higher than those encountered at the end of 2009. Performance instability is mainly attributed to fears of oversupply, triggered by the large number of ships under construction, considering that the newbuilding orders placed in 2010 exceeded 900 vessels (79 million dwt).

<u>Tankers:</u> The relatively poor tanker market conditions at the end of 2009 slightly improved during 2010. The crude carriers initially recovered some of the previous year's lost ground but the trend was later reversed as a result of many newbuildings joining the fleet together with the progressive phasing out of speculative oil storage. Generally though, average earnings were better than expected. One-year time charter rates stood ca. 6% lower than 2009 whereas spot rates improved by some 15%. The difference between spot and time charter rates reflects improved short-term market conditions combined with oversupply concerns for the next year. Product carriers performed similarly to crude oil carriers, nonetheless in a wider volatility range. Despite a small increase of global demand for petroleum products (due to Chinese imports and partial recovery in US gasoline consumption) fleet growth reduced average time-charter rates by 14% in comparison to 2009, standing at ca. 50% of the 2007-2008 level. Average spot market earnings increased by approximately 18% during the year, having started from a much lower point though. Ship prices increased by approximately 15% for product tankers while crude tankers prices remained at similar levels with the previous year.

<u>Newbuildings Activity:</u> After a poor 2009 in terms of new orders placed (34 million dwt), 2010 was a positive surprise with 125 million dwt of new tonnage ordered (about 1,600 vessels). These figures are comparable to the early years of the boom cycle (2003 and 2004) rendering 2010 the fourth most active year after 2006-2008. Newbuilding prices reached a low point in early 2010 but by mid-year prices begun to stabilize at slightly higher levels thanks to new orders flow and the weakening US Dollar against Asian currencies. 2010 also saw 149 million dwt of new tonnage entering the market (2009: 114 million dwt). However, this volume comprised only 62% of the expected, due to cancellations and delivery deferments of previous years' orders. Chinese shipbuilding has obtained a top position internationally, holding at end-2010 the largest orderbook (ca. 40% market share), having received during the year more orders than its peers (S. Korea and Japan) and having delivered in the same period the largest number of newbuildings.

*Shipping Finance*

Although in the last 15 years the shipping industry has significantly increased its access to the international capital markets (shipping companies listed at stock exchanges, high-yield bonds for shipping, mortgaged-backed shipping securities), traditional bank lending remains dominant in shipping finance and European banks remain the driving force in the field.

The recent global financial crisis and the consequent credit and liquidity crunch initially interrupted bank funding for shipping loans. The decline of shipping markets that followed the financial sector's predicaments led to a downward adjustment of shipping credit supply and to the tightening of lending terms and conditions, whereas some of the sector's leading European banks rank amongst the institutions most impacted from the global financial crisis. Accordingly, a vacuum has been created in the supply of shipfinance which still remains to be covered.

Given the very large orderbook of ships under construction at the time the financial crisis erupted, newbuilding investments were the most affected by shipping credit contraction. The pressure was alleviated through construction reschedulings, price renegotiations and, in certain cases, contract cancellations which allowed financing requirements to better adjust to market developments and to align with the gradual recovery of the global financial sector. The space left by exiting western ship lending banks was partly covered with more direct financing to shipowners by Korean and Chinese exports-imports banks and, in certain cases with shipyards seller's credit. During 2010, the improvement of the money market and liquidity conditions assisted the less affected from the crisis western banks to gradually re-enter normal ship lending whereas the more extravert credit policies now adopted by Chinese and Korean banks had a perceptible contribution to global ship financing of 2010.

Shipping being a worldwide activity by nature, Greek shipping finance has not been much affected by the hardships of the Greek economy and the Greek banking sector. Total bank financing to Greek shipowners is estimated by the 2010 Annual Petrofin Bank Research at US$ 66 billion, provided by some 12 Greek and 27 non-Greek banks - the market share of Greek banks historically standing below 25%. In the two years elapsed since the peak year of 2008, financing to Greek-owned shipping has been reduced by approximately 9.5% or $7 billion, only 1.2% or US$ 1 billion thereof accounting for 2010. The two-year reduction mainly relates to the contraction of the shipping credit portfolios of certain UK and German banks which have been particularly impacted by the global financial crisis and have historically held a leading position in Greek shipping finance. Such banks had a 40% combined market share in 2008, whereas in 2010 did not exceed 26%. During 2010 Greek banks reduced their shipping exposure by 1.6% or US$0.25 billion only against a 15.3% or US$4.1 billion reduction marked by the aforesaid group of leading foreign banks. In 2010, the other foreign banks, (French, Norwegian, Chinese as well as other German and UK banks) expanded their Greek ship financing portfolios by 14.9% or US$ 3.6 billion, with the Chinese banks expansion recording a 30% yearly increase.

**Economic and Financial Outlook**

*International Economy*

Global economic performance in 2011 is expected to record a lower rate of growth in comparison to 2010. World GDP growth is forecasted by the IMF to hardly exceed 4.0% in comparison to approximately 5.0% in 2010. Economic outlook is governed by high uncertainty in the Eurozone as well as in the large Asian economies given the European sovereign debt crisis and the inflationary pressures in the rapidly developing Asia-Pacific region. Concerns have been augmented in the first quarter of 2011 by the concurrent emergence of fierce political unrest in oil-producing Arab countries of the Mediterranean as well as by the disastrous earthquake that hit Japan. Oil price increases, if maintained, may destabilize the finely balanced global recovery effort and exacerbate inflationary pressures. The consequences of the earthquake in Japan is expected to negatively impact economic activity in the short run, with growth to be driven by reconstruction at a later stage.

The European policies and measures have been openly challenged for their capacity to tackle the fiscal imbalances of certain smaller European economies and to contain spill-over risks to the Eurozone as a whole. These measures have certainly assisted more developed economies to overcome the recessionary pressures. However, in less developed peripheral economies, preceding fiscal imbalances were amplified by the cumulative effects of persisting recession, mounting deficits and soaring public debt. The vulnerability of the Eurozone's fiscal conditions now questions the adequacy of its very institutions, as fiscal flaws of smaller member states briskly obtain systemic proportions.

*Greek Economy*

Greek economic activity is expected to shrink further in 2011 by more than 3% in comparison to 2010. Additional fiscal consolidation in combination with the effects on disposable income from the austerity measures and increased taxation are expected to intensify recessionary pressures and compress budget revenues disproportionately to cost cutting. Structural reforms on public sector's operation together with the reorientation of economic activity and the upgrade of competitiveness still comprise the prime challenges for more permanent effects on fiscal adjustment and economic growth, although the required range, depth and speed of such reforms bear high implementation risks. It is important that the recent improvement of Greek exports is followed by positive performance of Greek tourism and, most importantly, by continuing progress in the reduction of public deficits, for the confidence of consumers and investors to the prospects of the Greek economy to be restored.

*Greek Banking*

In 2011 the operation of Greek banks is expected to continue to be impacted by the recessionary Greek economic environment and the Greek sovereign debt crisis. Increasing delinquencies and resulting requirement for credit provisions deplete income and exercise pressure to the capital adequacy of Greek banks. Shrinking liquidity further constrains any meaningful credit expansion which could refuel the economy and increase bank revenues. Still, amidst such adverse conditions, the leading Greek banks demonstrated at the end of the year a notable capacity to strengthen their financial position and liquidity through significant share capital increases and non-core asset sales (by an estimated € 5.2 billion in total).

*Shipping and Shipping Finance*

2011 is expected to be a challenging year for all shipping sectors. The IMF estimates world trade to increase by approximately 7% p.a. in 2011-2012, whereas according to the International Energy Association, worldwide demand for crude oil will only marginally increase. Consequently, the rate of fleet growth remains the key concern. The expected newbuilding deliveries for 2011 amount to 211 million dwt. Nevertheless, factoring in potential cancellations, postponements and delays, the final output is expected to stand in the region of 160 million dwt, being still higher than the 2010 production. Older vessels demolition is expected to increase, thus partly alleviating tonnage oversupply worries. During 2010 the new tonnage was absorbed relatively well thanks to the dynamism of the emerging economies. It is these countries and their populations' appetite for raw materials and finished goods that can ultimately assist the market in finding equilibrium quicker than static mathematics might suggest.

The current transformations of the shipfinancing environment - imposed to leading international banks by the global financial crisis and to Greek banks by their exposure to the country's assets and risks - has enhanced the portfolio growth opportunities for banks less affected by those developments. Moreover, similarly to newbuilding investments, in the field of investments in second-hand vessels 2010 was another year dominated by Greek and Chinese shipowners, cumulatively accounting for 45% of the total number of such transactions. This trend is expected to continue, due to the lower equity and debt capital involved in such transactions, and may critically affect the reformation of the shipfinancing market ahead. As demand for shipping finance clearly exceeds credit supply and the Asian-Pacific area has obtained prominence in all parameters involved (shipbuilding, trade, shipowning and financial capacity), competition in the sector is expected to gradually increase by the stronger involvement of Korean and Chinese financial institutions.

**Bank Financial Results**

Aegean Baltic Bank S.A. timely recognized that despite its specialization in shipping, which minimizes the direct impact of the Greek economy's recessionary developments and fiscal distress on the Bank's exposures, its operation within the Greek banking system imposes significant challenges to liquidity adequacy and liquidity cost and, subsequently, to corporate growth and profitability. The prime goals set by the Bank for 2010 were to maintain its historically strong liquidity and to raise asset yield in order to adequately address increasing liquidity costs. At the same time asset growth should be pursued in parallel with further improvement of asset quality and subject to liquidity adequacy, in order to enhance the Bank's endurance against possible adverse developments in global economic conditions, international trade and shipping.

*Significant Events for the Year 2010*

Since April 2010 the Bank participates in the Third Pillar of Law 3723/2008 "Hellenic Republic Banks Liquidity Support Scheme". Under the Third Pillar the Bank has provided as collateral to the Greek State certain of its Loans and Advances to Customers and has obtained (borrowed) from the Public Debt Management Agency of the Greek Ministry of Finance, against an annual commission, zero-coupon, special purpose, Greek Government Bonds of €40 million face value, maturing in April 2013. The "special purpose" bonds, as well as any other bonds owned by the Bank which meet ECB's eligibility criteria, can be used by the Bank as collateral for obtaining financing from ECB (or other financial institutions) in amounts up to the market value of those bonds applicable at the time of each such financing, less a predefined haircut. On 31.12.2010 the financing capacity from ECB of the €40 million special purpose bonds stood at €28.1 million. The Third Pillar (Article 3) of Law 3723/2008 does not impose any limitations to participant Banks' dividend distribution policies and does not intervene in any way in the operation of the Bank or the composition and operation of its Board of Directors. To date, the Bank has neither applied for nor has participated in any other Pillar of Law 3723/2008, nor in any of the subsequent relevant schemes of the Greek State.

On April 30, 2010 the shares of AB Bank held by HSH NORDBANK AG (representing 9.10% of the Share Capital of the Bank) were purchased by a company controlled by Mr. Theodore Afthonidis, the Vice Chairman and Managing Director of the Bank. As of that date, HSH NORDBANK AG has no participation in the Bank's Share Capital.

In July 2010 the Bank opened its first branch outlet, located in the shipping market place of Pireaus, with the aim to enhance the access of shipping corporate clientele to the Bank's products and services.

During 2010 all Loans and Advances to Customers classified on 31.12.2009 as Non Performing Loans ("NPLs", totaling €11.4 million gross and €9.4 million net of specific impairments/provisions) were either repaid or restructured and contractually repaid thereafter, whereas no other loans developed into NPLs during the year. Out of the aforesaid total gross NPLs amount, €3.8 million was repaid, €1.3 million together with an equivalent accumulated provision were written off and €6.3 million was restructured (enhancing both, repayment profile and securities) and contractually performed thereafter. On 31.12.2010 none of the Bank's Loans and Advances to Customers was in an NPL status.

*Profitability*

AB Bank's Net Profit for 2010 attributable to the Bank's shareholders amounted to €1.723 million, having increased by 33.9% in comparison to 2009 (€1.287 million). Annual Net Profit amount includes €0.335 million of extraordinary tax charges incurred during the year (One-off Social Responsibility Tax and Previous Years Settlement Tax). On the basis of the ordinary annual tax charges only, the Bank's 2010 net profit would amount to €2.058 million, being 60% higher than the respective amount of the previous year.

*Operating Income Growth from Core Banking Activities*

The Bank's 2010 Pre-Tax Profit amounted to €2.877 million, having improved by 62.1% compared to 2009 (€1.775 million). The improvement is the result of a 20.4% annual growth of Total Operating Income against a 10.2% increase of Total Operating Expenses, including impairment loss charges on financial assets. Pre-Tax-and-Impairments Profit marked a yearly improvement of 23.5%.

Total Operating Income growth, from €9.009 million in 2009 to €10.850 million in 2010, is mainly ascribed to the significant enhancement of core banking income, and in particular Net Interest Income. Income from core banking activities increased in 2010 by 25.9% as a 43.2% year-on-year improvement in Net Interest Income (from €6.174 million in 2009 to €8.840 million in 2010) outweighed a 29.2% deterioration of Net Fee and Commission Income and Other Operating Income (from €1.933 million in total in 2009 to €1.368 million in 2010).

Net Interest Income growth was achieved despite a 37.5% yearly increase of Interest Cost, the latter being due to competitive pressures on the pricing of customer deposits. In the same period, Interest Income was enlarged by 41.6%, the main contributors being higher average annual balances of interest bearing assets (+14.8% over the 2009 average balances) in combination with significant gross yield enhancement of all major portfolios of assets of the Bank. Continuing a trend commenced in the second half of 2009, in 2010 the average gross yield of the Loans and Advances to Customers and the Money Market Placements portfolios increased annually by approximately 50 basis points, whereas the Bonds and Securities portfolios yield increased by 55 basis points. In the same period, the annual interest cost of the interest bearing liabilities increased by 22 basis points, resulting in the Bank's annual Net Interest Margin for 2010 to increase to 2.33% from 1.90% in 2009.

