

CHAPTER VI. FINANCIAL STATEMENTS OF THE BANK OF ALBANIA

INDEPENDENT AUDITORS' REPORT

To the Supervisory Board of the Bank of Albania:

We have audited the accompanying unconsolidated balance sheets of the Bank of Albania (the "Bank") as at December 31, 2004 and 2003, and the related statements of profit and loss, changes in capital and reserves and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the unconsolidated financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2004 and 2003 and the results of its operations, changes in capital and reserves and cash flows for the years then ended in accordance with accounting policies adopted by the Supervisory Board of the Bank of Albania as disclosed in note 2 to the financial statements.

March 12, 2005

	Notes	As at december 31, 2004	As at december 31, 2003
ASSETS			
Assets denominated in foreign currencies			
Gold and precious metals	3	540	593
Deposits with the International Monetary Fund	4	16,817	18,056
Deposits with foreign banks	5	11,489	10,553
Securities available for sale	6	104,450	86,875
Other foreign assets	7	559	588
Total assets denominated in foreign currencies		133,855	116,665
Assets denominated in local currency			
Gold and precious metals	3	40	43
Transit credits	8	277	384
Securities available for sale	9.1	63,786	71,687
Investments held to maturity	9.2	1,649	1,573
Other domestic assets	10	2,553	2,635
Total assets denominated in local currency		68,305	76,322
Total Assets		202,160	192,987
LIABILITIES			
Liabilities denominated in foreign currencies			
Due to the International Monetary Fund	11	15,948	17,478
Due to non-resident financial institutions	12	1,527	1,747
Total liabilities denominated in foreign currencies		17,475	19,225
Liabilities denominated in local currency			
Currency in circulation	13	141,630	127,774
Due to domestic banks	14	39,318	33,970
Due to the Government	15	5,302	5,464
Deferred income	16	106	117
Other domestic liabilities	17	578	389
Total liabilities denominated in local currency		186,934	167,714
CAPITAL AND RESERVES			
Capital		750	750
Legal reserve		3,750	3,750
Revaluation reserve	18	(14,824)	(6,330)
Other reserves	19	8,075	7,878
Total capital and reserves		(2,249)	6,048
Total liabilities, capital and reserves		202,160	192,987

* The accompanying notes on pages 9 to 36 are an integral part of these financial statements.

	Notes	Year ended December 31, 2004	Year ended December 31, 2003
Operations with non-residents			
Interest and commission income	20	3,209	3,515
Interest and commission expense		(683)	(1,033)
Gains arising from foreign securities		-	963
Losses arising from foreign securities		-	(1,139)
Operations with non-residents, net		2,526	2,306
Operations with residents			
Interest and commission income	21	5,271	7,567
Interest and commission expense		(1,344)	(1,353)
Gains arising from domestic securities		-	796
Losses arising from domestic securities		-	(765)
Operations with residents, net		3,927	6,245
Other operating income, net	22	144	322
Net operating income		6,597	8,873
Other operating expenses			
Personnel expenses	23	(436)	(377)
Depreciation		(110)	(119)
Amortization		(339)	(320)
General and administrative expenses		(253)	(204)
Total other operating expenses		(1,138)	(1,020)
NET PROFIT FOR THE YEAR		5,459	7,853

	Capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Total
As at December 31, 2002	750	3,750	5,468	7,827	-	17,795
Net profit for the year	-	-	-	-	7,853	7,853
Net of pension fund	-	-	-	(148)	-	(148)
Foreign currency and gold revaluation	-	-	(12,040)	-	-	(12,040)
Security revaluation	-	-	270	-	-	270
Release of tangible fixed asset revaluation surplus	-	-	(28)	-	28	-
Increase of pension plan	-	-	-	20	-	20
Profit distribution	-	-	-	179	(7,881)	(7,702)
As at December 31, 2003	750	3,750	(6,330)	7,878	-	6,048
Net profit for the year	-	-	-	-	5,459	5,459
Foreign currency and gold revaluation	-	-	(8,333)	-	-	(8,333)
Securities revaluation	-	-	(133)	-	-	(133)
Release of tangible fixed asset revaluation surplus	-	-	(28)	-	28	-
Profit distribution	-	-	-	197	(5,487)	(5,290)
As at December 31, 2004	750	3,750	(14,824)	8,075	-	(2,249)

	Notes	Year ended december 31, 2004	Year ended december 31, 2003
Cash flows from operating activities			
Net profit for the year		5,459	7,853
Non-cash items in the statement of operation			
Increase in provision for doubtful loans		17	14
Depreciation and amortization		449	439
Discount amortization of securities available for sale		(4,643)	(6,543)
Interest income		(3,214)	(3,569)
Interests expense		1,405	1,416
Profit from sales of securities available for sale		(80)	(101)
Grant amortization (deferred income)		(79)	(70)
Adjustment for release of tangible fixed assets revaluation		28	28
Cash flow before the movement of working capital		(658)	(533)
Changes in operating assets			
Decrease in deposits with the IMF		1,248	1,794
Decrease in other foreign assets		27	55
Decrease in transit credits		107	6,939
Decrease in loans to domestic banks		-	3,405
Decrease in loans to the Government		-	1,150
Increase in other domestic assets		(107)	(39)
Decrease in due to the IMF		(1,530)	(1,669)
Decrease in due to financial institutions		(220)	(7,028)
Increase in due to domestic banks		4,292	2,093
(Decrease) increase in due to the Government		(162)	2,440
Increase in other domestic liabilities		169	60
Grant received		68	34
Cash flows generated from operations		3,892	9,234
Interest received		2,961	3,683
Interest paid		(1,408)	(1,440)
Net cash from operating activities		4,787	10,944
Cash flows from investing activities			
Purchase of fixed assets		(88)	(114)
Purchase of intangible assets		(168)	(35)
Purchase of foreign securities available for sale		(83,981)	(85,507)
Purchase of domestic securities available for sale		(182,577)	(201,809)
Sale and maturity of foreign securities available for sale		57,727	82,761
Sale and maturity of domestic securities available for sale		195,614	211,960
Increase of repurchase agreement		1,059	1,204
Adjustment for effect of foreign exchange		8,435	10,075
Net cash (used in) from investing activities		(3,979)	18,535

