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Independent Auditors' Report

To the Supervisory Council of Bank of Albania

Opinion

We have audited the financial statements of Bank of Albania ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and with Institute of Authorized Chartered Auditors of Albania Code of Ethics (IEKA Code), together with the ethical requirements of the Law No. 10091, dated 5 March 2009 "On the statutory audit and the organization of the statutory auditors and chartered accountants professions", amended, that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and IEKA Code.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report prepared by management and approved by the Supervisory Council in accordance with Article 69, paragraphs 1 to 3 of the Law. No. 8269, dated 23 December 1997 "On Bank of Albania", amended, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tzvetelinka Koleva Statutory Auditor KPMG Albania Shpk "Deshmoret e Kombit" Blvd. Twin Towers Building I, floor 13 Tirana, Albania	*Maria Peneva* Partner KPMG Bulgaria OOD 45A Bulgaria Boulevard 1404 Sofia, Bulgaria

Tirana, 29 March 2017

INDEPENDENT AUDITORS' REPORT

STATEMENT OF FINANCIAL POSITION

In ALL million	Note	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	8	105,490	93,477
Trading assets	12	16,183	15,870
Monetary gold	9	7,516	6,762
Accounts with the International Monetary Fund	10	43,683	34,403
Loans to banks	11	29,934	12,987
Available-for-sale investment securities	13	298,930	307,939
Property, equipment and intangible assets	14	20,604	20,855
Other assets	15	2,316	2,259
Total assets		524,656	494,552
LIABILITIES			
Currency in circulation	16	258,821	239,191
Trading liabilities	12	2	16
Due to banks	17	152,352	142,967
Deposits and borrowings from third parties	18	3,310	3,361
Due to Government and state institutions	19	19,892	27,451
Due to the International Monetary Fund	10	28,078	18,711
Other liabilities	20	1,263	567
Total liabilities		463,718	432,264
CAPITAL AND RESERVES			
Capital		2,500	2,500
Reserves	21	58,438	59,788
Total capital and reserves		60,938	62,288
Total liabilities, capital and reserves		524,656	494,552

The notes on pages 121 to 159 are an integral part of these financial statements.

The financial statements were authorized for issuance by the Supervisory Council of the Bank of Albania and signed on 29 March 2017 on its behalf by:

Gent Sejko

Governor

Anjeza Beja (Harizaj)

Head of Payment Systems and Accounting and Finance Department

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In ALL million	Note	2016	2015
Interest income	22	2,494	3,613
Interest expense	22	(737)	(644)
Net interest income		1,757	2,969
Fee and commission income		69	66
Fee and commission expense		(56)	(56)
Net income from fees and commissions		13	10
Net trading income	23	1,036	503
Other revenue	24	480	809
Net gain/(loss) from changes in the fair value of monetary gold	9	754	(231)
Net foreign exchange (losses)/gains	21	(1,720)	4,569
Total revenue		2,320	8,629
Employee benefit expenses	25	(1,238)	(1,053)
Depreciation and amortization	14	(488)	(562)
Other general and administrative expenses		(652)	(781)
Net (loss)/profit		(58)	6,233
Other comprehensive income:			
Items that are or may be reclassified to profit or loss			
Fair value reserve (available-for-sale financial assets)	21	(464)	(310)
Other comprehensive loss for the year		(464)	(310)
Total comprehensive (loss)/income for the year		(522)	5,923

The notes on pages 121 to 159 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

In ALL million	Capital	Legal reserve	Revaluation reserve	Fair value reserve	Other reserves	Transition reserve	Retained earnings	Total
Balance at 1 January 2015	2,500	12,500	19,868	1,305	15,748	5,539	-	57,460
Total comprehensive income								
Net profit	-	-	-	-	-	-	6,233	6,233
Other comprehensive income								
Fair value reserve (available-for-sale financial assets)	-	-	-	(310)	-	-	-	(310)
Total other comprehensive income	-	-	-	(310)	-	-	-	(310)
Total comprehensive income	-	-	-	(310)	-	-	6,233	5,923
Contributions and distributions								
Distribution of profit to Government of Albania	-	-	-	-	-	-	(1,095)	(1,095)
Total contributions and distributions	-	-	-	-	-	-	(1,095)	(1,095)
Transfers to reserves	-	-	4,338	-	800	-	(5,138)	-
Balance at 31 December 2015	2,500	12,500	24,206	995	16,548	5,539	-	62,288
Total comprehensive income								
Net loss	-	-	-	-	-	-	(58)	(58)
Other comprehensive income								
Fair value reserve (available-for-sale financial assets)	-	-	-	(464)	-	-	-	(464)
Total other comprehensive loss	-	-	-	(464)	-	-	-	(464)
Total comprehensive loss	-	-	-	(464)	-	-	(58)	(522)
Contributions and distributions								
Distribution of profit to Government of Albania	-	-	-	-	-	-	(908)	(908)
Total contributions and distributions	-	-	-	-	-	-	(908)	(908)
Transfers to reserves	-	-	(966)	-	-	80	966	80
Balance at 31 December 2016	2,500	12,500	23,240	531	16,548	5,619	-	60,938