Deterioration of Net Fee and Commissions Income in 2010 stems from a 12.0% yearly decline of related Income, in combination with a, more than fivefold, increase of related expenses. The substantial increase of Fee and Commission Expenses was predominantly driven by commissions paid in 2010 to the Greek State for the Bank's participation in the Third Pillar of Law 3723/2008 "Hellenic Republic Banks Liquidity Support Scheme" and the guarantee commissions paid to certain institutional guarantors of Loans and Advances to Customers. Only these two expense items collectively accounted for 85% of the Bank's total amount of Fee and Commission Expenses for 2010 and for approximately 93% of the total annual increase. On the income side, the Bank's loans-related Fee and Commission Income declined during 2010 by approximately 18% whereas fees and commissions from other core banking products and services increased by 33%. The loans-related fees and commissions performance of the year mainly reflects lower arrangement fees for syndicated loans as a result of the virtual close down of the international and the local loan syndication markets.

In 2010 the Bank's non-core banking activities, namely the Trading and other related activities, remained profitable, however annual performance in this field lagged behind that of the previous year. Income from Trading and other related activities amounted to €0.642 million in 2010, compared to €0.902 million in 2009, recording a 28.8% annual decrease. Performance of 2010 was impacted from the fierce and largely negative volatility observed during the largest part of the year in both, the foreign exchange markets and the bond markets which adversely affected the volume of relevant transactions.

*Increased Expenses In Line With Corporate Growth*

The Bank's 2010 total Operating Expenses amounted € 7.973 million, recording a 10.2% annual increase (€7.234 million in 2009). The 2010 level of Operating Expenses is the result of 18.8% higher direct operating expenses (Personnel Expenses, General and Administrative Expenses and Depreciation and Amortization Costs) and 27.6% lower annual charge for impairment/provisions on loans, in comparison to the previous year.

Increased direct operating expenses follow the Bank's growth of staff by 15.6% during the year (year average) and the opening, in July 2010, of its first branch, in Piraeus. In 2010 Bank staff was increased by 7 full time employees, to 53 at the end of the year, leading to a 12.4% annual increase of Personnel Expenses. Staff growth covered not only the requirements in personnel of the new branch but also organizational requirements following the organic business growth of the Bank.

In the same period, General and Administrative Expenses and Depreciation and Amortization Costs recorded an annual combined increase of 32.9%, mainly accommodating the start up and regular operating expenses of the new branch, related promotion expenses, increased third party fees for advisory services obtained as well as the impact from the rise of VAT rates by 21% during the year. It is of note that the 2010 annual growth rate in direct operating expenses of 18.8% succeeds a year (2009) whereby such expenses had marked an annual contraction of 1%.

Quality improvement over time of the Bank's portfolio of Loans and Advances to Customers, together with the non-occurrence of unexpected developments in shipping markets conditions of 2010 allowed the Bank to register a €0.973 million annual charge for impairment/provisions on financial assets. The charge taken in 2010 stands €0.370 million lower than the annual charge of 2009, exclusively referring however to possible credit losses from performing loans, given that at the end of 2010 none of the Bank's Loans and Advances to Customers was in a Non Performing Loan status.

Despite the notable increase of Operating Expenses in 2010, stronger Operating Income performance resulted to an improvement of the Cost to Income Ratio (prior to impairment charges) to 64.5%, from 65.4% in 2009, and the net Cost to Income Ratio (including impairment charges) to 73.5% (80.3% in 2009).

*Improved Balance Sheet Proportions*

Total Assets at Year-End 2010 amounted to €384.8 million, compared to €373.1 million at Year-End 2009, marking a 3.1% annual growth.

At the end of 2010 the Bank's cash and cash equivalent assets (Cash and Balances with Central Bank and Due from Banks) amounted to €125.5 million, mainly comprising short term balances due from other Greek banks, local branches and subsidiaries of non-Greek banks and foreign banks abroad. The Bank historically maintains relatively high balances of cash, cash equivalent and other liquid assets as part of its liquidity management policy towards risks from the lack of liquidity in the interbank market and concentrations inherent to its depository customer base.

In line with the Bank's policy, during 2010 cash and cash equivalent assets mildly contracted (9.8% year-on-year), mainly in favor of the other liquid assets (Investment Securities Available for Sale and Held to Maturity) which marked a 105% annual increase. Cash and cash equivalent assets reduced their weight in Total Assets to 32.6% from 37.3% in 2009 whereas the weight of the other liquid assets increased to 9.6% from 5.0%. The Bank's shipping loans portfolio (Loans and Advances to Customers) constituted 56% of Total Assets in both years, indicating an annual credit expansion rate to the tune of the growth rate of Total Assets (+3%). Moreover, off balance sheet credit commitments (unused and undrawn credit facilities, letter of guarantees issued etc.) amounted to €17.3 million on 31.12.2010 compared to €15.6 million a year prior.

Successful management of prior year's NPLs and selective new lending resulted in the Bank having zero NPLs at year-end 2010. Loan balances of €22.5 million were renegotiated during 2010 (only €6.5 million thereof being Non-Performing) in order to realign repayment and pricing terms with changed shipping market conditions relevant to those loans and to solidify full repayment prospects. As at 31.12.2010 the gross book value of the Bank's Loans and Advances to Customers amounted to €217.4 million (€212.4 million in 2009) and the net, after impairments/provisions, balance amounted to €215.1 million (€209.3 million in 2009), as a result of accumulated loan impairments of €2.3 million (1.1% of total loans), which exclusively refer to performing loans. The Bank's emphasis in the arrangement, management and participation in syndicated loans continues, despite the contraction of the syndicated market brought by the global financial crisis. At year-end 2010 AB Bank had €1,399.8 million (US$ 1,870.4 million) of loans and off balance sheet commitments under management (including its own participations in syndicated loans and the bilateral loans extended by the Bank) as opposed to €1,412.7 (US$ 2,035.1 million) in 2009, indicating a yearly contraction of syndicated loans under management by approximately 1% in €-terms (8% in US$ terms).

In 2010 the Bank's Investment Securities portfolios (Available for Sale and Held to Maturity) increased by €18.3 million to €35.7 million, from €17.4 million in 2009. Approximately 37.5% (€13.4 million) of the total 2010 amount comprised investments in Greek Government Bonds ("GGBs"), €10.0 million thereof being classified as Investment Securities – Held to Maturity ("HtM") and €3.4 million as Investment Securities – Available for Sale ("AfS"). GGBs maturities of the HtM portfolio are equally split between March 2011 and 2012. On 31.12.2010 the market value of the GGBs in the HtM portfolio was €9.3 million instead of the €10.0 million booked. Approximately 80% of the GGBs values in the AfS portfolio also mature in 2012. The balance amount of €22.3 million of the AfS portfolio (being 86.9% of the AfS portfolio and 62.5% of the total Investment Securities of the Bank) consists by 64% of bonds issued by certain north European/Eurozone countries and by 36% of bonds and securities issued predominantly by USA and Asian banks and, to a lesser extent (8.5% of the total AfS portfolio) by European and Greek banks. Approximately, 39.4% (€14.1 million) of the total Investment Securities had AAA or AA+ credit rating (2009: 4.0% or €0.7 million).

On 31.12.2010 €29.2 million (81.8%) of the Bank's Investment Securities were bonds and securities meeting ECB's collateralization eligibility criteria for refinancing (2009: €9.2 million, 53.0%), having an estimated financing capacity of €27.0 million as of that date. In combination with the special bonds obtained by the Bank from the Greek state under the Law 3723/2008 "Hellenic Republic Banks Liquidity Support Scheme", such capacity was exceeding €55.0 million in total.

On the Liabilities side Customer Deposits increased year-on-year by 0.9%, to €221.1 million from €219.1 million in 2009, whereas the Bank's takings from the interbank market (Due to Banks) increased by 12.1%, to €69.5 million from €62.0 million last year.

On 31.12.2010 balances Due to Banks included €20.0 million of borrowings from ECB, reducing the remaining availability of the aforementioned total financing capacity accordingly. At year-end 2010 borrowings from ECB accounted for 28.8% of total balances Due to Banks and for 6.8% of the Bank's Total Liabilities (excluding Total Shareholders' Equity) in comparison to 7.6% and 1.7%, respectively, in 2009.

Successfully resisting the prevailing trend in the Greek banking system of deposit losses, in 2010 the Bank's deposits slightly increased compared to 2009. Nevertheless, the split between Sight Deposits and Term Deposits shifted towards the latter during 2010, exercising upward pressure to liquidity costs. At year-end 2010 Sight Deposits accounted for 22.5% of Total Deposits compared to 35.1% in the previous year. On 31.12.2010 the Bank's ratio of Loans to Deposits stood at 97.3% (95.6% in 2009), indicating a positive funding balance.

*Exemplary Capital Adequacy Maintained*

During 2010 the Bank's Total Shareholders' Equity increased to €90.8 million from €89.8 million in 2009 through the yearly Net Profits, although valuation losses of the AfS Investment Securities portfolio increased the accumulated loss of the relevant Reserve by €0.730 million net of tax.

The Bank's regulatory capital, exclusively consisting of Tier-I capital, increased during 2010 to €92.2 million from €90.6 million in 2009, whereas improvement of the Bank's quality of assets during the year slightly reduced Capital Requirements to €20.5 million, compared to €20.8 million of last year. As a result, the Bank's Tier-I Capital Ratio and the Total Capital Ratio amounted to 35.9%, from 34.8% in 2009.

**Risk Management**

Details on Risk Management are provided in Note 4 of the Financial Statements.

*Credit Risk*

Given that the Bank's loans portfolio exclusively consists of unrated (by ECAIs) obligors, AB Bank has established and follows its own, ten-grade, credit risk rating system. Due to the lack of specialist software for the analysis and assessment of shipping credit risks the Bank examines the cost-benefit merits of interfacing its internal credit rating methodology with non-specialist credit analysis software by building up electronic models of its existing internal rating system in conjunction with appropriate databases.

The Bank has already developed internally a shipping credit rating interface between its ten-grade credit rating system and the slotting criteria methodology of the IRB-Basic approach included in the Basel-II framework. To date, this model is being used by the Bank's Risk Management for the purpose of cross-assessing the credit ratings of the incumbent ten-grade risk methodology and for shipping credit risk stress-testing purposes.

Details on Credit Risk are included in Note 4.2 of the Financial Statements.

*Liquidity Risk*

Liquidity risk refers to the bank's ability to always maintain sufficient liquid resources for the coverage of scheduled or unexpected withdrawals of cash, the repayment of other obligations of the Bank and the funding of its asset commitments. The specialist nature of AB Bank's activities, its small size relative to the Greek banking system and the latest turmoil in the financial and interbank markets has rendered Liquidity Risk a top priority area of attention and monitoring.

During 2010 and amidst the difficulties faced by the Greek financial sector, the Bank's supervisory liquidity ratios remained at strong levels, providing a satisfactory outlook of the Bank's Liquidity Risk. The Bank's Risk Management performs regular stress tests of the Bank's liquidity, under mild and extreme scenarios of volatility of both, idiosyncratic (company-specific) and systemic nature. Detailed monitoring of customer deposits concentrations and of possible changing behavioral trends is also performed by Risk Management. Ongoing liquidity risk analysis, stress test results under certain scenarios and customer deposit monitoring results are examined and discussed by the Bank's ALCO.

Since April 2010 the Bank participates in the Third Pillar of Law 3723/2008 "Hellenic Republic Banks Liquidity Support Scheme", having obtained from the Greek State €40.0 million special purpose, zero coupon, Greek Government Bonds with maturity in April 2013, against an annual commission charge and the collateralization in favor of the Greek State of certain of its Loans and Advances to Customers. During 2010 the Bank has only partly used these special purpose bonds as well as other bonds owned by the Bank being eligible for collateralization to ECB for obtaining financing. On December 31st, 2010 the Bank's borrowing from ECB amounted to €20 million.

Details on Liquidity Risk are included in Note 4.3 of the Financial Statements.

*Market Risk*

Market risk refers to the possibility of the Bank incurring losses due to adverse changes in the levels of market prices of bonds and securities, interest rates, and foreign exchange rates.

The Bank conducts stress tests in relation to all major market risk areas, such as Interest Rates risk, Foreign Exchange Risk, Re-pricing Risk in relation to Marketable Securities etc. on a regular basis, whereas a policy of holding limited Market Risk positions is followed.

Details on Market Risk are included in Note 4.4 of the Financial Statements.

*Capital Adequacy*

As far as the Capital Adequacy evaluation under Basel II is concerned, the Bank follows the Standardized Approach with regards to Credit Risk and Market Risk, and the Basic Indicator Approach for the Operational Risk.

On 31st December 2010 the Bank's Capital Adequacy Ratio (CAR) stood at 35.90% (34.81% in 2009). The same ratio applies to the Bank's Core Tier-1 capital as the Bank's Regulatory Capital consists entirely of Tier-1 capital.

The Bank's Capital Adequacy ratios stand at particularly high levels and demonstrate the Bank's capacity for further asset growth. It should be noted, however, that given the relatively low - in absolute terms – share capital of the Bank and the applicable supervisory rules in relation to the concentration of credit risk per obligor and economic sector, more extended utilization of the Bank's capital capacity can only be gradual in order to follow prudent diversification and growth criteria.

Details on Capital Adequacy are provided in Note 4.7 of the Financial Statements.

**Goals and Potential**

AB Bank’s management believes that the strategy of balanced, counter-cyclical and, largely, organic growth being followed to date has been the prime factor of the Bank’s successful presence in the Greek banking sector and the shipping finance market.