Cash flows from financing activities	Notes	Year ended december 31, 2004	Year ended december 31, 2003
Revaluation of other Reserves		(161)	114
Revaluation of foreign currency and gold		(8,333)	(12,039)
Deferred income		197	178
Increase (decrease) in money in circulation emissions		13,500	(4,000)
Profit distribution		(5,487)	(7,881)
Net cash used in financing activities		(284)	(23,628)
Increase in cash during the year		524	5,851
Cash and cash equivalents at the beginning of the year	24	21,926	16,075
Cash and cash equivalents at the end of the year	24	22,450	21,926

VI.1. GENERAL INFORMATION

The Bank of Albania (the "Bank") is the central bank of the Republic of Albania and was established according to the Law No. 8269, dated 23/12/1997 "On the Bank of Albania". Under the terms of its charter the Bank's main responsibilities are:

- establish and maintain price stability;
- supporting the development of a foreign exchange regime;
- management of money in circulation;
- management of interest rates;
- compilation, approbation and application of monetary policy of Republic of Albania;
- supervision of commercial bank activities including issuance of licenses to all banks; and
- issuing of licenses for international banking institutions operating within the Republic of Albania.

The Bank is subject to the regulatory requirements of the Parliament of the Republic of Albania and the "Law on the Bank of Albania".

VI.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of financial statements

The financial statements have been prepared in accordance with the Albanian Law "On Accounting" and in accordance with accounting policies adopted by the Supervisory Board of Bank of Albania. This accounting policy is broadly in line with International Financial Reporting Standards ("IFRS") approved by the International Accounting Standards Board ("IASB") with the exceptions related to IAS 16, IAS 21, IAS 19, IAS 26 and IAS 27. These standards and interpretations were previously called International Accounting Standards ("IAS"). According to the local regulations IFRS are used in the preparation of the accompanying financial statements to the extent they do not contradict to the Albanian Law "On Accounting" and other local rules.

The significant accounting policies used by the Bank in these financial statements are set out as below:

The financial statements presented include the accounts of the Bank prepared on the historical cost basis of accounting modified to include the revaluation of securities portfolio, foreign currency, gold, the head office building, and other financial assets and liabilities (available for sale). The accompanying financial statements are presented in the national currency of the Republic of Albania, the Albanian Leke ("LEK").

The Bank controls the operations of the Printing House, a business entity engaged in the printing of Government high security material and publications

of Bank of Albania. The Supervisory Board of the Bank of Albania at the meeting dated April 1, 2003 decided that the Printing House should be under the supervision of Bank of Albania as a separated part of the organizational structure of Bank of Albania. The financial operations of the Printing House have not been consolidated with those of the Bank, because of the inability of the Printing House to perform the revaluation of its assets and its buildings consistent with the revaluation of the Bank's assets and buildings.

The financial position of the Printing House as at December 31, 2004 is set out in note 25 to these financial statements.

(b) Deviation from International Financial Reporting Standards

The following is a summary of the most significant deviations from IFRS:

- IAS 16 "Property, Plant and Equipment"

The revaluation methodology adopted for the revaluation of the head office building as detailed in Note 10 was not in accordance with the revaluation requirements set out in IAS 16 on property, plant and equipment to the extent that the revaluation was not conducted by independent, professionally qualified appraisers, the future cash flows were not discounted and the entire category of buildings were not revalued.

- IAS 21 "The Effects of Changes in Foreign Exchange Rates"

The Law on the Bank of Albania requires the recognition of all the realized gain/loss from exchange rate revaluation in the balance sheet under the "Capital and Reserves" account and not as an income/expense for the period when revaluation occurred.

- IAS 19 "Employee Benefits" and IAS 26 "Accounting and Reporting by Retirement Benefit Plans".

Reporting and accounting of Pension Fund is not prepared in accordance with IAS 19 and IAS 26. Obligation due to Pension Fund is expressed as net value, but the calculation of this obligation is not in compliance with specifics of accounting standards to the extent that no actuarial estimation is performed.

- IAS 27 "Consolidated Financial Statement and Accounting for Investments in Subsidiaries"

The financial operations of the Printing House under the administration of the Bank have not been consolidated with those of the Bank, as it is explained above.

(c) Interest and Commission

In these financial statements, interest income and expense is recognized on the accrual basis. Interest income and expenses includes the amortization

of premium or discount on the securities, calculated based on the effective interest rate. Commission income is credited to income when received. Commission expense is debited to expense when paid.

(d) Foreign currency translation

Transactions denominated in foreign currency are translated into LEK at the Bank's official exchange rate on the date of the transaction.

Foreign currency monetary assets and liabilities are retranslated into LEK at the Bank's official exchange rate valid on the balance sheet date. Unrealized foreign exchange gains and losses are credited or charged to the revaluation reserve.