The notes on pages 121 to 159 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

In ALL million	Note	2016	2015
Cash flows from operating activities			
Net (loss)/profit		(58)	6,233
Adjustments for:			
Depreciation and amortization	14	488	562
Net interest income	22	(1,757)	(2,969)
Net trading income	23	(1,036)	(503)
Profit from sale of available-for-sale investment securities	24	(470)	(751)
Net (gain)/loss from changes in the fair value of monetary gold	9	(754	231
Provisions	20	83	46
		(3,504)	2,849
Changes in:			
Held-for-trading assets		709	(978)
Accounts with the International Monetary Fund		(9,280)	(12,611)
Loans to banks		(16,947)	12,561
Other assets		(57)	286
Currency in circulation		19,630	12,787
Due to banks		9,385	36,656
Deposits and borrowings from third parties		(51)	975
Due to Government and state institutions		(7,372)	9,755
Due to the International Monetary Fund		9,367	779
Other liabilities		613	(441)
		2,493	62,618
Interest received		2,650	3,189
Interest paid		(737)	(646)
Net cash generated from operating activities		4,406	65,161
Cash flows from investing activities			
Acquisition of investment securities		(274,117)	(346,420)
Proceeds from sale of investment securities		282,983	345,715
Acquisition of property, equipment and intangible assets		(164)	(257)
Net cash generated from/(used in) investing activities		8,702	(962)
Cash flows from financing activities			
Profit distributed to Government		(1,095)	(951)
Net cash used in financing activities		(1,095)	(951)
Increase in cash and cash equivalents		12,013	63,248
Cash and cash equivalents at the beginning of the year		93,477	30,229
Cash and cash equivalents at the end of the year	8	105,490	93,477

The notes on pages 121 to 159 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

(amounts in ALL million, unless otherwise stated)

1. GENERAL

The Bank of Albania (the 'Bank') is the central bank of the Republic of Albania established pursuant to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania', amended.

Under the terms of its charter, the Bank's main responsibilities include:

- formulating, adopting and executing the monetary policy of Albania, which shall be consistent with its primary objective;
- formulating, adopting and executing the foreign exchange arrangement and the exchange rate policy of Albania;
- issuing or revoking licenses and supervising banks that engage in the banking business in order to secure the stability of the banking system;
- holding and managing its official foreign reserves;
- acting as banker and adviser to, and as fiscal agent of, the Government of the Republic of Albania; and
- promoting an effective operation of payment systems.

The Bank is subject to the regulatory requirements of the Assembly of the Republic of Albania and the Law 'On the Bank of Albania'.

2. BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS').

3. BASIS OF MEASUREMENT

These financial statements have been prepared on a historical cost basis except for the following items:

Items	Basis of measurement
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Available-for-sale financial assets	Fair value

4. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Albanian Lek ('Lek'), which is the Bank's functional currency. All amounts have been rounded to the nearest million, except when otherwise indicated.

5. USE OF ESTIMATES AND JUDGMENTS

When preparing the financial statements in conformity with IFRSs, the Bank makes judgments, estimates and assumptions that affect the reported amounts of assets and liabilities for the following financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under certain circumstances.

These disclosures supplement the commentary on financial instruments (see note 7).

(a) Judgments

Information about critical judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 17 Currency in circulation: The Bank has classified cash in circulation as a financial liability; and
- Note 9 Monetary gold: The Bank has valued monetary gold at fair value. Changes in the fair value are recognized in profit or loss.

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year is set out below in relation to the impairment of financial instruments and determination of the fair value of financial instruments.

(i) Impairment of financial instruments

Assets accounted for at amortized cost and available-for-sale assets are evaluated for impairment on a basis described in the accounting policy 6.a.(vii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and an estimate of cash flows considered recoverable is independently approved.

(ii) Determining fair values

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Measurement of fair values

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank recognises transfers between levels of the fair value hierarchy at end of the reporting period, during which the change has occurred.