Despite the intensely adverse conditions of 2010, the Bank has managed to be distinguished in the sector for the improved quality of its assets, the increase of its profitability and the maintenance of strong liquidity and exemplary capital adequacy ratios. The excellent, under the circumstances, performance of the Bank is attributed to (i) its specialized involvement in banking for the shipping industry – an international industry not affected by the Greek sovereign debt crisis; (ii) the prudent business development and risk management policies implemented by the Bank’s management in view of the unprecedented nature and scale of the recent turmoil and, most importantly, (iii) the professionalism and perseverance demonstrated by all its staff. As a result, AB Bank is presently in a strong position to pursue a multitude of corporate growth and development targets.

For 2011 the Bank aims to:

- Maintain the emphasis on liquidity adequacy, credit quality and profitability.
- Enhance further its client base and continue developing ancillary banking revenue through the deployment of the Bank’s new branch in Piraeus.
- Pursue strategic alliances and cooperation with major Asian financial institutions in the field of financing Greek shipowners’ newbuilding orders in Chinese and/or other Far-Eastern shipyards.
- Seize opportunities of alternative credit expansion modes, including the acquisition of troubled shipping loan portfolios, in collaboration with other credit institutions.

**Important Post Balance Sheet Events**

Since the end of the financial year in discussion and the compilation of the subject report, no other developments worth of special mention have occurred and the course of business of AEGEAN BALTIC BANK S.A. progresses in accordance with the outlook and within the general framework outlined above.

Athens, June 3, 2011

The Vice Chairman of the Board

Theodore Afthonidis

## Auditors' Report

Hadjipavlou Sofianos & Cambanis S.A.
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3a Fragoklissias & Granikou Str.
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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of "AEGEAN BALTIC BANK S.A."

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Bank "AEGEAN BALTIC BANK S.A.", which comprise the statement of financial position as at December 31st, 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

**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, as these have been adopted by the European Union, as well as for the internal controls that management considers necessary for 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 the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank "AEGEAN BALTIC BANK S.A." as of December 31st, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as these were adopted by the European Union.

**Report on Other Legal and Regulatory Requirements**

We have agreed and confirmed the content and consistency of the Directors' Report to the accompanying financial statements according to the provisions of the article 43a and 37 of the Codified Law 2190/1920.

Athens, June 3, 2011

The Certified Public Accountant

Maria Sirmopoulou Reg.
No. SOEL: 26041
**Deloitte.**
Hadjipavlou Sofianos & Cambanis S.A.
Assurance & Advisory Services
3a Fragoklissias & Granikou Str.
151 25 Marousi
Reg. No. SOEL: E 120a

**AEGEAN BALTIC BANK S.A**

**Financial Statements**

**In accordance with International Financial Reporting Standards**

**31 December 2010**

June 2011

## Income Statement

| | Note | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|---|
| Interest and similar income | | 12,204 | 8,621 |
| Interest expense and similar charges | | (3,364) | (2,447) |
| Net interest income | 5 | 8,840 | 6,174 |
| | | | |
| Fee and commission income | | 1,760 | 2,002 |
| Fee and commission expense | | (400) | (76) |
| Net fee and commission income | 6 | 1,360 | 1,926 |
| | | | |
| Net trading income/(loss) | 7 | 288 | 428 |
| Net result from sale of investment securities | 8 | - | 190 |
| Net result from financial instruments at fair value through profit or loss | 9 | 354 | 284 |
| Other operating income | | 8 | 7 |
| **Operating income** | | **10,850** | **9,009** |
| | | | |
| Impairment loss on financial assets | 17 | (973) | (1,343) |
| Personnel expenses | 10 | (4,289) | (3,817) |
| General administrative expenses | 11 | (2,414) | (1,816) |
| Depreciation and amortization | 12 | (297) | (258) |
| **Operating expenses** | | **(7,973)** | **(7,234)** |
| **Profit before tax** | | **2,877** | **1,775** |
| Income tax expense | 13 | (1,154) | (488) |
| **Profit for the year** | | **1,723** | **1,287** |
| | | | |
| **Attributable to:** | | | |
| Equity holders of the Bank | | 1,723 | 1,287 |
| **Profit for for the year** | | **1,723** | **1,287** |

Athens, June 3, 2011

| The Vice Chairman | The Deputy Managing Director | The Chief Financial Officer |
|---|---|---|
| Theodore A. Afthonidis | Konstantinos N. Hadjipanayotis | Georgios E. Kalantzis |

The notes on pages 21 to 48 are an integral part of these financial statements.

## Statement of Comprehensive Income

| | Note | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|---|
| **Profit for the year** | | **1,723** | **1,287** |
| **Other comprehensive income , net of tax** | | | |
| Fair value reserve (Available for sale financial assets) | | | |
| Net change in Fair value | 32 | (730) | 1,712 |
| **Other comprehensive income for the year** | | **993** | **2,999** |
| **Total comprehensive income for the year** | | **993** | **2,999** |
| **Attributable to:** | | | |
| Equity holders of the Bank | | 993 | 2,999 |
| **Total recognized income for the year** | | **993** | **2,999** |

Athens, June, 3 2011

| The Vice Chairman | The Deputy Managing Director | The Chief Financial Officer |
|---|---|---|
| Theodore A. Afthonidis | Konstantinos N. Hadjipanayotis | Georgios E. Kalantzis |

The notes on pages 21 to 48 are an integral part of these financial statements.

## Statement of Financial Position

| | Note | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central bank | 14 | 4,907 | 3,601 |
| Due from banks | 16 | 120,632 | 135,617 |
| Loans and advances to customers | 17 | 215,089 | 209,325 |
| Investment securities – Available for sale | 18 | 25,714 | 10,417 |
| Investment securities – Held to maturity | 19 | 10,011 | 7,003 |
| Financial assets at fair value through P&L | 20 | 1,048 | 1,162 |
| Derivative financial instruments | 21 | 2 | 143 |
| Intangible assets | 22 | 354 | 213 |
| Property and equipment | 23 | 577 | 608 |
| Deferred tax assets | 24 | 199 | 251 |
| Other assets | 25 | 6,250 | 4,718 |
| **Total assets** | | **384,783** | **373,058** |
| | | | |
| **LIABILITIES** | | | |
| Due to banks | 26 | 69,477 | 61,973 |
| Due to customers | 27 | 221,078 | 219,057 |
| Derivative financial instruments | 21 | 1 | 14 |
| Other liabilities | 28 | 2,957 | 1,794 |
| Retirement benefit obligations | 29 | 476 | 415 |
| **Total liabilities** | | **293,989** | **283,253** |
| | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 30 | 37,980 | 37,980 |
| Share premium | 31 | 50,194 | 50,198 |
| Reserves | 32 | (1,472) | (820) |
| Retained earnings | 33 | 4,092 | 2,447 |
| **Total shareholders equity** | | **90,794** | **89,805** |
| | | | |
| **Total liabilities and equity** | | **384,783** | **373,058** |

Athens, June, 3 2011

| The Vice Chairman | The Deputy Managing Director | The Chief Financial Officer |
|---|---|---|
| Theodore A. Afthonidis | Konstantinos N. Hadjipanayotis | Georgios E. Kalantzis |

The notes on pages 21 to 48 are an integral part of these financial statements.

## Statement of Changes in Equity

| | Share Capital | Share Premium | Reserves | Retained Earnings | Total |
|---|---|---|---|---|---|
| **Balance at 01.01.2009** | **37,620** | **50,203** | **(2,554)** | **1,577** | **86,846** |
| Statutory Reserve | - | - | 22 | (22) | - |
| Capitalization part of retained earnings | 360 | - | - | (396) | (36) |
| Movement in the AFS reserve – valuation | - | - | 1,712 | - | 1,712 |
| Profit for the year | - | - | - | 1,287 | 1,287 |
| Effect of the reduced corporate tax rate | | (5) | - | - | (5) |
| **Balance at 31.12.2009** | **37,980** | **50,198** | **(820)** | **2,447** | **89,805** |
| | | | | | |
| **Balance at 01.01.2010** | **37,980** | **50,198** | **(820)** | **2,447** | **89,805** |
| Statutory Reserve | - | - | 78 | (78) | - |
| Movement in the AFS reserve – valuation | - | - | (730) | - | (730) |
| Profit for the year | - | - | - | 1,723 | 1,723 |
| Effect of the reduced corporate tax rate | | (4) | - | - | (4) |
| **Balance at 31.12.2010** | **37,980** | **50,194** | **(1,472)** | **4,092** | **90,794** |

The notes on pages 21 to 48 are an integral part of these financial statements

## Cash Flow Statement

| | Note | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 2,877 | 1,775 |
| *Adjustments for:* | | | |
| Depreciation and amortization charges | 12 | 297 | 258 |
| Impairment loss on loans | | 973 | 1,343 |
| Provisions for retirement benefit obligations | 29 | 61 | 52 |
| (Gain) / Loss from valuation of financial assets at fair value through P&L | 20 | 114 | (255) |
| (Gain) / Loss from sale of securities-available for sale | 8 | - | (190) |
| (Gain) / Loss from exchange difference of securities-available for sale | 18 | (489) | 221 |
| Foreign exchange (profit) loss on cash and cash equivalents | | (2,187) | 1,625 |
| | | 1,646 | 4,829 |
| Net (increase)/decrease in operating assets: | | | |
| Due from Banks | | - | 7,185 |
| Loans and advances to customers | | (6,737) | (20,983) |
| Financial assets at fair value through profit or loss | | - | 190 |
| Derivative financial assets | | 141 | (102) |
| Other assets | | (2,025) | (1,139) |
| Net increase/(decrease) in operating liabilities: | | | |
| Due to banks | | 7,504 | (6,757) |
| Due to customers | | 2,021 | 4,502 |
| Derivative financial liabilities | | (13) | (25) |
| Other liabilities | | 807 | (590) |
| Cash flow from operating activities before tax payment | | 3,344 | (12,890) |
| Income tax paid | | (56) | (1,881) |
| **Net cash flow from operating activities** | | **3,288** | **(14,771)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of property and equipment | | (108) | (46) |
| Acquisition of intangible assets | | (299) | (33) |
| Acquisition of investment securities – available for sale | | (18,840) | (2,500) |
| Proceeds from disposal of investment securities – available for sale | | 3,101 | 5,209 |
| Acquisition of investment securities – held to maturity | | (5,008) | (5,004) |
| Proceeds from maturity of investment securities – held to maturity | | 2,000 | - |
| **Net cash flow from investing activities** | | **(19,154)** | **(2,374)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of capital | | - | 360 |
| Capitalization of part of retained earnings | | - | (396) |
| **Net cash flow from financing activities** | | **-** | **(36)** |
| | | | |
| Foreign exchange profit (loss) on cash and cash equivalents | | 2,187 | (1,625) |
| | | | |
| **Net increase (decrease) in cash and cash equivalents** | | **(13,679)** | **(18,806)** |
| | | | |
| **Cash and cash equivalents at beginning of period** | 15 | **139,218** | **158,024** |
| **Cash and cash equivalents at end of period** | 15 | **125,539** | **139,218** |

The notes on pages 21 to 48 are an integral part of these financial statements.

## Note 1: General Information

The Bank is registered under the legal name 'AEGEAN BALTIC BANK S.A.' and uses its trade name 'AB-Bank S.A'.

Its registered office is located in Marousi, 217a Kifissias avenue, Athens, Greece (Reg. 52755/06/B/02/34). The Bank's duration is until 2099 however it can be extended or reduced by resolution of the General Assembly of the Shareholders.

The objective of the Bank is to execute, on its behalf or on behalf of third parties, in Greece or abroad, independently or in cooperation, including syndication with third parties, any and every operation acknowledged or delegated by law to banks and indicated in the fourth clause of its article of association.

A significant activity of the Bank is the contracting and the administration of syndicated loans granted to shipping corporations. The Bank participates in these syndicated loans with a different percentage each time according to the total amount of the loan.

The term of the Board of Directors (BoD) of the Bank, elected by the General Assembly of the Shareholders, on 18 June 2010, terminates on 30 June 2015.

The composition of BoD as amended after the resignations and replacements of its members is as follows.

| | | |
|---|---|---|
| Hubert Esperon | Chairman | Non-Executive |
| Theodore Afthonidis | Vice Chairman and Managing Director | Executive Member |
| Konstantinos Handjipanayotis | Member & Deputy Managing Director | Executive Member |
| Stephane Daillencourt | Member | Non-Executive |
| Paolo Braghieri | Member | Non-Executive |
| Dimitris Potamitis | Member | Non-Executive, Independent |
| Emmanuel Kavussanos | Member | Non-Executive, Independent |
| Argyro Theodoropoulou | Member | Excecutive |
| Dimitris Anagnostopoulos | Member | Non-Executive |

These financial statements (hereinafter the "Financial Statements") have been approved for issue by the Bank's BoD on June 3, 2011.

The Financial Statements are subject to the approval of the Annual General Meeting of the Bank's shareholders.

## Note 2: Summary of significant accounting policies

### 2.1 Basis of preparation

The financial statements of the Bank were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the E.U. E.U. endorsed IFRSs may differ from IFRSs as issued by the International Accounting Standards Board (IASB) if at any point in time, new or amended IFRSs have not been endorsed by the E.U. At 31 December 2010, there were no unendorsed standards effective for the year ended 31 December 2010, which affect these financial statements, and there was no difference between IFRSs endorsed by the E.U. and IFRSs issued by the IASB in terms of their application to the Bank. Accordingly, AB-Bank's financial statements for the year ended 31 December 2010 are prepared in accordance with IFRSs as issued by the IASB. The financial statements were prepared under the historical cost convention, as modified by the revaluation of available for sale investment securities, financial assets at fair value through profit and loss and all derivative contracts measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over the counter ("OTC") derivatives, retirement benefits obligation, unlisted securities, impairment of loans, liabilities for open tax years. Actual results in the future could differ from such estimates and the differences may be immaterial to the financial statements.