The applicable official Bank rate (LEK to the foreign currency unit) for the principal currencies as at December 31, 2004 and 2003 were as below:

	December 31, 2004	December 31, 2003
United States dollar (USD)	92.64	106.58
European Union currency unit (EUR)	126.35	134.32
British pound (GBP)	178.69	189.92
Special Drawing rights (SDR)	143.39	157.81
Gold ("Xau")	1 onz = 40,576.32	1 onz = 44,470.51

Revenues and expenses in foreign currency for the year are translated with the annual average exchange rate of the Bank as follows.

	2004	2003
United States dollar (USD)	94.58	108.69
European Union currency unit (EUR)	126.74	133.65
British pound (GBP)	182.47	190.25
Special Drawing rights (SDR)	145.58	159.37
Gold ("Xau")	1 onz = 41,867.86	1 onz = 44,356.73

(e) Investments

Securities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy. These are classified as follows:

- Held-to-maturity; and
- Available for sale

All investments are initially recognized at cost, being the fair value of the consideration given including acquisition costs associated with the investment.

Held-to-maturity

Investments held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity.

Held to maturity investments are recognized on a trade-date basis and are initially measured at cost. At subsequent reporting dates they are carried at amortized cost, less any impairment loss recognized to reflect irrecoverable amounts.

Available for sale

After initial recognition, investments, which are classified as “available for sale”, are remeasured at fair value. Such fair value adjustments are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of.

Fair values

For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same.

Impairment and uncollectability of financial assets

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

- For financial assets at amortized cost – the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the statement of profit and loss; and
- For financial assets at fair value – where a loss has been recognized directly in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognized in equity is transferred to the statement of profit and loss.

(f) Repurchase agreements and reverse repurchase agreements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are generally treated as collateralised financing transactions and are carried at the amounts of cash advanced or received, plus accrued interest. Repurchase agreements are recorded in the balance sheet item “Due to domestic banks”. Based on the Bank’s regulation on repurchase agreements, the Bank is not required to put up any collateral for these securities. Interest earned on reverse repurchase agreements and interest incurred on repurchase

agreements is recognized as interest income or interest expense, over the life of each agreement using the interest rate approved by the Supervisory Council.

(g) Fixed assets

The fixed assets are stated at historical cost less accumulated depreciation except the head office building, which was revalued as at March 29, 2000 (see Note 10). If the fair value of a fixed asset is lower than its carrying amount, due to circumstances not considered to be temporary, the fixed asset is written down to its fair value. Gains and losses on disposal (sell or out of use) of fixed assets are recognized in the profit and loss account in the year of disposal. Depreciation is provided on all fixed assets based on the historic cost. The annual charge for depreciation is computed using the straight-line method, using rates specified for each depreciable asset based on estimated useful lives. The estimated useful lives applied during 2004 are the same as year 2003:

	2004
Building – Head office	40 years
Buildings – At branches	25 years
Vehicles	5-10 years
Furniture, fixtures and equipment	3-20 years
Computer hardware	2 years

(h) Printing and minting costs

The costs of printing banknotes and minting coins are capitalized as intangible fixed assets and amortized over 2.5 years and 10 years, respectively.

(i) Taxation and profit allocation

The Bank is exempt from income tax according to the “Law on the Bank of Albania” and is required by law to pay 100% of its statutory profit directly to the State budget after allocations to replenish the levels of reserve funds as directed by the Supervisory Council of the Bank of Albania.

(j) Legal reserve

In accordance with the “Law on the Bank of Albania”, the Bank has established a legal reserve into which 25% of the net profit for the year is transferred until the reserve amounts to 500% of the capital.

(k) Use of estimates

The preparation of financial statements requires management to make 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 reported periods. Actual results could differ from those estimates.

(l) Managed assets

At as December 31, 2004, the Bank held as custodian short-term treasury, at nominal value LEK 298 billion. These are bills issued by the Ministry of Finance and gold and other precious metals on behalf of the Government, at market value of LEK 3,577. As the Bank acts as custodian for these assets it does not bear any credit risk related to them.

The value of gold held on behalf of the Government as at December 31, 2004 is as below:

	December 31, 2004 (in million LEK)	December 31, 2003 (in million LEK)
Gold standardized abroad	2,268	2,484
Gold not standardized in Albania	1,194	1,309
Other precious metals	115	119
Total	3,577	3,912

Interest received from the deposit of government gold reserves are recognized as income from interest due to Government, increasing the liability due to Government. For year 2004 the interest received is of 6 ounces. The difference of LEK 335 million is a result of the fluctuation of exchange rates. (Note 3)

These assets are excluded from the Bank's balance sheet.

(m) Grants

Grants are initially recorded in the balance sheet at the amount received. Grants related to expenditure items are released to income during the period of the related expenditure. Grants related to the purchase of property, equipment and software are released to income over the life of the relevant assets at an amount corresponding to the associated depreciation/amortization charge on that asset.

(n) Comparison

Certain comparatives figures have been reclassified to conform to current year presentation.

VI. 3. GOLD AND PRECIOUS METALS

As at December 31, 2004, the value of gold owned by the Bank placed in gold time deposits abroad was LEK 540 million (2003 - LEK 593 million), being 13,319 troy ounces of gold (2003 – 13,319 troy ounces).

Gold is valued at the London fixing rate on the balance sheet date. The difference of LEK 56 million (2003 – LEK 32 million) resulting from the revaluation of gold is recorded in the revaluation reserve. As at December 31, 2004, the price for one troy ounce of gold was USD 438 (2003 – USD 417.25).

Other gold and precious metals included within domestic assets includes platinum and silver in a domestic vault, valued at the London fixing rate on the balance sheet date, amounting to LEK 36 million as at December 31, 2004 (2003 – LEK 39 million) and LEK 4 million of non-international standard gold (2003 – LEK 4 million).