For more information on the determination of the fair value of financial instruments see Note 7.e. Financial instruments: risk management and fair values.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Bank classifies its financial assets into one of the following categories:

- available-for-sale;
- loans and receivables; and
- at fair value through profit or loss.

See c., d., e., f., and g.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost. See b. and h.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On the derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income ('OCI') is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortised cost measurement

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

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period, during which the change has occurred.

(vii) Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired.

A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- indications that a borrower or issuer will enter bankruptcy;
- disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investments. Interest on the impaired assets continues to be recognized through the unwinding of the discount. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognized through OCI.

The Bank writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when it determines that there is no realistic prospect of recovery.

(viii) Securities lending agreements

Investments lent under securities lending agreements are reported in the statement of financial position and are valued in accordance with the accounting policies applicable to assets held for trading and assets available-for-sale. Investments lent under securities lending agreements continue to be recognised in the Bank's statement of financial position. The Bank receives cash or securities collateral for such lending. Income arising from the securities lending agreements is reported as interest income.

(b) Currency in circulation

Currency in circulation includes banknotes and coins in circulation and is presented under liabilities by deducting the nominal value of the banknotes and coins on hand from the nominal value of all the banknotes and coins issued.

(c) Cash and cash equivalent

Cash and cash equivalents include notes and coins on hand in foreign currency and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(d) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified after their initial recognition.

General information on the derivative instruments, which comprise future and forward contracts, is disclosed in Note 7 (d).

(e) Available-for-sale investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs.

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise debt securities. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognized in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss (see a.(vii)).

Other fair value changes, other than impairment losses (see a.(vii)), are recognized in OCI and presented in the revaluation (fair value) reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

(f) Loans and receivables

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances to banks and loans to employees are classified as loans and receivables.

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

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Bank's financial statements.

(g) Monetary gold

Monetary gold is valued at its fair value being the market value based on the official London Bullion Market price at the reporting date. Changes in the fair value are recognized in profit or loss and then transferred from retained earnings to the revaluation reserve in accordance to Article 64 (a) of the Law 'On the Bank of Albania'.

(h) Deposits and borrowings

Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(i) Printing and minting costs

Freshly printed banknotes and coins, which have not yet been put into circulation, are recognized as assets at acquisition cost. The costs of printing banknotes and minting coins are deferred and amortized over 5 years and 10 years (2015: 2.5 years and 10 years), from the date of recognition, respectively. The effect of the increase in amortization period on profit or loss in current and future years is as follows:

In ALL million	2016	2017	2018	2019
Decrease/(increase) in depreciation expense	61	(28)	(25)	(8)

(j) Intangible assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are comprised of computer software.

Intangible assets acquired by the Bank are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of a software is two years. Work in progress is not amortized.

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

(ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land, work in progress, and numismatic coins and objects are not depreciated.

The estimated useful lives are as follows:

•	Buildings	40 - 70 years
•	Installations	4 – 20 years
•	Vehicles	5 - 10 years
•	Furniture and equipment	3 - 20 years

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

(l) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and other comprehensive income ('OCI') include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on available-for-sale investment securities calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (see accounting policy (o)).

(m) Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, fund transfer fees, placement fees and credit registry fees are recognised as the related services are performed.

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

(n) Transactions in foreign currency

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date that the fair value determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in profit or loss.

According to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania' and the Decision No. 104 dated 27 December 2006 of the Supervisory Council, the net gains/(losses) from foreign exchange that are initially recognised in profit or loss in the period in which they arise, are then transferred from retained earnings to the 'Revaluation reserves' included in Capital and Reserves. According to Article 64 (b), the Government of Albania issues debt securities at market interest rates to cover any negative balance of the revaluation reserve arising from the Bank's activity.

(o) Net trading income

Net trading income comprises gains and losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

(p) Income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at fair value through profit or loss relates to financial assets designated at fair value through profit or loss. It includes all realised and unrealised fair value changes and foreign exchange differences.

(q) Taxation and profit distribution policy of the Bank

Based on the law 'On the Bank of Albania' the Bank is not subject to income tax.

The Bank's policy of distribution of profit from banking operations is defined in the Law 'On the Bank of Albania'. According to Article 10.2 of this Law, the Bank allocates all the realised profit to the State Budget after having fulfilled its requirement for the reserve fund pursuant to the Law and as determined by the Supervisory Council of the Bank.

According to Article 11 of the Law 'On the Bank of Albania', no transfer, redemption or payment under Articles 8, 9 or 10 of this Law shall be made if the assets of the Bank are less than the sum of its liabilities and paid-up capital. If such conditions arise, based on the Law 'On the Bank of Albania' under Article 7, the Ministry of Finance might have to transfer interest bearing negotiable government securities to the Bank, in such amount as would be necessary to remedy the deficiency.