The financial statements are presented in Euro, rounded to the nearest thousand unless otherwise indicated.

**a) Standards, interpretations and amendments to published standards effective in 2010**

**IFRS 2 "Share-based Payment" (Amendment) (effective from 1 January 2010)**
The amendment clarifies:
• The scope of IFRS 2. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.
• The interaction of IFRS 2 and other standards. The Board clarified that in IFRS 2 a 'group' has the same meaning as in IAS 27 "Consolidated and Separate Financial Statements", that is, it includes only a parent and its subsidiaries.
• The accounting for some group and treasury share-based payment transactions. An entity must measure the goods or services it received as either an equity-settled or a cash-settled share-based payment transaction assessed from its own perspective, which may not always be the same as the amount recognized by the consolidated group.
This amendment didn't have an impact on Banks financial statements.

**IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements"**
(Amendment) (Effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).
The main changes are:
• Partial acquisitions. Non-controlling interests are measured either as their proportionate interest in the net identifiable assets (which is the original IFRS 3 requirement) or at fair value.
• Step acquisitions: The requirements to measure at fair value every asset and liability at each step for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill is measured as the difference at acquisition date between the sum of the fair value of any investment in the business held before the acquisition and the consideration transferred, and the net assets acquired.
• Acquisition-related costs. Acquisition-related costs are generally recognized as expenses (rather than included in goodwill).
• Contingent consideration. Contingent consideration must be recognized and measured at fair value at the acquisition date. Subsequent changes in fair value are recognized in accordance with other IFRSs, usually in profit or loss (rather than by adjusting goodwill).
• Transactions with non-controlling interests. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions.
These amendments are not applicable to the Bank.

**IAS 39 "Financial Instruments: Recognition and Measurement"** (Amendment "Eligible Hedged Items")
(Effective for annual periods beginning on or after 1 July 2009)
The amendment clarifies how the existing principles underlying hedge accounting should be applied in the designation of:
(a) a one-sided risk in a hedged item, and
(b) inflation in a financial hedged item.
This amendment is not applicable to the Bank because the Bank does not use hedge accounting.

**Improvements to IFRSs, April 2009**
(Effective for annual periods beginning on or after 1 July 2009 or later, except amendments to IAS 18 that are effective for 2009). The Bank has applied these amendments for the annual period beginning on 1 January 2010, except the amendment to IAS 18 that was effective in 2009 and did not have an impact on the Banks financial statements.

**IFRIC 17, "Distributions of Non-cash Assets to Owners"**
(Effective for annual periods beginning on or after 1 July2009) The Interpretation clarifies that:
• a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity,
• an entity should measure the dividend payable at the fair value of the net assets to be distributed,
• an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.
The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.
IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions.
This Interpretation is not applicable to the Bank.

**b) Interpretations and amendments to published standards that are not yet effective and have not been early adopted.**

**IAS 24 "Related parties" (Revised) (effective from 1 January 2011)**
The revised standard provides a partial exemption for government-related entities and a revised definition of a related party. This amendment will not have an impact on AB-Bank's financial statements.

**IAS 32 "Financial Instruments: Presentation"**
(Amendment) (Effective for annual periods beginning on or after 1 February 2010).
The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in other currency than the functional currency of the issuer. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.
This amendment will not have an impact on AB-Bank's financial statements

**IFRS 7 "Financial Instruments: Disclosures"**
(Amendment) (effective for annual periods beginning on or after 1 July 2011).
The amendment requires certain additional disclosures in relation to transferred financial assets that are not derecognized and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred.
This amendment will not have an impact on AB-Bank's financial statements

- **IFRS 9 "Financial Instruments"**
(effective for annual periods beginning on or after 1 January 2013).
IFRS 9 specifies how an entity should classify and measure financial assets and financial liabilities, including some hybrid contracts. The new standard requires all financial assets to be:
(a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.
(b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs.
(c) subsequently measured at amortised cost or fair value.
The standard also requires a financial liability to be classified as either at fair value through profit or loss or at amortized cost. For a financial liability designated as at fair value through profit or loss using the fair value option, the change in the liability's fair value attributable to changes in the liability's credit risk is recognized directly in other comprehensive income, unless it creates or increases an accounting mismatch and the amount that is recognized in other comprehensive income is not recycled when the liability is settled or extinguished.
This amendment is not expected to have a significant impact on the Bank's financial statements

**IFRIC 14 "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction."**
(Amendment "Prepayments of a Minimum Funding Requirement" November 2009)
(effective for annual periods beginning on or after 1 January 2011).
The amendment remove an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognize an asset for a prepayment of contributions made to cover minimum funding requirements.
This amendment is not expected to have a significant impact on the Bank's financial statements.

**IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"**
(effective for annual periods beginning on or after 1 July 2010).
The interpretation clarifies that the profit or loss on extinguishing liabilities by issuing equity instruments should be measured by reference to fair value, preferably of the equity instruments. This interpretation is not expected to have impact on the Bank's financial statements.

**IAS 12 "Income Tax"**
(Amendment - effective for annual periods beginning on or after 1 January 2012).
The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment Property. This interpretation is not expected to have impact on the Bank's financial statements.

**Improvements to IFRSs, May 2010**
(effective for the Bank's annual period beginning on 1 January 2011). The Bank has not applied these amendments, but their impact on its financial statements is not expected to be material.

### 2.2 Foreign currency transactions

The financial statements are presented in Euro, which is the currency of the country of incorporation of the Bank (functional currency). Transactions in foreign currencies are translated in Euro at the exchange rates (ECB Rate) ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Euro at the closing exchange rate on that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities are recognized at the exchange rate ruling on initial recognition, except for non-monetary items denominated in foreign currencies that are stated at fair value.

### 2.3 Interest income and expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on a time proportion basis, taking account of the principal outstanding and using the effective interest rate method based on the actual purchase price. The effective interest rate method is a method of calculating the amortized 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 the next re-pricing date, in order for the present value of the future cash flows to be equal to the carrying amount of the financial instrument.

### 2.4 Fee and commission income

Fee and commission income are recognized on an accrual basis when the relevant services have been provided. Transaction revenues relating to the origination of a financial instrument which is measured at amortized cost, such as loans and receivables, are capitalized and recognized in the income statement using the effective interest rate method.

### 2.5 Financial instruments

The Bank, for valuation purposes, classifies its financial assets in the following categories:
**a. Loans and receivables:** Included here are loans given to the customers and all receivables from customers, banks etc. Loans and receivables are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs, and subsequently measured at amortised cost using the effective interest rate method.
**b. Held to maturity investments:** Includes securities which the Bank's management has the ability and intention to hold to maturity. Held to maturity investment securities are carried at amortized cost using the effective interest rate method. Held to maturity investments are recognized on the trade date, which is the date that the Bank commits to purchase or sell the asset.
**c. Financial assets at fair value through profit or loss:** All financial assets acquired principally for the purpose of selling in the short term or if so designated by the management, are recognized on the trade date, which is the date that the Bank commits to purchase or sell the asset and are classified under this category which has the following two sub-categories:

<u>c1 :Trading securities:</u>
Trading securities are securities, which are either acquired for generating a profit from short term fluctuations or are securities included in a portfolio in which a pattern of short-term profit making exists. Trading securities are initially recognized at cost and subsequently re-measured at fair value. Gains and losses realized on disposal or redemption and unrealized gains and losses from changes in fair value are included in net trading income/ (loss). Interest earned with holding trading securities is reported in interest income. Trading securities held are not reclassified out of the respective category. Respectively, investment securities are not reclassified into trading securities category while they are held.

<u>c2 : Designated at fair value through profit or loss.</u>
Upon initial recognition the Bank may designate any financial assets as at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when either;

**i)** The Bank estimates or significantly reduces a measurement or recognition in consistency (i.e. an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing gains and losses on them on different bases.

**ii)** A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to key management personnel.

This category is measured at fair value. The determination of fair values of financial assets at fair value though profit or loss securities is based on quoted market prices, dealer price quotation and pricing models, as appropriate. Changes in fair value are included in net trading income.

**d. Financial assets available for sale:** Available for sale financial assets are investments that have not been classified in any of the previous categories. The Bank has included floating rate bonds and fixed rate bonds for which a specific decision has been made. Available for sale investment securities are initially recorded at cost (including transaction costs) and subsequently re-measured at fair value based on quoted bid prices in active markets, dealer price quotations or discounted expected cash flows on the trade date, which is the date that the Bank commits to purchase or sell the asset. Fair values for unquoted equity investments are determined by applying recognized valuation techniques such as price/earnings or price/cash flow ratios, refined to reflect the specific circumstances of the issuer. Changes in fair value are recognized directly in equity until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is transferred in profit or loss.

**2.6 Fair value of financial instruments**

The Bank measure the fair value of their financial instruments based on the framework for measuring fair value that categorizes financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as described below:

**Level 1:** Quoted prices in active markets for identical assets or liabilities. Level 1 asset and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

**Level 2:** Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain over-the-counter (OCT) derivative contracts.

**Level 3:** Inputs for assets or liabilities that its fair values are not based on observable market data (unobservable inputs). If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Level 3 assets and liabilities include financial instruments whose value is determined upon pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level in the fair value hierarchy within which the fair value measurement is categorizes in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

### 2.7 Impairment of financial assets

Loans originated by the Bank are recognized when cash is advanced to the borrowers. They are initially recorded at cost, including transaction costs, and are subsequently valued at amortized cost using the effective interest method.
A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms.
The amount of the provision is the difference between the accounting value of the loan and the amount that is expected to be recovered and it is recognized in the income statement. The recoverable amount of each loan is calculated by discounting the expected cash flows for the servicing of the loan based on the effective rate.
The unwinding of the discounting of the expected cash flows is reflected in the income statement as interest income.
The adequacy of provisions is reassessed at each balance sheet date, as follows:

**a)** Loans and receivables are grouped per counterparty group, per industry or per type of loan.

**b)** Provisions for non-performing loans are calculated individually for loans with significant balances. Based on the individual calculations an overall loss ratio is calculated per counterparty or counterparty group.

**c)** Provisions for non-performing loans with small balances are aggregated and assessed for objective evidence of impairment. Examples of objective evidence of impairment are:
- Financial hardship of counterparties evidenced by defaults or delinquencies in interest or principal payments, which results in the increase of delinquencies of that group.
- Pause of payments or bankruptcies of businesses in the industrial sector.
- Creditors appeals to the courts for debt restructuring.
- Deterioration of financial conditions in local, national and international level, due to damages from natural disasters leading to reduced value of real estate collaterals.

Provisions for performing loans are calculated by aggregating positions as described above.
Bad debt ratio calculation is based on the percentage of loan migrations from performing to non-performing per aggregation pool and the relative size of each pool in the formation of the final amount for non-performing loans and of provisions for their impairment.

Provisions for letters of guarantee and documentary credits follow the same methodology with that of loans, after taking into consideration the risk grade of each letter of guarantee (low, medium, high) or documentary credit. If in subsequent periods the amount of the loss decreases and the decrease is related objectively to events that have improved the financial position of the customer or the group to which it belongs and therefore their credit rating, the previously recognized impairment loss shall be reversed and will be recognized in profit or loss.

### 2.8 Derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at cost and are subsequently premeasured at their fair value. All derivatives are carried in assets when favorable to the Bank and in liabilities when unfavorable to the Bank. Derivatives are entered into for either hedging or trading purposes and they are recognized at fair value irrespective of the purpose for which they have been entered into. Valuation differences arising from these derivatives are recognized in net trading income/ loss. The Bank has the following categories of Swaps:

- FX Swaps

  These types of Swaps are entered into primarily to hedge the exposures arising from customer loans and deposits. The Bank does not use hedge accounting. However, the Bank believes that the above instruments are effective economic hedges and therefore the gains and losses from derivative financial instruments are recognized in trading income. The result arising from these derivatives is recognized as net trading income/ loss from foreign exchange differences and derivative transactions.

- Interest Rate Swap

  The Bank uses interest rate swaps (IRSs) to hedge interest risks relating to customer's loans. The Bank does not use hedge accounting. However, the Bank believes that the above instruments are effective economic hedges and therefore the gains and losses from derivative financial instruments are recognized in trading income. The result arising from these derivatives is recognized as net trading income/ loss from foreign exchange differences and derivative transactions.

## 2.9 Intangible assets

Includes software carried at cost less amortization. Amortization is charged over the estimated useful life, which the Bank has estimated as three years. Expenditure incurred to maintain the software programs is recognized in the income statement as incurred.

## 2.10 Property and equipment

Includes additions and improvements cost to leased property and equipment. Items of property and equipment are stated at historical cost less accumulated depreciation. Subsequent expenditure is capitalized or recognized as separate asset only when it increases the future economic benefits. All costs for repairs and maintenance are recognized in the income statement as incurred.
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment taking into account residual values.
The estimated useful lives are as follows:

- Additions to leased fixed assets and improvements: over the term of the lease.
- Motor Vehicles and Equipment: 3 to 5 years.

Gains and losses arising from the sale of property, plant and equipment are recognized in the income statement.

## 2.11 Deferred tax

Deferred taxation is the tax that will be paid or for which relief will be obtained in the future resulting from the different period that certain items are recognized for financial reporting and tax purposes. Deferred tax is provided for temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.
Deferred tax assets and liabilities are provided based on the expected manner of realization or settlement using tax rates (and laws) enacted at the balance sheet date.
A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, taking into consideration the enacted tax rates at balance sheet date. Current and deferred tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity in which case it is recognized in equity.
The Bank has offset deferred tax assets and deferred tax liabilities based on the legally enforceable right to set off the recognized amounts i.e. offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

## 2.12 Provisions and other liabilities

A provision is recognized when the Bank has a constructive or legal obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. Provisions are measured by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

## 2.13 Employee benefits

### (a) Defined contribution plans

For defined contribution plans, the Bank pays contributions to publicly or privately administered pension insurance plans, to insurance companies and other funds on a mandatory or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense on an accrual basis and charged to the income statement in the year to which they relate.