VI.4. DEPOSITS WITH THE INTERNATIONAL MONETARY FUND

	As at december 31, 2004	As at december 31, 2003
International Monetary Fund	7,476	8,407
Special Drawing Rights ("sdr")	9,306	9,623
Accrued interest	35	26
Total	16,817	18,056

Deposits with the IMF resulted from the membership of the Republic of Albania in the IMF, which is secured by a promissory note issued by the Government of Albania. The SDR holdings approximate the Republic of Albania's membership quota paid to the IMF in SDR and LEK. This represents the counterpart of loans, which were granted to the Republic of Albania as disclosed in Note 11. The SDR holdings bear interest, which is determined on weekly basis. The interest rate prevailing as at December 31, 2004 was 2.22% (2003 – 1.57%).

VI.5. DEPOSITS WITH FOREIGN BANKS

	As at december 31, 2004	As at december 31, 2003
Current accounts	11,109	8,753
Short-term deposits	379	1,797
Accrued interest	1	3
Total	11,489	10,553

Short-term deposits mature in January 2005 and earn interest of 2.06% (2003 – 0.93% to 3.63%). Deposits and current accounts with foreign banks are denominated in EUR, USD and GBP which equate to the following foreign currency balances:

	As at December 31, 2004	As at december 31, 2003
EUR	27	41
USD	85	44
GBP	1	2

VI.6. FOREIGN SECURITIES AVAILABLE FOR SALE

Foreign securities disclosed in market value are as follows:

	As at december 31, 2004	As at december 31, 2003
United States Government discounted notes	34,277	33,587
French Government treasury notes	41,450	32,612
Bank for International Settlements: medium-term investments	5,672	4,046
United States agencies discounted notes	4,625	7,567
French Government treasury bills	1,746	2,662
Fixed rate investments (FIX BIS)	16,680	6,401
Total	104,450	86,875

Foreign securities portfolio disclosed in nominal value and by currency are as follows:

	As at december 31, 2004	As at december 31, 2003
USD		
United States Government discounted notes	370	315
United States agencies discounted notes	50	71
BIS: medium-term investments	-	5
Fixed rate investments (FIX BIS)	61	5
Total	481	396
EURO		
French Government treasury notes	328	243
BIS: medium-term investments	20	26
Fixed rate investments (FIX BIS)	69	20
French Government treasury bills	14	20
Total	431	309
GBP		
Fixed rate investments (FIX BIS)	12	16
BIS: medium-term investments	18	-
Total	30	16

United States Government discounted notes are denominated in USD and have coupon rates varying between 1.125% and 5.75%. Interest is paid semi-annually and maturities vary between January 2005 and November 2009. The yields vary between 1.05% and 4.65% (2003 - 0.95% and 4.65%).

The French Government treasury notes are denominated in EUR with coupon rates varying between 2.25% and 7.5%. Interest is paid annually and maturities range between January 2005 and July 2009. The yields vary between 2.06% and 4.21% (2003 – 2.06% and 4.53%).

Bank of International Settlements – medium term investments comprise of fixed coupon securities denominated in EUR and GBP with coupon rates varying between 3.15% and 5.5%. Interest is payable annually for investments in EUR and semi-annually for investments in GBP, and maturities range between June 2005 and September 2009. The yields vary between 2.47% and 5.27% (2003 – 3.11% and 4.72%).

United States agencies discounted notes are denominated in USD with coupon rates varying between 1.875% and 3.875%. Interest is paid semi-annually and maturities range between January 2005 and February 2007. The yields vary between 1.14% and 2.44% (2003 – 1.14% and 4.71%).

The French Government treasury bills are denominated in EUR and mature on various dates between April 2005 and September 2005 with yields varying between 2.11% to 2.21% (2003 – 1.86% and 2.18%).

The Fixed rate investments (FIX BIS) issued by the Bank of International Settlements are denominated in USD, EUR and GBP with yields varying between 1.85% and 4.99% (2003 – 1.02% and 4.16%) and maturities ranging between January 2005 and December 2005.

VI.7. OTHER FOREIGN ASSETS

As at December 31, 2004, other foreign assets are comprised of cash on hand in foreign currency of LEK 11 million (2003 - LEK 13 million) and of quotations for participation of the Republic of Albania in International Institutions.

	As at december 31, 2004	As at december 31, 2003
Cash on hand in foreign currency	11	13
Other		
World Bank quotation	357	362
International Development Agency Quotation	35	36
Multilateral Investment Guarantees Agency Quotation	12	13
International Finance Corporation Quotation	68	78
European Bank for Reconstruction and Development Quotation	54	62
Islamic Development Bank Quotation	22	24
Total Other	548	575
Total	559	588

VI.8. TRANSIT CREDITS

The total of LEK 277 million (2003 – LEK 384 million) represent credits for services provided to the Italian-Albanian Bank for further distribution to ultimate borrowers to support state development programs (See Note 12). All loans are guaranteed by the Government of Albania.

VI.9. DOMESTIC SECURITIES

VI.9.1 SECURITIES AVAILABLE FOR SALE

	As at December 31, 2004	As at December 31, 2003
Short-term treasury bills	63,786	71,687
Total	63,786	71,687

Short-term treasury bills as at December 31, 2004 relate to Government of Albania zero-coupon treasury bills, with maturities 3 to 6 months, ranging between January 2005 and June 2005, with yields varying between 6.10% and 8.10% (2003 – 7.25% and 12.95%)

VI.9.2 INVESTMENTS HELD TO MATURITY

	As at December 31, 2004	As at December 31, 2003
Zero-coupon bond for capitalization of National Commercial Bank (NCB)	1,649	1,573
Total	1,649	1,573

Security for the capitalization of the NCB relates to a zero-coupon bond, which was issued by the Government of Albania to replace the Bank's participation in the capital of the NCB. The security bears interest of 6% per annum and matures in January 2006.