(r) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Defined contribution plans include voluntary and compulsory contribution plans.

The Bank makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

(ii) Termination benefits

Termination benefits are recognized as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(s) Operating leases

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

(t) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the highest of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(u) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Bank has not early adopted the following standards, amendments to standards and interpretations in preparing these financial statements. The new standards listed below are those that could have an impact on the Bank's performance, financial position or disclosures.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

During the year 2017, the Bank will draw up an action plan and start assessing the business models that will be compatible with the Bank's business strategy. The Bank will assess its financial assets in order to determine whether the Solely Payments of Principal and Interest (SPPI) criterion is met. As a result, the Bank will evaluate the possible impact on its policies and whether new classification processes will be required to be applied for the classification of financial assets from 1 January 2018.

The Bank intends to quantify the potential impact of IFRS 9 on the Bank`s financial position when preparing the financial statements for the year ending 31 December 2017.

The following new or amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements:

- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12);
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- Transfers of Investment Property (Amendments to IAS 40)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 12 Disclosure of Interest in Other Entities and IAS 28 Investments in Associates and Joint Ventures).

7. FINANCIAL INSTRUMENTS: RISK MANAGEMENT AND FAIR VALUES

(a) Risk management framework

The financial instruments of the Bank are mainly used for the purposes of the foreign reserve management. The significance of risk is assessed within the context of the foreign reserve management. The Bank has exposure to the liquidity risk, credit risk, market risk and operational risk from financial instruments and manages such risks in the framework of the foreign reserve management.

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

Pursuant to the legal requirements, the Bank holds and manages the foreign reserves of the Republic of Albania. The Supervisory Council has the overall responsibility for the establishment of the risk management framework and reserve management policies. The Supervisory Council has approved the regulation 'On the functions of the management structure in the decision-making process of the management of the reserves'. This regulation defines the responsibilities of the management, the Supervisory Council, the Investment Committee, and the Monetary Operations Department, in managing the foreign reserves. The Supervisory Council is responsible for approving the regulation 'On the policy and management of the foreign reserve t', whilst the Investment Committee is responsible for approving the 'Operational Procedure of Investment' document. The regulation 'On the policy and management of the foreign reserve' defines the objectives of the portfolio management ranked by priority, and the principles and qualitative criteria used as the basis of the financial risk management. The Investment Committee approves the quantitative criteria based on the limits set forth by the Supervisory Council and monitors the compliance with the restrictions for permitted level of risk and foreign reserve investment portfolio performance.

In accordance with the decisions of the Supervisory Council on the eligible instruments, the reserve is invested in fixed or floating income securities, in deposits or certificates of deposit, and in derivative instruments. The remaining foreign reserves are held in SDR and in monetary gold. Monetary gold is managed in accordance with the regulation 'On the policy and the management of gold', approved by the Supervisory Council. Following the review of the accounting policy for monetary gold (see notes 5(a) and 6(g)) in 2016, the Bank concluded that monetary gold is not a financial instrument.

(b) Liquidity risk

Liquidity risk is the risk that: a) the Bank will encounter difficulty in meeting obligations associated with its financial liabilities in due time; and b) the Bank will not be able to sell a financial instrument within a specific time frame without causing significant loss compared to the market value. Liquidity is amongst the primary objectives of the foreign reserve management and is defined as the goal to insure the availability at all times of sufficient funds to meet the liquidity needs associated with:

- implementing the monetary policy and the exchange rate policy of the Bank; and
- maintaining financial stability and meeting the needs of the country in periods of crisis.

The implementation of these objectives is performed through the breakdown of the foreign reserve in certain tranches that, within the context of a prudent management of the liquidity risk, serve specific purposes and carry specific features.

The foreign currency liability tranche represents investments in assets that are financed by the liabilities in foreign currency, which are mainly composed by the funds deposited by commercial banks as part of the reserve requirement and by the government.

The net reserve is composed of:

1. the working capital tranche: designed to meet the monthly liquidity needs arising within one month;
2. the liquidity tranche: designed to meet the liquidity needs arising within one year;
3. the investment tranche: it represents the remaining balance as surplus and is designed to meet the liquidity needs arising beyond the timeframes described in the first two tranches.

The amount and currency composition of the tranches is determined based on the needs to use such tranches. The selection of the financial instruments in which the majority of each tranche is invested, (the 'benchmark portfolios') and the duration of each benchmark portfolio are determined in line with the use of each tranche to meet the liquidity needs of the Bank. Although the overall reserve is invested in highly liquid instruments, the first and the second tranches described above are invested in highly liquid short-term sovereign issues with high credit rating.