### (b) Defined benefit plan

The net liability of the Bank, in respect of defined benefit pension plans, is calculated separately for each benefit plan, based on the amount of the future benefits, for which the employees are entitled to and is dependent on their present and former service. The liability recognized in the balance sheet with respect to defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, if any. The present value of the defined benefit is determined by discounting the estimated future cash outflows using interest rates of Greek government bonds that have terms to maturity approximating to the terms of the related pension liability. The defined benefit obligation is calculated annually based on actuarial valuation performed by independent actuaries using the projected unit credit method. All the actuarial gains or losses are recognized in income statement with corridor method.

### 2.14 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to realize the asset and settle the liability simultaneously or on a net basis.

### 2.15 Share issue expenses

**Incremental costs of share capital increase**
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.
**Share premium**
The difference, between the nominal value and offering price of the shares issued, is recorded as share premium.

### 2.16 Comparatives

Where necessary, comparative figures have been adjusted to confirm with changes in presentation in current year certain amounts in prior periods which are immaterial to the overall financial statements have been reclassified in order to confirm to current presentation.

## Note 3: Critical accounting policies, estimates and judgments

The preparation of financial statements in accordance with the IFRS requires Management to make subjective judgments, estimations and assumptions, which affect not only the carrying amount of assets and liabilities, but also the level of the income and expenses recognized in the financial statements. Management considers that the subjective judgments, estimations and assumptions, made for the preparation of the financial statements are appropriate and reflect the facts and conditions prevailing on 31 December 2010. The accounting principles, estimates and judgments adopted by the Bank and which are material for the understanding of the financial statements are as follows:

### 3.1 Critical accounting principles and estimates

**Recognition and valuation of financial instruments at fair value**

In accordance with IAS 39, financial assets and liabilities, held for trading purposes, are measured at their fair value as at balance sheet date and fair value differences are reflected in the income statement. Fair values of financial instruments traded in stock exchanges, are determined in accordance with their respective market values. In cases where the instruments are not traded in stock exchanges, or when no publicly available market prices exist, their fair value is determined with the use of various valuation models. Valuation models are mainly used for the valuation of over the counter (OTC) derivative instruments. Although the calculation of fair values requires the application of a high degree of subjective judgment, management believes that fair values used in the preparation of the financial statements reflect prevailing financial conditions and a degree of caution (prudence) in the exercise of judgments, in compliance with the applicable controlling procedures.

**Impairment losses on loans and advances to customers**

The impairment loss on loans and advances to customers result from a continuous evaluation of the customer portfolio for possible losses. The evaluation of the customer portfolio is performed by officers responsible for each credit category, using specific methodology and guidance in accordance with IAS 39, which are continuously reexamined. Management of the bank makes individual assessment of customers and search for objective evidence of impairment. A loan is tested for impairment, when there is objective evidence of impairment, as at the date of the test indicating that the borrower cannot meet its obligations. Usually, as objective evidence of impairment the following cases are considered among others; important financial difficulty of the borrower, deterioration of its credit standing, possible bankruptcy, etc. The individual provisions relate to loans and advances separately examined for impairment and their calculation is based on the best possible estimation of the present value of the related recoverable future cash flows.
In estimating the cash flows, management estimates the financial position of each customer and the recoverable amount from the foreclosure of assets with fixed charges (e.g. pre-notation of property) or guarantees. Each case is evaluated separately, whereas the followed methodology and the estimation of recoverable cash flows are reviewed periodically.

**Retirement benefit obligations**

The retirement benefit obligations are estimated with actuarial techniques using assumptions for future salary levels and discounting factors. These assumptions are in compliance with annual salary increases effected by the Bank's labour agreements and relevant policies.

### 3.2 Critical accounting judgments

**Impairment of available for sale financial assets**

Management has implemented IAS 39 provisions relating to the impairment of available for sale financial assets. Subjective judgment is required for assessing the duration and extent of fair value reduction.

**Income tax**

The Bank is subject to income tax according the Greek Tax Legislation. The calculation of income tax expense requires the exercise of significant subjective judgment. In the context of normal bank activity, there are many transactions and calculations for which the final tax assessment is not certain. Management considers that the income tax expense that may arise from a future tax audit is not expected to be significant. In case that the final outcome of these matters differs from the estimates, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made

## Note 4: Financial risk management

### 4.1 Introduction and overview

The Bank has exposures to the following risks.

- Credit Risk
- Liquidity Risk
- Market Risks
- Operational Risk

This note presents the Banks exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk, as well as the management of capital.

The Bank, acknowledges its exposure to banking risks as well as the need to control and effectively manage those risks in the most optimum way and provide continuous and high quality returns to its shareholders.

### 4.2 Credit risk

Credit risk is the risk of default of a counterparty regarding its contractual obligations. The Bank’s main exposure to credit risk is loans and receivables and due from banks. Management gives great consideration to the proper management of credit risk having set up the necessary infrastructure and procedures.

In particular, the Bank applies a rating system to each borrower’s creditworthiness and simultaneously places them in a credit ranking. According to the Bank’s credit rating system, borrowers are classified in ten categories of credit risk. Usually, lower credit risk borrowers are offered more advantageous terms, while high risk borrowers are generally required to have third party guarantees and give further collateral.

When the Bank considers that the borrower has become risky, it takes the necessary measures to reduce its exposure to that risk and furthermore to reduce all the financial facilities towards that borrower. The Bank, before the approval and during the loan, at least annually, measures the creditworthiness of the counterparty as well as the quality and sufficiency of the collateral. During each counterparty’s evaluation of creditworthiness, classification in a category and determination of credit limit, the financial information is examined quantitatively and qualitatively.

**Maximum exposure to credit risk**

The following table presents the Bank’s maximum credit risk exposure as at 31 December 2010 and 31 December 2009, without including collateral held or other credit enhancements. For on-balance sheet items, credit exposures are based on their carrying amounts as reported on the balance sheet.

| | **2010** | **2009** |
|---|---:|---:|
| | €’ 000 | €’ 000 |
| **ASSETS** | | |
| Due from banks | 120,632 | 135,617 |
| Loans and advances to customers | 215,089 | 209,325 |
| Investment securities – available for sale | 25,714 | 10,417 |
| Investment securities – held to maturity | 10,011 | 7,003 |
| Financial assets at fair value through P&L | 1,048 | 1,162 |
| Derivative financial instruments | 2 | 143 |
| Other assets | 6,250 | 4,718 |
| **Total assets** | **378,746** | **368,385** |
| | | |
| **OFF BALANCE SHEET ITEMS** | | |
| Unused credit facilities | 15,837 | 13,524 |
| Financial guarantees written | 1,422 | 1,454 |
| Other risk participation agreements | - | 588 |
| **Total off balance sheet items** | **17,259** | **15,566** |

The most common practice used by the Bank to mitigate credit risk is requiring guarantees for loans and advances. The major collateral types for loans and advances are vessels, cash collaterals and bank or personal guarantees.

**Loans and advances to customers are summarized as follows:**

| | 2010 €' 000 Loans and advances to shipping corporations | 2010 €' 000 Other loans and advances | 2010 €' 000 Total | 2009 €' 000 Loans and advances to shipping corporations | 2009 €' 000 Other loans and advances | 2009 €' 000 Total |
|---|---|---|---|---|---|---|
| Neither past due nor impaired | 204,112 | 469 | **204,581** | 185,543 | 413 | **185,956** |
| Impaired loans | 12,835 | - | **12,835** | 15,001 | - | **15,001** |
| Past due but not impaired | - | - | **-** | 2,144 | - | **2,144** |
| Past due and Impaired | - | - | **-** | 9,304 | - | **9,304** |
| **Gross** | **216,947** | **469** | **217,416** | **211,991** | **413** | **212,404** |
| **Less: allowance for impairment loss** | (2,327) | - | **(2,327)** | **(3,079)** | **-** | **(3,079)** |
| **Total loans and advances to customers** | **214,620** | **469** | **215,089** | **208,912** | **413** | **209,325** |

**Credit quality of loans and advances neither past due nor impaired**

| **Grades** | 2010 €' 000 Loans and advances to shipping corporations | 2010 €' 000 Other loans and advances | 2010 €' 000 Total | 2009 €' 000 Loans and advances to shipping corporations | 2009 €' 000 Other loans and advances | 2009 €' 000 Total |
|---|---|---|---|---|---|---|
| Satisfactory | 181,951 | 469 | **182,420** | 173,838 | 413 | **174,251** |
| Watch list or substandard | 22,161 | - | **22,161** | 11,704 | - | **11,704** |
| **Total** | **204,112** | **469** | **204,581** | **185,543** | **413** | **185,956** |

Four (4) loans renegotiated during the year 2010 totaled € 22,465 (2 loans in 2009 totalled € 13,800). One (1) of the loans renegotiated during 2010 of amount € 6,458 at the time of renegociation was past due more than 90 days (none during 2009).

**Bond portfolios**

The tables below present an analysis of the Banks Bond portfolios, by rating agency designation at 31 December 2010 and 2009, based on Standard & Poor's ratings or their equivalent.

**Bond portfolios as at 31.12.2010**

| | Available For Sale | At Fair Value Through P&L | Held to Maturity | Total |
|---|---|---|---|---|
| AAA | 9,403 | - | - | **9,403** |
| A- to AA+ | 8,148 | - | - | **8,148** |
| B- to BBB+ | 8,163 | 588 | 10,011 | **18,762** |
| C- to CCC+ | - | 460 | - | **460** |
| | **25,714** | **1,048** | **10,011** | **36,773** |

**Bond portfolios as at 31.12.2009**

| | Available For Sale | At Fair Value Through P&L | Held to Maturity | Total |
|---|---|---|---|---|
| AAA | 705 | - | - | **705** |
| A- to AA+ | 4,946 | - | 1,999 | **6,946** |
| B- to BBB+ | 4,766 | 1,162 | 5,004 | **10,932** |
| | **10,417** | **1,162** | **7,003** | **18,583** |

### 4.3 Liquidity risk

Liquidity Risk is the current or prospective risk that a financial institution will not be able to meet its obligations as they become due, because of lack of required liquidity.

The Assets and Liabilities Committee (ALCO) monitors the gap in maturities between assets and liabilities as well as the funding requirements based on various assumptions, including conditions that might have an adverse impact on the Bank's ability to liquidate investments and trading positions and the ability to access capital markets.

In general, liquidity risk analysis relates to the financial, operating and investing activities of the Bank. This risk involves both the risk of unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

For the Bank, the main resources which ensure liquidity are savings accounts and credits lines through interbank financing. Effective liquidity risk management enables the Bank to comfortably fulfill its client needs and to meet all its payment obligations.

The contractual undiscounted cash outflows are presented in the table below.

**Contractual undiscounted cash outflow as at 31.12.2010**

| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Due to banks | 69,521 | - | - | - | - | 69,521 |
| Due to customers | 136,420 | 41,088 | 31,689 | 3,776 | 9,367 | 222,340 |
| Derivatives financial instruments | 2 | - | - | - | - | 2 |
| Total on balance sheet | 205,943 | 41,088 | 31,689 | 3,776 | 9,367 | 291,863 |
| Off Balance sheet (Loan Commitments) | 3,405 | - | 1,206 | 11,226 | - | 15,837 |
| Total (On & Off Balance sheet) | 209,348 | 41,088 | 32,895 | 15,002 | 9,367 | 307,700 |

**Contractual undiscounted cash outflow as at 31.12.2009**

| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Due to banks | 57,284 | - | 4,749 | - | - | 62,033 |
| Due to customers | 155,283 | 32,681 | 21,250 | 6,563 | 3,730 | 219,507 |
| Derivatives financial instruments | 14 | - | - | - | - | 14 |
| Total on balance sheet | 212,581 | 32,681 | 25,999 | 6,563 | 3,730 | 281,554 |
| Off Balance sheet (Loan Commitments) | 1,500 | 4,015 | 7,835 | 174 | - | 13,524 |
| Total (On & Off Balance sheet) | 214,080 | 36,696 | 33,834 | 6,737 | 3,730 | 295,077 |

From April 21, 2010 Aegean Baltic Bank participates in the Greek Government's scheme for the promotion of liquidity in the Greek economy through the Banking system (Law 3723/2008) in the amount of €40 millions of a three-year time horizon (until 18.04.2013).

### 4.4 Market risks

Market risk is the risk that changes in the market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not related to changes in the obligor's credit standing), will affect the Bank's income or the value of its financial instruments.

Specifically for the Bank, market risk is further analyzed in the following risks:

- Risk from the change in bond prices classified as fair value through profit or loss and as available for sale.
- Interest rate risk arising from transactions in bonds that are classified as fair value through profit or loss and as available for sale.
- Interest rate risk arising from interest rate swaps.
- Foreign exchange risk arising from transactions in outright FX forwards

#### 4.4.1 Interest rate risk

Interest rate risk is the current or prospective risk to earnings (Net Interest Income) and capital arising from adverse movements in interest rates affecting the banking book positions. Assets and liabilities are analyzed with respect to interest rate risk (gap analysis). The assets and liabilities are categorized into time periods (gaps) by either contractual repricing in the case of variable interest rate instruments, or by maturity date in the case of fixed interest rate instruments.