VI.10. OTHER DOMESTIC ASSETS

	As at December 31, 2004	As at December 31, 2003
Tangible fixed assets, net	1,427	1,449
Intangible assets, net	378	549
Loans to employees	613	477
Other debtors	44	84
Numismatic	63	50
Inventory	26	22
Other	2	4
Total	2,553	2,635

Loans to employees include a provision for legal claims of LEK 10 million at December 31, 2004 and LEK 14 million at December 31, 2003. Loans to employees are collateralised by security such as mortgages, totaling approximately LEK 626 million at December 31, 2004 and LEK 537 million at December 31, 2003. Net intangible assets are comprised of:

	As at december 31, 2004	As at december 31, 2003
Computer software	277	166
Banknotes printed and coins minted	2,454	2,397
Accumulated amortization	(2,353)	(2,014)
Total	378	549

The net book values of tangible fixed assets by category are comprised of:

In LEK mln	Land, buildings and general constructions	General equipment	Transport vehicles	Total property, plant and equipment
Cost/Valuation				
Balance at January 1, 2004	1,421	482	161	2,064
Additions	20	82	-	102
Disposals	(1)	(2)	-	(3)
Balance at December 31, 2004	1,440	562	161	2,163
Accumulated depreciation				
Balance at January 1, 2004	147	351	117	615
Charge for the year	35	62	13	110
Additions	-	13	-	13
Disposals	-	(2)	-	(2)
Balance at December 31, 2004	182	424	130	736
Net book value				
Balance at December 31, 2004	1,258	138	31	1,427
Balance at December 31, 2003	1,274	131	44	1,449

The head office building of the Bank, included within the category "Land, buildings and general constructions", was revalued during the year 2000 to LEK 1,143 million from a fully depreciated historic cost amount of LEK 7 million. The revaluation took place on March 29, 2000, effective January 1, 2000, and was conducted by an internal valuation committee. The basis of the valuation was not based on discounted future cash flows, but based on the potential market rental value of the property over an estimated useful life of 50 years. No other buildings owned by the Bank were revalued. The revaluation surplus of LEK 1,143 million was credited to the revaluation reserve and is amortized monthly in accordance with the respective amortization rate.

According to Albanian law, the legal title of the building where the Bank is located is unclear. Bank of Albania is in process to determine the status of the ownership for the fixed assets managed by the Bank.

VI.11. DUE TO THE INTERNATIONAL MONETARY FUND

	As at december 31, 2004	As at december 31, 2003
Enhanced Structural Adjustment Facility ("ESAF")	8,953	9,599
IMF securities account	5,148	6,032
IMF account in LEK	1,847	1,847
Total	15,948	17,478

ESAF borrowings related to the Republic of Albania's IMF quota and were drawn down on behalf of the Government for macroeconomic reforms. There are 3 component facilities:

The initial ESAF facility was drawing down in 1993, repayable over 10 years, which commenced in 1999. The outstanding balance as at December 31, 2004 was SDR 706,000 (2003 – SDR 4,377,000) (being the last payment of this facility payable in June 2005) and the facility bears interest at 0.5%, payable semi-annually.

An additional loan under this facility (known as Poverty Reduction and Growth Facility) approved by the agreement of May 13, 1998 totaling SDR 45,040,00, was drawn down during the period 1999 to 2001. The outstanding balance as at December 31, 2004 was SDR 41,728,200 (2003 - SDR 44,451,500). This facility is repayable by 2011 in 10 semi-annual installments commenced in 2004. Interest is payable, after the grace period, at 0.5% semi-annually.

The Poverty Reduction and Growth Facility 3 for Albania loan: This is a SDR 28,000,000 loan facility approved on June 21, 2002 which will be disbursed until June 20, 2005. The balance as of December 31, 2004 is SDR 20,000,000 (2003 - SDR 12,000,000) with an interest rate of 0.5% payable semi-annually. This facility is repayable after a grace period of five and a half years in 10 semi-annual equal installments.

VI.12. DUE TO NON-RESIDENT FINANCIAL INSTITUTIONS

	As at december 31, 2004	As at december 31, 2003
Transit credits (Note 8)	277	384
Loan from the Bank of Greece	1,112	1,183
Due to the World Bank	133	175
Accrued interest	5	5
Total	1,527	1,747

The loan for development of LEK 277 million consists of USD 1 million and of EURO 1.4 million (note 8) by European Investment Bank. Interest is paid by the recipients of these transit credits (banks and domestic companies) directly to the providers of the funds. The loan from the Bank of Greece (Hellenic Republic borrowing of EURO 8.8 million) was granted for the purpose of funding the balance of payments of the Republic of Albania. The interest rate is 1.17% per annum, payable semi-annually. The loan matures in 2018. Due to World Bank represents the accounts of the international organizations such as IBRD, IDA and MIGA in the Bank of Albania.