The tables below set out the remaining contractual maturities of the Bank's financial liabilities and financial assets. The Bank's expected cash flows on these instruments may vary from the contractual cash flows.

31 December 2016	Up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Undefined maturity	Total
Financial assets								
Non-derivative assets								
Cash and cash equivalents	94,459	10,661	370	-	-	-	-	105,490
Trading assets	387	644	790	3,679	10,683	-	-	16,183
Account with the IMF	19,688	-	-	-	-	-	23,995	43,683
Loans to banks	24,155	5,779	-	-	-	-	-	29,934
Available-for-sale investment securities	21,769	38,264	34,237	57,021	139,755	7,884	-	298,930
Other assets (note 15)	-	-	-	-	-	1,718	-	1,718
Total financial assets	160,458	55,348	35,397	60,700	150,438	9,602	23,995	495,938
Financial liabilities								
Non-derivative liabilities								
Currency in circulation	-	-	-	-	-	-	258,821	258,821
Due to banks	152,352	-	-	-	-	-	-	152,352
Deposits and borrowings from third parties	3,310	-	-	-	-	-	-	3,310
Due to Government and state institutions	18,484	-	908	-	-	-	500	19,892
Due to the IMF	19,619	77	21	153	230	-	7,978	28,078
Other liabilities	78	-	-	-	-	-	-	78
	193,843	77	929	153	230	-	267,299	462,531
Derivative liabilities								
Interest rate futures	2	-	-	-	-	-	-	2
Total financial liabilities	193,845	77	929	153	230	-	267,299	462,533
Asset-liability maturity mismatch as at 31 December 2016	(33,387)	55,271	34,468	60,547	150,208	9,602	(243,304)	33,405

31 December 2015	Up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Undefined maturity	Total
Financial assets								
Non-derivative assets								
Cash and cash equivalents	76,320	17,157	-	-	-	-	-	93,477
Trading assets	252	392	189	1,662	13,245	-	-	15,740
Account with the IMF	23,815	-	-	-	-	-	10,588	34,403
Loans to banks	12,987	-	-	-	-	-	-	12,987
Available-for-sale investment securities	19,976	28,508	43,520	60,743	144,091	11,101	-	307,939
Other assets (note 15)	-	-	-	-	-	1,646	-	1,646
	133,350	46,057	43,709	62,405	157,336	12,747	10,588	466,192
Derivative assets								
Foreign exchange forwards	-	130	-	-	-	-	-	130
Total financial assets	133,350	46,187	43,709	62,405	157,336	12,747	10,588	466,322
Financial liabilities								
Non-derivative liabilities								
Currency in circulation	-	-	-	-	-	-	239,191	239,191
Due to banks	142,967	-	-	-	-	-	-	142,967
Deposits and borrowings from third parties	2,147	-	5	-	1,209	-	-	3,361
Due to Government and state institutions	25,856	-	1,095	-	-	-	500	27,451
Due to the IMF	9,629	121	39	234	584	-	8,104	18,711
Other liabilities	72	-	-	-	-	-	-	72
	180,671	121	1,139	234	1,793	-	247,795	431,753
Derivative liabilities								
Interest rate futures	16	-	-	-	-	-	-	16
Total financial liabilities	180,687	121	1,139	234	1,793	-	247,795	431,769
Asset-liability maturity mismatch as at 31 December 2015	(47,337)	46,066	42,570	62,171	155,543	12,747	(237,207)	34,553

(c) Credit risk

For the purpose of the foreign reserve management, the credit risk is the risk of financial loss to the Bank, if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The management of this risk is an important objective in the process of the foreign exchange reserve management.

The risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk; for further details, see (d) below.

(i) Settlement risk

Foreign reserve management activity may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. The Bank minimizes settlement risk through implementation of best practices for the recognition and ongoing monitoring of settlement procedures and conditions.

(ii) Custody risk

Custody risk is the risk of a loss of assets placed in custody in the case of insolvency, negligence, fraud, mismanagement or inadequate portfolio maintenance practices by the custodian. The Bank minimizes this risk by selecting for securities' custody services reputable international financial institutions with a minimum of USD 1,000 billion in assets under custody.