**Interest Rate Risk as at 31.12.2010**

| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and balances with central bank | 4,541 | - | - | - | - | 366 | **4,907** |
| Due from banks | 115,458 | - | - | - | - | 5,174 | **120,632** |
| Loans and advances to customers | 79,979 | 141,233 | 5,445 | (391) | (8,607) | (2,570) | **215,089** |
| Investment securities – available for sale | 5,212 | 2,801 | - | 2,725 | 14,976 | - | **25,714** |
| Investment securities – held to maturity | - | 5,009 | - | 5,002 | - | - | **10,011** |
| Financial assets - fair value through P&L | - | 460 | 588 | - | - | - | **1,048** |
| Other remaining assets | - | - | - | - | - | 7,382 | **7,382** |
| **TOTAL ASSETS** | 205,190 | 149,503 | 6,033 | 7,336 | 6,369 | 10,352 | **384,783** |
| **LIABILITIES** | | | | | | | |
| Due to banks | 69,477 | - | - | - | - | - | **69,477** |
| Due to customers | 143,847 | 44,374 | 32,339 | - | - | 518 | **221,078** |
| Other remaining liabilities | - | - | - | - | - | 3,434 | **3,434** |
| **TOTAL LIABILITIES** | 213,324 | 44,374 | 32,339 | - | - | 3,952 | **293,989** |
| **Total interest sensitivity gap** | **(8,134)** | **105,129** | **(26,306)** | **7,336** | **6,369** | **6,400** | **90,794** |

The measurement of Interest Rate Risk sensitivity of the Banks Balance Sheet items in respect to a parallel shift of 100bp in interest rates showed no material effect on the net position of the Bank because most of the banks interest bearing assets and liabilities are floating rate instruments with contractual repricing period less than 12 months.

**Interest Rate Risk as at 31.12.2009**

| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Non Interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and balances with central bank | 3,598 | - | - | - | - | 3 | **3,601** |
| Due from banks | 127,817 | 6,942 | - | - | - | 858 | **135,617** |
| Loans and advances to customers | 35,577 | 165,055 | 6,592 | 320 | - | 1,781 | **209,325** |
| Investment securities – available for sale | 5,308 | 5,109 | - | - | - | - | **10,417** |
| Investment securities – held to maturity | 1,999 | - | - | 5,004 | - | - | **7,003** |
| Financial assets - fair value through P&L | - | 541 | 621 | - | - | - | **1,162** |
| Other remaining assets | - | - | - | - | - | 5,933 | **5,933** |
| **TOTAL ASSETS** | 174,299 | 177,647 | 7,213 | 5,324 | - | 8,575 | **373,058** |
| **LIABILITIES** | | | | | | | |
| Due to banks | 57,273 | - | 4,700 | - | - | - | **61,973** |
| Due to customers | 163,016 | 41,330 | 13,962 | - | - | 749 | **219,057** |
| Other remaining liabilities | - | - | - | - | - | 2,223 | **2,223** |
| **TOTAL LIABILITIES** | 220,289 | 41,330 | 18,662 | - | - | 3,659 | **283,253** |
| **Total interest sensitivity gap** | **(45,990)** | **136,317** | **(11,449)** | **5,324** | **-** | **4,916** | **89,805** |

### 4.4.2 Foreign exchange risk

The Management of the Bank has set low limits for foreign exchange exposure, which are monitored daily. The Bank's open foreign exchange position is mainly in US Dollars because of its specialized activity. The Bank files standard foreign exchange position reports on a regular basis, which enables the Central Bank to monitor its foreign exchange risk.

The foreign exchange position of the Bank, as at 31 December 2010 and 31 December 2009, respectively, is as follows:

**Foreign exchange position as at 31.12.2010**

| (€' 000) | USD | EURO | Other | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with central banks | 50 | 4,834 | 23 | 4,907 |
| Due from banks | 23,809 | 96,679 | 144 | 120,632 |
| Loans and advances to customers | 191,925 | 23,164 | - | 215,089 |
| Investment securities – available for sale | 6,748 | 18,966 | - | 25,714 |
| Investment securities – held to maturity | - | 10,011 | - | 10,011 |
| Financial assets at fair value through P&L | - | 1,048 | - | 1,048 |
| Other remaining assets | 528 | 6,854 | - | 7,382 |
| **TOTAL ASSETS** | 223,060 | 161,556 | 167 | 384,783 |
| **LIABILITIES** | | | | |
| Due to banks | 10,477 | 59,000 | - | 69,477 |
| Due to customers | 211,669 | 9,324 | 85 | 221,078 |
| Other remaining liabilities | 635 | 2,799 | - | 3,434 |
| **TOTAL LIABILITIES** | 222,781 | 71,123 | 85 | 293,989 |
| **Net balance sheet position** | 279 | 90,433 | 82 | 90,794 |
| Off balance sheet net notional position | (292) | 271 | 21 | - |
| **Total FX position** | **(13)** | **90,704** | **103** | **90,794** |

The measurement of Currency Risk sensitivity of the Bank Balance Sheet items in respect to a parallel shift of 1 % in foreign currency rates showed no material effect on the net position of the Bank.

**Foreign exchange position as at 31.12.2009**

| (€' 000) | USD | EURO | Other | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with central banks | 1 | 3,600 | - | 3,601 |
| Due from banks | 27,767 | 107,592 | 258 | 135,617 |
| Loans and advances to customers | 194,689 | 14,636 | - | 209,325 |
| Investment securities – available for sale | 6,261 | 4,156 | - | 10,417 |
| Investment securities – held to maturity | - | 7,003 | - | 7,003 |
| Financial assets at fair value through P&L | - | 1,162 | - | 1,162 |
| Other remaining assets | 595 | 5,338 | - | 5,933 |
| **TOTAL ASSETS** | 229,313 | 143,487 | 258 | 373,058 |
| **LIABILITIES** | | | | |
| Due to banks | 10,273 | 51,700 | - | 61,973 |
| Due to customers | 204,850 | 14,020 | 187 | 219,057 |
| Other remaining liabilities | 166 | 2,057 | - | 2,223 |
| **TOTAL LIABILITIES** | 215,289 | 67,777 | 187 | 283,253 |
| **Net balance sheet position** | 14,024 | 75,710 | 71 | 89,805 |
| Off balance sheet net notional position | (13,994) | 13,994 | - | - |
| **Total FX position** | **30** | **89,704** | **71** | **89,805** |

### 4.5 Fair value of financial assets and liabilities

The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments at 31 December 2010 and 2009:

**Cash and balances with central banks, Due from and due to banks:** The carrying amount of cash and balances with central banks and due from-to banks approximates their fair value.

**Trading and Available for sale securities:** Fair value for trading and available for sale assets, which also is the amount recognized in the balance sheet, is based on quoted market prices.

**Derivative Financial Instruments:** All derivatives are recognized on the balance sheet at fair value. All derivatives are non exchange traded contracts and their fair value is based on dealer quotes, pricing models, discounted cash flow analysis or quoted prices for instruments with similar characteristics.

**Loans and advances to customers**: According to IFRS, the fair value of loans is estimated using discounted cash flow models. The discount rates are based on current market interest rates offered for loans with similar terms to borrowers of similar credit quality. This category is carried at amortized cost. Substantially all the loans and advances of the Bank are at floating rates of interest, which re-price at frequent intervals. A number of them have considerable amount of unamortized discount. Therefore the Bank has no significant exposure to fair value fluctuations and the carrying value of the loans and advances is substantially equivalent to their fair values.

**Investment securities Held to Maturity:** Fair value for held to maturity investments, is based on quoted market prices of the same or comparable instruments.

**Due to customers**: The fair value for demand deposits and deposits with no defined maturity is determined to be the amount payable on demand at the reporting date. The fair value for fixed maturity deposits is estimated using discounted cash flow models based on rates currently offered for the relevant product types with similar remaining maturities. The carrying amount of term deposits approximates their fair value becouse the re-pricing date of their interest rate is too short and reflects the current interest rates of the market.

**Accrued interest:** The carrying amount of accrued interest approximates their fair value.

| | **31.12.2010** | | **31.12.2009** | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **ASSETS** | | | | |
| Cash and balances with central bank | 4,907 | 4,907 | 3,601 | 3,601 |
| Due from banks | 120,632 | 120,632 | 135,617 | 135,617 |
| Loans and advances to customers | 215,089 | 215,089 | 209,325 | 209,325 |
| Investment securities - available for sale | 25,714 | 25,714 | 10,417 | 10,417 |
| Investment securities - held to maturity | 10,011 | 9,297 | 7,003 | 6,950 |
| **LIABILITIES** | | | | |
| Due to banks | 69,477 | 69,477 | 61,973 | 61,973 |
| Due to customers | 221,078 | 221,078 | 219,057 | 219,057 |

### 4.6 Financial assets and liabilities measured at fair value

**31 December 2010**

| | Level-1 | Level-2 | Level-3 | **Total** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Investment securities – available for sale | 25,553 | 161 | - | **25,714** |
| Financial assets - fair value through P&L | 1,048 | - | - | **1,048** |
| Derivatives | - | 2 | - | **2** |
| **TOTAL ASSETS** | 26,601 | 163 | - | **26,764** |
| **LIABILITIES** | | | | |
| Derivatives | - | 1 | - | **1** |
| **TOTAL LIABILITIES** | **-** | **1** | **-** | **1** |

**31 December 2009**

| | Level-1 | Level-2 | Level-3 | **Total** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Investment securities – available for sale | 10,172 | 245 | - | **10,417** |
| Financial assets - fair value through P&L | 1,162 | - | - | **1,162** |
| Derivatives | - | 143 | - | **143** |
| **TOTAL ASSETS** | **11,334** | **388** | **-** | **11,722** |
| **LIABILITIES** | | | | |
| Derivatives | - | 14 | - | **14** |
| **TOTAL LIABILITIES** | **-** | **14** | **-** | **14** |

### 4.7 Capital adequacy

The Bank has implemented the new regulatory framework Basel II since January 2008. The new regulatory framework introduced capital requirement for operational risk as well and results to significant changes to the calculation of capital requirements against credit risk.

The Bank actively manages its capital base by taking advantage of the contemporary means for raising capital, with the objective to sustain its capital adequacy ratios well above the minimum regulatory levels and, at the same time, to improve the weighted average cost of capital to the benefit of its shareholders. In this framework, both the calculation of the capital requirements and the dynamic management of the capital base are embedded in the business plan and the annual budgeting processes.

The risk-weighted assets arise from the credit risk of the banking book and the market risk of the trading book as well as the operational risk.

The current capital ratios (Tier I ratio and capital adequacy ratio) are much higher than the regulatory limits (8%) set by the Bank of Greece directive and the capital base is capable to support the business growth of the Bank in all areas for the next years.

For the calculation of regulatory capital, own share capital must undergo some regulatory adjustments, such as the deduction of intangible assets, available of sale negative reserve, etc.

The capital adequacy ratio as at 31/12/2010 and 31/12/2009 is in compliance with Basel II regulatory framework according the standardized approach.

The regulatory capital of the Bank, as defined by Bank of Greece is comprised of two tiers, Tier I and Tier II capital. AB-Bank has only Tier I capital

| | **2010**<br>€' 000 | **2009**<br>€' 000 |
|---|---|---|
| **Tier I capital** | | |
| Share capital | 37,980 | 37,980 |
| Share premium | 50,194 | 50,198 |
| Retained earnings | 4,092 | 2,447 |
| Statutory reserve | 253 | 176 |
| Available for sale reserve | (1,725) | (996) |
| | **90,794** | **89,805** |
| **Regulatory adjustments on Tier I capital** | | |
| Available for sale reserve adjustment | 1,725 | 996 |
| Less: intangible assets | (354) | (213) |
| **Total regulatory adjustments on Tier I capital** | 1,371 | 783 |
| | | |
| **Total Tier I capital** | **92,165** | **90,588** |
| | | |
| **Risk weighted assets** | | |
| Risk weighted assets (credit risk) | 237,722 | 243,874 |
| Risk weighted assets (market risk) | 205 | 214 |
| Risk weighted assets (operational risk) | 18,860 | 16,147 |
| **Total risk weighted assets** | **256,787** | **260,235** |
| | | |
| **Tier I ratio** | **35.89%** | **34.81%** |
| **Capital Adequacy ratio** | **35.89%** | **34.81%** |

It should be noted that the disclosure as regulatory requirement, regarding capital adequacy and risk management information, imposed by Bank of Greece Directive 2592/20.8.2007 in relation to Pillar III, is available at the internet site www.aegeanbalticbank.com

## Note 5: Net interest income

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| **Interest and similar income** | | |
| Available for sale and held for trading securities | 1,026 | 595 |
| Interest due from banks | 1,372 | 754 |
| Interest from loans and advances to customers | 9,746 | 7,272 |
| Other | 60 | - |
| **Total Interest and similar income** | **12,204** | **8,621** |
| **Interest expense and similar charges** | | |
| Interest due to customers | (3,120) | (2,120) |
| Interest due to banks | (244) | (327) |
| **Total Interest expense and similar charges** | **(3,364)** | **(2,447)** |
| **Net interest income** | **8,840** | **6,174** |

## Note 6: Net fee and commission income

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| **Fees and commission income** | | |
| Loan origination fees and commissions | 1,456 | 1,774 |
| Funds transfers | 262 | 192 |
| Other | 42 | 36 |
| **Total Fees and commission income** | **1,760** | **2,002** |
| **Fees and commission expense** | | |
| Banks | (27) | (27) |
| Central Bank | (196) | |
| Other | (177) | (49) |
| **Total Fees and commission expense** | **(400)** | **(76)** |
| **Net fee and commission income** | **1,360** | **1,926** |

The Bank's main activity is the contracting and management of syndicated loans to shipping companies in which the Bank also participates in.

The result of the Bank's main activity is the collection of commissions for both the contracting of the syndicated loans as an arranger, as an agent and as a participant to the loan.

The commissions received by the Bank as a participant in the syndicated loans are capitalized and then amortized over the life of the loan with the effective interest rate method. The commissions received by the Bank as an arranger and as an agent are recognized in the income statement when collected.