VI.13. CURRENCY IN CIRCULATION

The exclusive rights of national currency issue are vested with the Bank. This item comprises valid domestic banknotes and coins in circulation issued by the Bank. The following bank notes and coins were in circulation as at December 31, 2004:

Nominal value LEK	December 31, 2004		December 31, 2003	
	Number in thousand	Total LEK (mln)	Number in thousand	Total LEK (mln)
100	15,515	1,552	18,441	1,844
200	15,307	3,061	18,596	3,719
500	69,623	34,812	62,049	31,025
1,000	64,720	64,720	60,563	60,563
5,000	7,232	36,162	5,875	29,375
Coins		1,323		1,248
		141,630		127,774

VI.14. DUE TO DOMESTIC BANKS

	As at december 31, 2004	As at december 31, 2003
Foreign currency		
Compulsory reserve	10,826	9,140
Accounts of second level banks	65	51
Deposits taken as guarantee	104	-
	10,995	9,191
Domestic currency (LEK)		
Compulsory reserve	24,655	22,236
Accounts of second level banks	529	663
Repurchase agreements	2,263	1,204
Overnight deposits	855	652
	28,302	24,755
Accrued interest	21	24
Total	39,318	33,970

Interest on compulsory reserves is calculated as follows:

- LEK balances: 70% of the yield on the repurchase agreements: 3.675 % as at December 31, 2004 (70% of the yield on the repurchase agreements: 4.9 % as at December 31, 2003);
- USD balances: 70% of the one-month USD LIBOR rate: 1.69 % as at December 31, 2004 (70% of the one-month USD LIBOR rate: 0.8% as at December 31, 2003);
- EUR balances: 70% of the one-month EUR LIBOR rate: 1.52% as at December 31, 2004 (70% of the one-month EUR LIBOR rate: 1.49% as at December 31, 2003).

The Bank does not pay interest on correspondent accounts and demand deposits. The deposit taken as a guarantee is deposited by Dardania Bank (USD 1.1 million) as a guarantee for the protection of the customers in accordance with the Bank's order no. 4045 dated July 30, 2004. For this deposit the interest is calculated in accordance with the rates for the repurchase agreements at Federal Reserve Bank. Overnight deposits from domestic banks attract interest of 2.5% (2003 - 3.5%).

VI.15. DUE TO THE GOVERNMENT

	As at december 31, 2004	As at december 31, 2003
Profit distributable to the Government	400	200
Deposits received on behalf of the Government	4,880	5,230
Other	22	34
Total	5,302	5,464

The profit distributable to the Government relates to the remaining part of the profit not yet distributed to the Government at the year-end based on the decision of the Supervisory Board no. 16 dated on February 23, 2005.

Deposits received on behalf of the Government includes the main account of LEK 3,181 million and international donor funds deposited at the Bank for subsequent transfer to aid projects in Albania, of LEK 1,699 million.

"Other" includes funds received by the Bank of LEK 22 million (2003 – LEK 24 million) from a loan granted to the Government by the Islamic Arabian Bank of Development.

VI.16. DEFERRED INCOME

	As at december 31, 2004	As at december 31, 2003
World Bank grant	225	157
World Bank grant amortization	(155)	(76)
Other	36	36
Total	106	117

The World Bank grant relates to a grant received by the Bank during the years 2002-2004 for the purchase of computer software and equipment for the implementation of the ATM project (Accounting and Treasury Management) totaling LEK 157 million and for the RTGS project (Real time Gross Settlement System) of LEK 68 million. "Other" includes the value related to the two buildings donated by the Savings Bank in the city of Korca and Berat.

VI.17. OTHER DOMESTIC LIABILITIES

	As at december 31, 2004	As at december 31, 2003
Due to Printing House (note 25)	217	176
Deposits of individuals from the participation in Treasury Bills	272	177
Net obligation/ Pension fund	1	1
Other	88	35
Total	578	389

Pension plan scheme consists of employee contribution of 2% of gross salary and employer contribution of 15% on the total payroll amount.

Net obligation/ pension plan as at December 31, 2004 and 2003 are as follow:

	As at december 31, 2004	As at december 31, 2003
Obligation value of 2% of contribution	15	12
Results of 2% contribution invested	3	1
Real value of the treasury bill portfolio	(17)	(12)
Net obligation of 2% contribution	1	1

	As at december 31, 2004	As at december 31, 2003
Obligation value of 15% of contribution	161	137
Results of 15% contribution invested	56	28
Real value of the treasury bill portfolio	(217)	(165)
Net obligation of 15% contribution	-	-

"Other" includes accrued expenses of LEK 49 million (2003 – LEK 7 million) related to maintenance of ATM system, repair and maintenance of sorting machines, Rojter services, statistics information, etc. The Bank is currently under claims for several legal litigations raised in the normal course of business. A net provision of LEK 20 million has been recognized in relation to these claims for the year ended December 31, 2004 included in the other operating income (2003 – nil).

VI.18. REVALUATION RESERVE

The components of the revaluation reserve are as follows:

	As at december 31, 2004	As at december 31, 2003
Revaluation of foreign currency and gold balances	(16,005)	(7,672)
Reserve of security revaluation	137	270
Revaluation of historic notes and coins	32	32
Revaluation of Head Office building (Note 10)	1,012	1,040
Total	(14,824)	(6,330)

During year 2004, the revaluation reserve negative balance for foreign currency and gold balances has increased by LEK 8,333 million (2003 - LEK 12,040 million) due to a further revaluation of currencies during the year. In accordance with the law "On the Bank of Albania" article 64/b, and law no.93339 dated December 21, 2004 "On the State Budget for 2005", the Ministry of Finance issued securities by a total of LEK 7,672 million to cover the negative balance of the revaluation reserve created during year 2003. These securities were issued on February 1, 2005, with a maturity of six months renewable and an interest rate of 7.10%.