(iii) Management of credit risk

The Supervisory Council has established base criteria of exposure to counterparties, and by type of investment, issuer, credit rating band, market liquidity, with the governments and central banks issues prioritized. The evaluation and monitoring process of the credit rating of the eligible issuers is based on the analysis and the rating determined by the principal rating agencies, including Standard & Poor's, Moody's and Fitch, as well as in the reviewing processes, on a daily basis, of the performance of several market indicators of the quality of the credit rating of the issuer. In accordance with the limits imposed by the Supervisory Council, the Investment Committee is authorized to establish other qualitative and/or quantitative limits on the exposure level for the issuer/financial institution on an individual basis, category, or combined category and instrument basis. Depending on the market environment and conditions, the Bank may decide to adapt even more conservative limits for an issuer/financial institution.

The investment of the foreign exchange reserve is limited to: government/central bank issues with minimum credit ratings of A- and BBB- for governments of the euro area; sovereign agencies, multilateral institutions, public entities with a minimum credit rating of AA-; and banks and other financial institutions with a minimum credit rating of AA-. The credit rating refers to the credit rating of an issuer/financial institution, and if such rating is not provided, the credit rating of the long-term debt of the financial institution is used. For the purpose of the reserve management operations and for payments, the Bank may operate through current accounts opened with banks with a minimum credit rating of BBB (2015: A).

The loans to the local banks are secured/collateralized by treasury bills issued by the Albanian Government.

The following table sets out the carrying amounts of the financial assets that are exposed to credit risk as at 31 December 2016 and 2015:

	2016	2015
Assets		
Accounts and deposits with financial institutions (note 8)	105,466	93,454
Accounts with the IMF (see below)	11,719	15,713
Loans to banks	29,934	12,987
Trading assets	16,183	15,870
Available-for-sale investment securities	298,930	307,939
Other assets (note 15)	1,718	1,646
Total	463,950	447,609

An amount of ALL 7,978 million (2015: ALL 8,104 million) which is included in the SDR Holdings with the IMF (see note 10) does not represent credit risk for the Bank since it represents the counter-account of the amounts acquired through the SDR allocations. Only the amount of holdings above allocations of ALL 11,719 million (2015: ALL 15,713 million) is included in the assets, which represent credit risk.

A segregation of the financial assets by geography is set out below:

31 December 2016	Germany	France	Other EU countries	Switzer-land	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (note 8)	416	44,143	11,361	39,594	9,949	3	-	105,466
Trading assets	2,714	1,216	3,039	-	8,959	-	255	16,183
Accounts with the IMF	-	-	-		-	-	11,719	11,719
Loans to banks	-	-	-	-	-	29,934	-	29,934
Available-for-sale investment securities	27,426	25,741	131,059	4,833	48,796	53,235	7,840	298,930
Other assets (note 15)	-	-	-	-	-	-	1,718	1,718
Total	30,556	71,100	145,459	44,427	67,704	83,172	21,532	463,950

31 December 2015	Germany	France	Other EU countries	Switzer-land	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (note 8)	7,261	10,664	27,039	44,883	3,607	-	-	93,454
Trading assets	1,909	718	2,003	-	10,985	130	125	15,870
Accounts with the IMF	-	-	-	-	-	-	15,713	15,713
Loans to banks	-	-	-	-	-	12,987	-	12,987
Available-for-sale investment securities	40,026	35,108	134,099	-	44,643	53,227	836	307,939
Other assets (note 15)	-	-	-	-	-	-	1,646	1,646
Total	49,196	46,490	163,141	44,883	59,235	66,344	18,320	447,609

A segregation of the financial assets by counterparty type is set out below:

31 December 2016	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Available-for-sale investments securities	Other assets	Total
Central Bank	55,696	-	11,719	-	-	-	67,415
Bank for International Settlements ("BIS Basel")	32,841	-	-	-	4,833	-	37,674
Foreign Governments and Agencies	-	16,183	-	-	224,665	-	240,848
Commercial Banks	16,929	-	-	29,934	16,197	-	63,060
Albanian Government	-	-	-	-	53,235	-	53,235
Other	-	-	-	-	-	1,718	1,718
Total	105,466	16,183	11,719	29,934	298,930	1,718	463,950

31 December 2015	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Available- for-sale investment securities	Other assets	Total
Central Bank	22,800	-	15,713	-	-	-	38,513
BIS Basel	44,883	-	-	-	-	-	44,883
Foreign Government and Agencies	-	15,740	-	-	248,459	-	264,199
Commercial Banks	25,771	-	-	12,987	6,255	-	45,013
Albanian Government	-	130	-	-	53,225	-	53,355
Other	-	-	-	-	-	1,646	1,646
Total	93,454	15,870	15,713	12,987	307,939	1,646	447,609

An analysis of concentration of the credit risk by quality of credit rating is shown below:

Credit Risk 31 December 2016	Accounts and deposits with financial institutions	Investment securities	Special Drawing Rights (SDR)**	Loans to banks and other assets	Total
AAA	6,752	65,422	-	-	72,174
AA	58,800	152,968	-	-	211,768
A	6,654	19,179	-	-	25,833
BBB	415	19,476	-	-	19,891
B+*	3	53,235	-	-	53,238
BIS Basel	32,842	4,833	-	-	37,675
Unrated	-	-	11,719	31,652	43,371
Total	105,466	315,113	11,719	31,652	463,950

Credit Risk 31 December 2015	Accounts and deposits with financial institutions	Investment securities	Special Drawing Rights (SDR)	Loans to banks and other assets	Total
AAA	13,927	55,638	-	-	69,565
AA	21,512	183,146	-	-	204,658
A	5,870	6,515	-	-	12,385
BBB	7,262	25,155	-	-	32,417
B+*	-	53,355	-	8,441	61,796
BIS Basel	44,883	-	-	-	44,883
Unrated	-	-	15,713	6,192	21,905
Total	93,454	323,809	15,713	14,633	447,609

**) The Albanian Government is rated as B+, stable, based on the credit rating of Standard & Poor's and Ba2, stable, based on the credit rating of Moody`s. The credit ratings included above show the second best rating amongst Standard & Poor's, Moody's and Fitch.*

***) The currency value of the SDR is determined by summing the values in the US dollar, based on market exchange rates, of a basket of major currencies (the US dollar, euro, Japanese yen, and pound sterling). The SDR currency value is calculated daily and the valuation basket is reviewed and adjusted every five years.*

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank of Albania's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The key elements of price risk affecting the Bank are:

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

The Bank's exposure to currency risk is monitored on a continual basis by the Monetary Operations Department. Financial assets and liabilities denominated in foreign currencies are disclosed in the relevant notes of the financial statements.

For the purpose of foreign reserve management, the Supervisory Board has established a set of criteria for the currency composition of the foreign reserve, to use in the management of the exchange rate risk. As a result, the Bank is passive in the management of the exchange rate risk. The Investment Committee defines a set of narrow ranges of the currency composition of some of the tranches of the foreign exchange reserve. The limits are monitored by the Monetary Operations Department, which carries out the necessary rebalancing operations in order to preserve the required weights of the currencies' composition.

i) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations, which affect the prices of interest-earning assets (including investments) and interest-bearing liabilities.

The Monetary Operations Department of the Bank monitors the interest rate risk. The Bank mitigates such risks by maintaining a significant excess of interest-bearing assets over liabilities. The Bank maintains a portfolio of interest-bearing financial assets and liabilities such that the net interest income is significantly higher than operating needs, in order to minimize the potential adverse effects of interest rate fluctuations. Interest rates applicable to financial assets and liabilities are disclosed in the relevant notes to the financial statements.

The interest rate risk management, for the purpose of foreign exchange reserve management, in its core process includes the selection of the portfolio/duration benchmark for each market (currency) in which the foreign reserves are held. The benchmark selection is reviewed annually or whenever changes in market conditions require a reassessment. Besides determining the benchmark portfolio, the Investment Committee, in accordance with the limits imposed by the Supervisory Council, determines limits at the tranche level for the additional risk factors that can be taken by the portfolio manager specialist during the active administration. The limits at portfolio level are established by the Head of the Monetary Operations Department.

The principal tools used to measure interest rate risk for individual portfolios within the foreign exchange reserve are Duration and VaR (Value at Risk).

- Duration measures the sensitivity of the price of a fixed-income security against the volatility of the interest rates in the market.
- The VaR is defined as the estimated maximum loss that will arise on a portfolio over a specified period of time from its exposure to the risk factors with a specified confidence interval.

The Bank uses parametric methods such as the covariance matrix, calculated based on the historical changes of the interest rates, weekly data from the last three years with a confidence interval of 95%, and weighted methods such as Exponentially Weighted Moving Average (EWMA) to calculate the estimated maximum loss from the portfolios for a one-year period. A VaR of 95% (VaR (95%)) can be interpreted as the maximum loss in 95% of the cases in a one-year period.

For the purposes of reserve management, the calculated VaR includes only the exposure to the risk of changes in interest rates for all positions, including benchmark instruments and non-benchmark instruments.

For benchmark instruments, the data used encompasses changes in interest rates for treasury issues for each currency and for non-benchmark instruments the data used encompasses issues rated as AA, given that this rating constitutes the major share of non-benchmark instruments of the reserve portfolios.