The commissions received by the Bank and amortized over the life of the financial instrument with the effective interest rate method are for the year 2010 € 684 thousands (€ 262 thousands for 2009).

## Note 7: Net trading income

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| Foreign exchange contracts and derivatives | 288 | 428 |
| **Net trading income** | **288** | **428** |

## Note 8: Net result from sale of investment securities

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| Gains from sale of available for sale financial assets | - | 190 |
| **Net result from sale of investment securities** | **-** | **190** |

## Note 9: Net result from financial instruments at fair value through profit or loss

| | 2010 | 2009 |
|---|---|---|
| | €' 000 | €' 000 |
| Profit (Loss) from valuation of financial assets at fair value through P & L | (114) | 255 |
| Gain (Loss) from sale of financial assets at fair value through P & L | 468 | 29 |
| **Net result from financial instruments at fair value through profit or loss** | **354** | **284** |

Net result from financial instruments at fair value through profit or loss derives mainly from Government bonds during 2010 and corporate Bonds during 2009.

## Note 10: Personnel expenses

| | 2010 | 2009 |
|---|---|---|
| | **€' 000** | **€' 000** |
| Wages and salaries | (3,407) | (3,052) |
| Social security contributions | (509) | (438) |
| Defined contribution plans | (133) | (130) |
| Defined benefit plans (see Note 29) | (62) | (52) |
| Provisions for untaken leave | 15 | 15 |
| Other | (193) | (160) |
| **Personnel expenses** | **(4,289)** | **(3,817)** |

The number of employees employed by the Bank at 31 December 2010 was 53 (46 as at 31 December 2009). The average number of employees for the period 1 January 2010 to 31 December 2010 was 52.

## Note 11: General administrative expenses

| | 2010 | 2009 |
|---|---|---|
| | **€' 000** | **€' 000** |
| Rental expense for buildings | (379) | (342) |
| Rental expense for cars | (72) | (85) |
| Third party fees | (637) | (479) |
| IT expense | (341) | (288) |
| Telecommunication – mail expense | (95) | (82) |
| Promotion and advertising expense | (101) | (22) |
| Office material | (32) | (19) |
| Utilities | (78) | (78) |
| Taxes and duties | (256) | (109) |
| Maintenance and other related expenses | (47) | (31) |
| Publication expenses | (22) | (22) |
| Subscription expenses | (36) | (25) |
| Donations | (1) | (1) |
| Officers and directors insurance | (121) | (117) |
| Other general administrative expenses | (196) | (118) |
| **General and administrative expenses** | **(2,414)** | **(1,816)** |

## Note 12: Depreciation and amortization

| | 2010 | 2009 |
|---|---|---|
| | **€' 000** | **€' 000** |
| Property and equipment | (140) | (152) |
| Intangible assets | (157) | (106) |
| **Depreciation and amortization** | **(297)** | **(258)** |

## Note 13: Income tax expense

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| Income tax for the year | (570) | (149) |
| Tax settlement of previous years | (260) | - |
| One -off social responsibility tax | (75) | - |
| Deferred income tax | (249) | (339) |
| **Income tax expense** | **(1,154)** | **(488)** |
| The calculation of our income tax expense is as follows: | | |
| **Profit before tax** | **2,877** | **1,775** |
| Tax calculation at 24% (2009:25%) | (690) | (444) |
| Impact of tax change rate on Deferred Tax | (10) | (47) |
| Non tax deductible expenses | (94) | (55) |
| Tax settlement of previous Years | (260) | - |
| One -off social responsibility Tax | (75) | - |
| Other | (24) | 58 |
| **Income tax expense** | **(1,154)** | **(488)** |

The Greek tax authorities have not yet completed the tax inspection for the years 2008, 2009 and 2010. It is possible, as a result of the tax inspection, that some of the bank's expenses relating to these years may be disallowed. Consequently, additional taxes may be assessed.

According to Greek tax legislation, losses can be carried forward and off-set against future gains over the next 5 years. There are no tax losses carried forward by the Bank.

Further information concerning deferred tax is presented in Note 24.

## Note 14: Cash and balances with Central Bank

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| Cash in hand | 366 | 3 |
| Balance with central bank | 4,541 | 3,598 |
| **Cash and balances with Central Bank** | **4,907** | **3,601** |

The Bank is required to maintain a current account with the Central Bank of Greece (BoG) to facilitate interbank transactions with the BoG, its member banks, and other financial institutions through the TARGET system (Trans-European Automated Real-Time Gross Settlement Express Transfer).

BoG requires all banks established in Greece to maintain deposits with BoG equal to 2% of total customer deposits as these are defined by the European Central Bank ("ECB"). As of 1 January 2001 these deposits bear interest at the refinancing rate as set by the ECB (1% at 31.12.2010 and 1% at 31.12.2009). It is at the Bank's discretion to withdraw the total amount of the balance with central bank under the condition that the average balance during the period (month) will not be less than the minimum required amount.

## Note 15: Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with original maturity of 90 days or less:

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| Cash on hand | 366 | 3 |
| Non-restricted placements with Central Bank. | 4,541 | 3,598 |
| Short-term balances due from banks | 120,632 | 135,617 |
| **Cash and cash equivalents** | **125,539** | **139,218** |

## Note 16: Due from banks

| | 2010 €' 000 | 2009 €' 000 |
|---|---|---|
| Current accounts | 5,174 | 7,098 |
| Money Market Placements | 115,458 | 128,519 |
| **Due from banks** | **120,632** | **135,617** |

## Note 17: Loans and advances to customers

| | 2010 €' 000 | 2009 €' 000 |
|---|---|---|
| Loans and advances to shipping corporations at amortized cost | 214,620 | 208,912 |
| Other loans and advances | 469 | 413 |
| **Loans and advances to customers** | **215,089** | **209,325** |

Included within loans and advances to customers are loans (€ 82 millions) that have been pledged as security for the participation of the Bank in the Greek Government's scheme for the promotion of liquidity in the Greek economy through the Banking system (Law 3723/2008) in the amount of €40 millions of a three-year time horizon (until 18.04.2013).

**Loans and advances to customers analyzed:**

| | Gross amount | Impairment allowance | Net amount |
|---|---|---|---|
| | | **Year 2010** €'000 | |
| Loans and advances to shipping corporations at amortized cost | 216,947 | (2,327) | 214,620 |
| Other loans and advances | 469 | - | 469 |
| **Loans and advances to customers** | **217,416** | **(2,327)** | **215,089** |
| | | **Year 2009** €'000 | |
| Loans and advances to shipping corporations at amortized cost | 211,991 | (3,079) | 208,912 |
| Other loans and advances | 413 | - | 413 |
| **Loans and advances to customers** | **212,404** | **(3,079)** | **209,325** |

**Allowances for impairment:**

| | 2010 €' 000 | 2009 €' 000 |
|---|---|---|
| **Balance as at 1 January** | **(3,079)** | **(1,736)** |
| Impairment loss for the year | (1,450) | (1,402) |
| Amounts recovered | 726 | - |
| Effect of foreign currency movements | (249) | 59 |
| **Impairment loss on financial assets charged in Income statement** | **(973)** | **(1,343)** |
| **Loans written off** | **1,725** | **-** |
| **Balance as at 31 December** | **(2,327)** | **(3,079)** |

## Note 18: Investment securities – Available for sale

**Analysis per Issuer**

| | 2010 €' 000 | 2009 €' 000 |
|---|---|---|
| Government | 17,701 | 496 |
| Government - Guaranteed | 161 | 245 |
| Banks – Financial institutions | 6,598 | 8,054 |
| Corporate | 1,254 | 1,622 |
| **Investment securities – Available for sale** | **25,714** | **10,417** |

**Analysis per Type**

| | 2010 €' 000 | 2009 €' 000 |
|---|---|---|
| Dedt | 24,222 | 9,204 |
| Equity | 1,492 | 1,213 |
| **Investment securities – Available for sale** | **25,714** | **10,417** |

**Movement for the year:**

| | 2010 €' 000 | 2009 €' 000 |
|---|---|---|
| **Balance as at 1 January** | **10,417** | **10,856** |
| Additions | 18,840 | 2,500 |
| Disposals (Sales and redemption) | (3,101) | (5,018) |
| Profit (loss) from changes in fair value | (931) | 2,300 |
| Exchange differences | 489 | (221) |
| **Balance as at 31 December** | **25,714** | **10,417** |

All the bonds in the available for sale portfolio are listed.

**Investment securities – Available for sale pledged as Collateral**

| | Asset | | Related Liability | |
|---|---|---|---|---|
| | 2010 €' 000 | 2009 €' 000 | 2010 €' 000 | 2009 €' 000 |
| **Greek Government Bonds** | **2,725** | **-** | **2,644** | **-** |

## Note 19: Investment securities – Held to maturity

**Analysis per Issuer**

| | 2010 €' 000 | 2009 €' 000 |
|---|---|---|
| Government | 10,011 | 5,004 |
| Banks – Financial institutions | - | 1,999 |
| **Investment securities – Held to maturity** | **10,011** | **7,003** |

All Held to maturity securities are listed debt securities.

**Movement for the year:**

| | 2010 €' 000 | 2009 €' 000 |
|---|---|---|
| **Balance as at 1 January** | **7,003** | **1,998** |
| Additions | 5,050 | 5,004 |
| Matured | (2,000) | - |
| Other (discount amortization) | (42) | 1 |
| **Balance as at 31 December** | **10,011** | **7,003** |

**Investment securities – Held to maturity pledged as Collateral**

| | Asset | | Related Liability | |
|---|---|---|---|---|
| | 2010 €' 000 | 2009 €' 000 | 2010 €' 000 | 2009 €' 000 |
| **Greek Government Bonds** | **10,011** | **5,004** | **8,958** | **4,700** |

## Note 20: Financial assets at fair value through P&L

| | 2010 €' 000 | 2009 €' 000 |
|---|---|---|
| **Balance as at 1 January** | **1,162** | **1,097** |
| Additions | 41,000 | 3,500 |
| Disposals (Sales and redemption) | (41,000) | (3,690) |
| Profit (loss) from changes in fair value | (114) | 255 |
| **Balance as at 31 December** | **1,048** | **1,162** |

All Financial assets at fair value through P&L are issued by Banks and are listed.

**Analysis per Type**

| | 2010 €' 000 | 2009 €' 000 |
|---|---|---|
| Dedt | 725 | 783 |
| Equity | 323 | 379 |
| **Financial assets at fair value through P&L** | **1,048** | **1,162** |

## Note 21: Derivative financial instruments

| | 31.12.2010 | | | 31.12.2009 | | |
|---|---|---|---|---|---|---|
| | Nominal value | Fair value Assets | Fair value Liabilities | Nominal value | Fair value Assets | Fair value Liabilities |
| FX forwards | 101 | 1 | 1 | 18,953 | 142 | 13 |
| Interest rate swaps | 1,540 | 1 | 0 | 106 | 1 | 1 |
| **Derivative financial instruments** | **1,641** | **2** | **1** | **19,059** | **143** | **14** |

The Bank does not use hedge accounting. However, the Bank believes that the above instruments are effective economic hedges and therefore the gains and losses from derivative financial instruments are recognized in trading income.

## Note 22: Intangible assets

| | 2010 | 2009 |
|---|---|---|
| **Cost:** | €' 000 | €' 000 |
| Opening balance as at 1 January | 1,426 | 1,393 |
| Additions | 298 | 33 |
| Closing balance as at 31 December | **1,724** | **1,426** |
| **Accumulated amortization:** | | |
| Opening balance as at 1 January | 1,213 | 1,107 |
| Amortization | 157 | 106 |
| Closing balance as at 31 December | **1,370** | **1,213** |
| **Net book value:** | | |
| Opening net book value as at 1 January | **213** | **286** |
| Closing net book value as of 31 December | **354** | **213** |

Intangible assets include only software.

## Note 23: Property and equipment

**Property and equipment as at 31.12.2010**

| | Leasehold improvements | Motor vehicles | Furniture and other equipment | IT equipment | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Opening balance as at 1 January 2010 | 397 | 15 | 470 | 658 | 1,540 |
| Additions | 48 | - | 26 | 33 | 108 |
| Disposals | - | - | - | - | - |
| Closing balance as at 31 December.2010 | **445** | **15** | **496** | **691** | **1,648** |
| **Accumulated depreciation:** | | | | | |
| Opening balance as at 1 January 2010 | 52 | 4 | 299 | 577 | 932 |
| Depreciation | 36 | 2 | 52 | 50 | 140 |
| Disposals | - | - | - | - | - |
| Closing balance as at 31 December 2010 | **88** | **6** | **351** | **627** | **1,072** |
| **Net book value:** | | | | | |
| Closing net book value as at 31 December 2010 | **357** | **9** | **145** | **64** | **577** |

**Property and equipment as at 31.12.2009**

| | Leasehold improvements | Motor vehicles | Furniture and other equipment | IT equipment | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Opening balance as at 1 January 2009 | 395 | 15 | 460 | 624 | 1,494 |
| Additions | 2 | - | 10 | 34 | 46 |
| Disposals | - | - | - | - | - |
| Closing balance as at 31 December.2009 | **397** | **15** | **470** | **658** | **1,540** |
| **Accumulated depreciation:** | | | | | |
| Opening balance as at 1 January 2009 | 19 | 2 | 249 | 510 | 780 |
| Depreciation | 33 | 2 | 50 | 67 | 152 |
| Disposals | - | - | - | - | - |
| Closing balance as at 31 December 2009 | **52** | **4** | **299** | **577** | **932** |
| **Net book value:** | | | | | |
| Closing net book value as at 31 December 2009 | **345** | **11** | **171** | **81** | **608** |

No property and equipment have been pledged as security for liabilities.