VI.19. OTHER RESERVES

The components of the other reserves are as follows:

	As at december 31, 2004	As at december 31, 2003
Special reserve for Balance of Payments	7,209	7,209
Investment fund	301	301
Other	565	368
Total	8,075	7,878

The special reserve relates to funds provided by the European Community as a financial assistance to support Albania on its transition towards the market economy. These grants have been transferred during the period 1992 – 1993 supporting the long-standing of the Balance of Payment and reserves balance and no movement have been incurred in this reserve since 1995. Investment fund consists of a fund created with decision of Supervisory Council with aim purchase of a new building for the Bank of Albania. "Other" includes reserves created from the allocation of profits for years 2002 - 2004 based on the Supervisory Council decisions on the respective following years. A further allocation of LEK 197 million was made from the profit of year 2004.

VI.20. INTEREST AND COMMISSION INCOME (NON-RESIDENTS)

	Year ended december 31, 2004	Year ended december 31, 2003
Interest income from securities	2,739	3,234
Interest income from time deposits	253	103
Interest from SDR and IMF	177	163
Other	40	15
Total	3,209	3,515

VI.21. INTEREST AND COMMISSION INCOME (RESIDENTS)

	Year ended december 31, 2004	Year ended december 31, 2003
Interest income from Government loans	65	54
Interest income from securities	5,172	7,484
Other	34	29
Total	5,271	7,567

VI.22. OTHER OPERATING INCOME, NET

	Year ended december 31, 2004	Year ended december 31, 2003
Net profit from the sale of investments	80	246
Income from social aid	79	70
Other	2	20
Provision for legal claims and other (note 17)	(17)	(14)
Total	144	322

VI.23. PERSONNEL EXPENSES

Personnel expenses consist of employees' salaries, social insurance, pension plan contribution and other costs.

Social costs represent mainly compulsory contributions to the Social Security Fund. As at December 31, 2004, the Bank had 323 employees (2003 – 304 employees).

VI.24. CASH AND CASH EQUIVALENTS

	As at december 31, 2004	As at december 31, 2003
Deposits with foreign banks (note 5)	11,489	10,551
Domestic currency on hand	10,370	10,726
Foreign currency on hand (note 7)	11	13
Gold held abroad (note 3)	540	593
Gold and other precious metals held domestically (note 3)	40	43
Total	22,450	21,926

VI.25. PRINTING HOUSE

As detailed in Note 2(b), the Bank controls the operations of the Printing House. The financial position of the Printing House as at December 31, 2004 and 2003 is as follows:

	As at december 31, 2004	As at december 31, 2003
ASSETS		
Tangible fixed assets	23	30
Inventory	60	41
Trade accounts receivable	1	10
Amount due from the Bank (see note 17)	217	176
Total assets	301	257
EQUITY AND LIABILITIES		
Capital	52	52
Legal reserve	19	19
Investment reserves	24	24
Other reserves	6	6
Retained earnings	159	156
Total capital and reserves	260	257
Other liabilities	41	-
Total equity and liabilities	301	257

	As at december 31, 2004	As at december 31, 2003
Income	117	148
Expenses	(114)	(127)
Profit of the year	3	21

VI.26. CONTINGENCIES AND COMMITMENTS

On November 10, 2004, Bank of Albania issued a guarantee in favor of Raiffeisen Bank sh.a, declaring the commitment of the Bank to guarantee the amount of LEK 29 milliard in Treasury Bills of the Albanian Government in the Raiffeisen Bank portfolio. The price of this guarantee is 0.2 për qind on annual bases, with three months payments. This guarantee matures in November 5, 2005.

VI.27. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and other decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The only related parties of Bank of Albania are the relations with directors and the members of the Supervisory Council. As at 31 December 2004 and 31 December 2003, transactions made with related parties comprised:

	As at december 31, 2004	As at december 31, 2003
Other domestic Loans		
Loans to employee		
- Directors	46	40
Total assets	46	40

	Year ended december 31, 2004	Year ended december 31, 2003
Administrative expenses		
Mobile expenses		
- Directors	3	2
Salaries and Bonuses		
Directors	42	40
Total of administrative expenses	45	42

VI. 28. RISK MANAGEMENT

The reserve is under the administration of the Bank of Albania and its inventory is performed by the Monetary Operations Department, which is based on the regulation "About the policy of administrating the reserves", approved by the Supervisory Board. The reserve, in accordance with the liquidity needs, is invested in short-term securities and in fixed coupon instruments

Liquidity risk

Policies to monitor and address liquidity risk are set by the Supervisory Board of the Bank. The Monetary Operations department of the Bank monitors the liquidity risk on a continual basis by analyzing liquidity ratios, gaps and economic scenarios.

Liquidity management policies are set to ensure that, even under adverse conditions, the Bank is in a position to meet its obligations.

Credit risk

The Monetary Operations department of the Bank, under the control of the Supervisory Board, is responsible for assessing the credit risk associated with the Bank's operations. The credit risk is mitigated by the Bank transacting largely with international and governmental institutions. Loans to domestic banks are secured by Government of Albania treasury bills.

Price risk

The key elements of price risk affecting the Bank are:

- currency risk associated with fluctuations in the value of financial instruments due to changes in foreign exchange rates; and
- interest rate risk associated with fluctuations in the value of financial instruments due to changes in market interest rates.

The Bank's exposure to currency risk is monitored on a continual basis by the Monetary Operations department. Financial assets denominated in foreign currencies are disclosed in each relevant note to the financial statements.

The Monetary Operations department of the Bank monitors interest rate risk. The Bank mitigates such risks by maintaining a significant excess of interest bearing assets over liabilities (as detailed in Note 28 below). The Bank maintains a portfolio of interest bearing financial assets and liabilities such that the generated net interest income is significantly in excess of operating requirements, which minimizes the potential adverse effects of interest rate fluctuations. Interest rates applicable to financial assets and liabilities are disclosed in each relevant note to the financial statements.