## Note 24: Deferred tax assets

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| **Deferred tax assets** | | |
| Write-offs and amortization of intangible assets | 19 | 46 |
| Loans and advances to customers | 190 | 158 |
| Defined benefits obligations | 111 | 102 |
| Derivatives and financial instruments | 730 | 511 |
| Other temporary differences | 130 | 122 |
| **Total Deferred tax assets** | **1,180** | **939** |
| **Deferred tax liabilities** | | |
| Loans and advances to customers | 981 | 688 |
| **Total Deferred tax liabilities** | **981** | **688** |
| **Net deferred tax assets** | **199** | **251** |

Movement of temporary differences during the year:

| | Balance as at | Deferred tax charge in the income statement | Deferred tax through equity | Balance as at |
|---|---|---|---|---|
| **Movement of 2010** | 1/1/2010 | 2010 | 2010 | 31/12/2010 |
| Write-offs and amortization of intangible assets | 46 | (23) | (4) | 19 |
| Loans and advances to customers | (530) | (261) | - | (791) |
| Defined benefits obligations | 102 | 9 | - | 111 |
| Derivatives and financial instruments | 511 | 18 | 201 | 730 |
| Other temporary differences | 122 | 8 | - | 130 |
| **Total** | **251** | **(249)** | **197** | **199** |

| | Balance as at | Deferred tax charge in the income statement | Deferred tax through equity | Balance as at |
|---|---|---|---|---|
| **Movement of 2009** | 1/1/2009 | 2009 | 2009 | 31/12/2009 |
| Write-offs and amortization of intangible assets | 107 | (56) | (5) | 46 |
| Loans and advances to customers | (359) | (171) | - | (530) |
| Defined benefits obligations | 93 | 9 | - | 102 |
| Derivatives and financial instruments | 1,211 | (112) | (588) | 511 |
| Other temporary differences | 131 | (9) | - | 122 |
| **Total** | **1,183** | **(339)** | **(593)** | **251** |

## Note 25: Other assets

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| Accrued income (Interest and Commissions) | 1,268 | 776 |
| Prepaid expenses | 318 | 310 |
| Greek Deposit Guarantee Fund | 3,655 | 2,288 |
| Other | 1,009 | 1,344 |
| **Other assets** | **6,250** | **4,718** |

Greek Deposit Guarantee Fund

Per Greek Government's decision in November 2008 (Article 6 of Law 3714/2008), the amount of banks' customer deposits guaranteed by the Greek Deposits Guarantee Fund, increased from €20,000 to €100,000, with effect until at least 2011, unless otherwise decided upon by the Government. Per the decision, the annual contributions paid by banks to the Greek Deposit Guarantee Fund shall increase proportionately to the increase of the guaranteed deposits amount (i.e. fivefold), for as long as such increased guaranteed amount provision remains in effect.

Law 3746/16.2.2009 concerning the "Hellenic Deposit and Investment Guarantee Fund (HDIGF)" further specified that, the incremental annual contributions of Banks resulting from the application of the aforesaid decision shall be contributed by each bank to a special purpose assets group of the HDIGF, operating in the style of joint and mutual cover fund of the participating banks.

## Note 26: Due to banks

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| Term deposits | 69,477 | 61,973 |
| **Due to banks** | **69,477** | **61,973** |

Included in Term depostis are € 20 millions funding from ECB with collateral eligible bonds from the Bank's available for sale and held to maturity portfolios, as well as part of the €40 millions Greek government bonds from the participation of the Bank in the Government's scheme for the promotion of liquidity in the Greek economy through the Banking system (Law 3723/2008).

## Note 27: Due to customers

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| Sight deposits | 49,641 | 76,967 |
| Term deposits | 171,370 | 142,086 |
| Other | 67 | 4 |
| **Due to customers** | **221,078** | **219,057** |

Due to customers include blocked deposits of:

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| Blocked deposits for the issuance of Guarantee Letters | 1,422 | 1,606 |
| Blocked deposits for loans granted | 12,147 | 11,140 |
| **Total** | **13,569** | **12,746** |

The only main concentration relates to deposits of three (3) customers that represent approximately 36% of the amounts due to customers (€ 79 million out of € 221 million). In 2009 three (3) customers represent approximately 41% of the amounts due to customers (€ 89 million out of € 219 million).

## Note 28: Other liabilities

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| Accrued interest payable | 697 | 175 |
| Taxes – duties (other than income tax) | 465 | 153 |
| Amounts due to social security funds | 110 | 93 |
| Accrued expenses and deferred income | 583 | 504 |
| Suppliers | 92 | 215 |
| Greek Deposit Guarantee Fund | 828 | 595 |
| Other | 182 | 59 |
| **Other liabilities** | **2,957** | **1,794** |

## Note 29: Retirement benefit obligations

**Defined benefit plans**

According to Greek labor law, employees are entitled to a one-off payment when they retire.

The amount differs according to the salary of the employees and the years of their employment up to the date of retirement. In the event that an employee voluntarily leaves, there is no similar liability. This one-off payment meets the definition of a defined benefit plan and at 31 December 2010 the present value of the liability amounted to € 476 thousand (2009 € 415 thousand).

The provision is based on an independent actuarial study using the "Projected Unit Credit Method", according to which the cost of employee retirement indemnities is charged to the income statement over the service lives of the related employees.

The present value of the defined obligation is determined by the estimated future cash outflows using interest rates of high credit rating company securities, which have terms to maturity approximating the terms of the related liability.

| | 2010<br>€' 000 | 2009<br>€' 000 |
|---|---|---|
| **The amounts recognized in the balance sheet are determined as follows:** | | |
| Present value of obligations | 490 | 492 |
| Unrecognized actuarial gains (losses) | (14) | (77) |
| **Retirement benefit obligations** | **476** | **415** |
| **The amounts recognized in the Income Statement are as follows:** | | |
| Current service cost | 39 | 35 |
| Financial cost | 20 | 17 |
| Amortization of Unrecognized Net (Gain)/Loss | 2 | - |
| **Total, included in personnel expenses** | **61** | **52** |
| **The movement in the liability as recognized in the Balance Sheet is as follows:** | | |
| **Opening balance** | **415** | **363** |
| Benefits paid directly | | - |
| Total expenses recognized in the Income Statement | 61 | 52 |
| **Balance at the end of the year** | **476** | **415** |
| **The movement in the liability is as follows:** | | |
| **Opening balance** | **492** | **391** |
| Service cost | 39 | 35 |
| Interest cost | 20 | 17 |
| Benefits paid directly | - | - |
| Extra Payments or Expense/ (Income) | - | - |
| Actuarial Loss / (Gain) | (61) | 49 |
| **Balance at the end of the year** | **490** | **492** |
| **The main actuarial assumptions used are as follows:** | | |
| Discount rate at 31 December | 5.39% | 5.20% |
| Future increase of salaries | 3.50% | 4.50% |
| Average future working life | **14.48** | **13.07** |

**The amounts recognized in the balance sheet are determined as follows:**

| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| | €' 000 | €' 000 | €' 000 | €' 000 | €' 000 | €' 000 |
| Present value of obligations | 490 | 492 | 391 | 353 | 306 | 268 |
| Unrecognized actuarial gains (losses) | (14) | (77) | (28) | (32) | (32) | (42) |
| **Total obligation** | **476** | **415** | **363** | **321** | **274** | **226** |

## Note 30: Share capital

**Share capital for the year ended at:** **(Amounts in €)**

| | 31.12.2010 | | | 31.12.2009 | | |
|---|---|---|---|---|---|---|
| | **Number of Shares** | **Nominal Value** | **Share Capital** | **Number of Shares** | **Nominal Value** | **Share Capital** |
| Opening balance | 2,110,000 | 18 | 37,980,000 | 2,090,000 | 18 | 37,620,000 |
| Issue of new shares | - | - | - | 20,000 | 18 | 360,000 |
| Closing balance | 2,110,000 | 18 | 37,980,000 | 2,110,000 | 18 | 37,980,000 |

On 30 April 2010 the 192.000 shares of AB-Bank held by HSH NORDBANK AG (representing 9.10% of the Share capital of the bank) were purchased by a company controlled by Mr. Theodore Afthonidis. Therefore, from that date, HSH Norbank A.G has no participation in the Bank's Share Capital.

## Note 31: Share premium

| | **2010** | **2009** |
|---|---|---|
| | €' 000 | €' 000 |
| Share premium | 50,513 | 50,513 |
| Less: Rights issue related expenses | (414) | (414) |
| Deferred taxation (23% in 2010 – 24% in 2009) | 95 | 99 |
| **Share premium** | **50,194** | **50,198** |

**Movement of Share premium account**

| | | |
|---|---|---|
| **Opening balance** | **50,198** | **50,203** |
| Deferred taxation | (4) | (5) |
| **Closing balance** | **50,194** | **50,198** |

## Note 32: Reserves

| | **2010** | **2009** |
|---|---|---|
| | €' 000 | €' 000 |
| Statutory reserve | 253 | 175 |
| Valuation of available for sale portfolio | (2,240) | (1,309) |
| Deferred tax on valuation of AFS portfolio | 515 | 314 |
| **Reserves** | **(1,472)** | **(820)** |

**Movement of Reserves**

| | | |
|---|---|---|
| **Opening Balance** | **(820)** | **(2,554)** |
| Statutory reserve | **78** | **22** |
| Valuation of available for sale portfolio | (931) | 2,300 |
| Deferred tax on valuation of AFS portfolio | 201 | (588) |
| Net change in Fair value | **(730)** | **(1,712)** |
| **Closing Balance** | **(1,472)** | **(820)** |

## Note 33: Retained earnings

| | **2010** | **2009** |
|---|---|---|
| | €' 000 | €' 000 |
| **Opening balance** | **2,447** | **1,577** |
| Capitalization and issue of 20,000 new shares | - | (396) |
| Statutory reserve for the year | (78) | (22) |
| Profit for the year | 1,723 | 1,287 |
| **Closing balance** | **4,092** | **2,447** |

## Note 34: Contingent liabilities and commitments

**Legal issues**
There are no pending legal actions for or against the Bank.

**Tax issues**
The Bank has not been inspected for tax purposes for the years 2008 - 2010 and therefore the tax liabilities are not final. However, it is believed that they will not have a significant effect on the Bank's financial position.

**Capital commitments**

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| | €' 000 | €' 000 |
| Unused credit facilities | 15,837 | 13,524 |
| Financial guarantees written | 1,422 | 1,454 |
| Other risk participation agreements | - | 588 |
| **Total** | **17,259** | **15,566** |

**Operating lease commitments**
Operating leases
The Bank has liabilities from the lease of its central building, its branch in Piraeus and company cars that it uses.

The duration of the lease contract is 12 years for the buildings, and 4 to 6 years for the company cars.

The rents are usually subject to annual adjustments due to inflation. It is the Bank's policy to renew these contracts.

The rent expenses concerning the buildings amounted to € 379 thousand for 2010 (€ 342 thousand for 2009).

The minimum lease payments until the end of the lease contracts and based on the current interest rate is as follows:

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| | €' 000 | €' 000 |
| No later than 1 year | 403 | 410 |
| Later than 1 year and no later than 5 years | 1,479 | 1,458 |
| Later than 5 years | 1,818 | 2,293 |
| **Total** | **3,700** | **4,161** |

The lease agreement for the Maroussi building was successfully renegotiated in April 2011 to considerably lower levels.

**Syndicated Loans**
The Bank acts as an agent and administrator for syndicated loans granted to shipping corporations. The total amount of the syndicated loans administrated or participated by the Bank is analyzed as follows:

| | 2010 | 2009 |
|---|---|---|
| | €' 000 | €' 000 |
| Participation of other banks in draw downed syndicated loans. | 1,027,617 | 1,068,794 |
| AB-Bank's participation in draw down syndicated loans. | 52,510 | 58,515 |
| **Total amount of draw downed syndicated loans.** | **1,080,127** | **1,127,309** |
| Other banks participation in unused credit facilities of syndicated loans. | 118,742 | 92,930 |
| AB-Bank's participation in unused credit facilities of syndicated loans. | 3,919 | 6,480 |
| **Total amount of undrawn syndicated loans.** | **122,661** | **99,410** |
| | | |
| **Total amount of syndicated loans administrated with the participation of AB-Bank.** | **1,202,788** | **1,226,719** |

## Note 35: Post balance sheet events

There are no events after the balance sheet date requiring disclosure.

## Note 36: Related party transactions

Main shareholders of the Bank are Costanus Limited, Mr Theodore Afthonides personally and Vealmont Limited which is controlled by Mr Afthonides.

Affiliates' outstanding balances and results of these transactions are as follows.

**Affiliates**

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| | €' 000 | €' 000 |
| **Assets** | | |
| Due from banks | - | 98 |
| Derivative financial instruments | - | 1 |
| Loans and advances to customers | 27 | - |
| **Total assets** | **27** | **99** |
| | | |
| **Liabilities** | | |
| Derivative financial instruments | - | 1 |
| Due to customers | 194 | 548 |
| **Total liabilities** | **194** | **549** |
| | | |
| **Income** | | |
| Interest and similar income | 1 | 33 |
| Net trading income/profit | - | 15 |
| **Total income** | **1** | **48** |
| | | |
| **Expenses** | | |
| Interest expense and similar charges | 1 | 298 |
| Fees and commission expense | 3 | 13 |
| **Total expenses** | **4** | **311** |

Remuneration, Short Term employee and post employment benefits of the Board of Directors (BoD) members and General Managers, charged to the Income statement, summarized as follows:

| | 2010 | 2009 |
|---|---|---|
| | €' 000 | €' 000 |
| Remuneration | 1,313 | 850 |
| Short Term employee and post employment benefits | 126 | 84 |
| Total | 1,439 | 934 |

There are no other transactions related to Board of Directors or the General Managers of the Bank.