VI.28. INTEREST RATE SENSITIVITY

	Up to One month	One to three months	Three to six months	Six to twelve months	One to five years	Over five years	Non- interest sensitive	Total
Assets								
Gold and precious metals	-	-	-	-	-	-	540	540
Deposits with the IMF	-	9,341	-	-	-	-	7,476	16,817
Deposits with foreign banks	11,489	-	-	-	-	-	-	11,489
Foreign securities available for sale	7,850	4,110	13,569	14,710	64,211	-	-	104,450
Other foreign assets	-	-	-	-	-	-	559	559
Other gold & precious metals	-	-	-	-	-	-	40	40
Transit credits	-	-	-	-	-	-	277	277
Securities available for sale	21,879	25,034	16,873	-	-	-	-	63,786
Investments held to maturity	-	-	-	1,649	-	-	-	1,649
Other domestic assets	-	-	-	-	-	613	1,940	2,553
	41,218	38,485	30,442	16,359	64,211	613	10,832	202,160
Liabilities and equity								
Due to the IMF	-	-	407	477	6,203	1,866	6,995	15,948
Due to non-resident financial institutions	-	-	-	5	-	1,112	410	1,527
Currency in circulation	-	-	-	-	-	-	141,630	141,630
Due to domestic banks	38,724	-	-	-	-	-	594	39,318
Due to the Government	-	-	-	-	-	-	5,302	5,302
Deferred income	-	-	-	-	-	-	106	106
Other domestic liabilities	-	6	-	-	-	-	572	578
Capital and reserves	-	-	-	-	-	-	(2,249)	(2,249)
	38,724	6	407	482	6,203	2,978	153,360	202,160
Balance sheet gap as at December 31, 2004	2,494	38,479	30,035	15,877	58,008	(2,365)	(142,528)	-
Cumulative interest rate sensitivity gap - 2004	2,494	40,973	71,008	86,885	144,893	142,528	-	-

VI.28. INTEREST RATE SENSITIVITY (CONTINUED)

	Up to one month	One to Three months	Three to Six months	Six to Twelve months	One to Five years	Over Five years	Non-interest sensitive	Total
Assets								
Gold and precious metals	-	-	-	-	-	-	-	593
Deposits with the IMF	-	-	-	-	9,649	-	8,407	18,056
Deposits with foreign banks	10,553	-	-	-	-	-	-	10,553
Foreign securities available for sale	5,351	6,920	7,655	17,593	49,356	-	-	86,875
Other foreign assets	-	-	-	-	-	-	588	588
Other gold & precious metals	-	-	-	-	-	-	43	43
Transit credits	-	-	-	-	-	-	384	384
Securities available for sale	22,078	30,820	18,789	-	-	-	-	71,687
Held to maturity securities	-	-	-	-	1,573	-	-	1,573
Other domestic assets	-	-	-	84	-	491	2,060	2,635
	37,982	37,740	26,444	17,677	60,578	491	11,482	192,987
Liabilities and equity								
Due to the IMF	-	-	449	560	6,545	2,045	7,879	17,478
Due to non-resident financial institutions	-	-	-	5	-	1,183	559	1,747
Currency in circulation	-	-	-	-	-	-	127,774	127,774
Due to domestic banks	33,256	-	-	-	-	-	714	33,970
Due to the Government	-	-	-	-	-	-	5,464	5,464
Deferred income	-	-	-	-	-	-	117	117
Other domestic liabilities	-	-	-	-	-	-	389	389
Capital and Reserves	-	-	-	-	-	-	6,048	6,048
	33,256	-	449	565	6,545	3,228	148,944	192,987
Balance sheet gap as at December 31, 2003	4,726	47,389	25,995	17,112	44,384	(2,737)	(136,869)	-
Cumulative interest rate sensitivity gap - 2003	4,726	52,115	78,110	95,222	139,606	136,869	-	-

VI.29. CURRENCY NET POSITION

	LEK	USD	EUR	GBP	Other	Total
Assets						
Gold and precious metals	-	-	-	-	540	540
Deposits with International Monetary Fund	6,995	-	-	-	9,822	16,817
Deposits with foreign banks	-	7,893	3,406	190	-	11,489
Securities available for sale	-	44,570	54,481	5,399	-	104,450
Other foreign assets	361	191	7	-	-	559
Gold and other precious metals	40	-	-	-	-	40
Transit credits	-	95	182	-	-	277
Securities available for sale	63,786	-	-	-	-	63,786
Investments held to maturity	1,649	-	-	-	-	1,649
Other domestic assets	2,510	1	42	-	-	2,553
Total assets	75,341	52,750	58,118	5,589	10,362	202,160
Liabilities						
Due to the International Monetary Fund	6,995	-	-	-	8,953	15,948
Due to non-resident financial institutions	132	95	1,300	-	-	1,527
Currency in circulation	141,630	-	-	-	-	141,630
Due to domestic banks	28,319	5,204	5,795	-	-	39,318
Due to the Government	4,062	305	934	1	-	5,302
Deferred income	106	-	-	-	-	106
Other domestic liabilities	537	16	23	2	-	578
Total Liabilities, capital and reserves	181,781	5,620	8,052	3	8,953	204,409
Net currency position as at December 31, 2004	(106,440)	47,130	50,066	5,586	1,409	(2,249)
Net currency position as at December 31, 2003	(81,139)	41,891	40,524	3,602	1,171	6,048