The following is a summary of the VaR (95%) position of the Bank's portfolios at 31 December 2016 and 2015:

	31 December 2016	31 December 2015
VaR (95%) in Lek	(1,832)	(1,954)

Furthermore, an important method to measure market risk is the sensitivity analysis of the value of the reserve to hypothetical changes in market factors. The data used in the sensitivity analysis calculations include the duration of portfolios and weight of each currency. The duration of the portfolio shows the degree of change in the market value of the portfolio, assuming a parallel shift of the yield curve based on interest rates for all the instruments within the portfolio.

Assuming an immediate parallel increase (decrease) in interest rates by 50 basis points and 100 basis points and a correlation equal to 1 between the curves, and based on the duration of the aggregate foreign exchange reserves, the estimated loss (gain) for each scenario is as follows:

Estimated Profit (loss) effect	2016		2015	
	100 bp	50 bp	100 bp	50 bp
Increase	(4,006)	(2,003)	(4,489)	(2,244)
Decrease	4,006	2,003	4,489	2,244

Assets and liabilities with variable interest rates carry the risk of changing the base that serves to determine interest rates.

The position of the Bank's sensitivity to interest rate by contractual repricing is presented in the following table, showing the carrying amounts of financial instruments classified by contractual repricing or maturity date.

31 December 2016	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
Interest-earning assets						
Cash and cash equivalents	105,490	77,659	15,943	10,667	370	851
Trading assets	16,183	1,234	-	-	14,949	-
Accounts with the IMF	43,683	19,697	-	-	-	23,986
Loans to banks	29,934	-	24,155	5,779	-	-
Available-for-sale investment securities	298,930	1,960	9,622	14,468	272,880	-
Other assets (note 15)	1,718	-	-	-	1,718	-
Total	495,938	100,550	49,720	30,914	289,917	24,837
Interest-bearing liabilities						
Currency in circulation	258,821	-	-	-	-	258,821
Trading liabilities	2	-	-	-	-	2
Due to banks	152,352	-	142,358	-	-	9,994
Deposits and borrowings from third parties	3,310	-	3,119	-	-	191
Due to Government and state institutions	19,892	500	-	-	-	19,392
Due to the IMF	28,078	8,292	-	-	-	19,786
Other liabilities	78	-	-	-	-	78
Total	462,533	8,792	145,477	-	-	308,264
Interest-bearing financial instruments gap	33,405	91,758	(95,757)	30,914	289,917	(283,427)

31 December 2015	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
Interest-earning assets						
Cash and cash equivalents	93,477	69,989	6,003	17,160	-	325
Trading assets	15,870	817	-	-	14,923	130
Accounts with the IMF	34,403	23,817	-	-	-	10,586
Loans to banks	12,987	-	12,987	-	-	-
Available-for-sale investment securities	307,939	2,961	-	1,638	303,340	-
Other assets (note 15)	1,646	-	-	-	1,646	-
Total	466,322	97,584	18,990	18,798	319,909	11,041
Interest-bearing liabilities						
Currency in circulation	239,191	-	-	-	-	239,191
Trading liabilities	16	-	-	-	-	16
Due to banks	142,967	-	55,297	-	-	87,670
Deposits and borrowings from third parties	3,361	-	1,603	-	1,215	543
Due to Government and state institutions	27,451	500	-	-	-	26,951
Due to the IMF	18,711	8,698	-	-	-	10,013
Other liabilities	72	-	-	-	-	72
Total	431,769	9,198	56,900	-	1,215	364,456
Interest-bearing financial instruments gap Interest-earning assets	34,553	88,386	(37,910)	18,798	318,694	(353,415)

Future contracts

A future contract is a standardized contract to buy or sell a financial or non financial asset, at a certain date in the future and at a market determined price. To minimize the credit risk, depending on the type of instrument, the investor should post a margin to the clearing house. This margin or performance bond, is valued every day according to the prices in the market (marked to market), which means that every change in value is shown in the account of investor at the end of each trading day until the expiry day.

The net fair value of future contracts at 31 December 2016 is ALL 2 million (2015: ALL 16 million) (see note 12).

The nominal value of these contracts as at 31 December 2016 is composed by the following:

- buy contracts in the amount of ALL million 695 (2015: ALL 1,180 million); and
- sell contracts in the amount of ALL million 1,474 (2015: ALL 6,128 million).

ii) Exchange rate risk

Exchange rate risk results from the difference between the currency structure of assets and liabilities. From an accounting point of view, the Bank is exposed to currency risk due to its principal central bank functions.

This risk can affect the size of its capital. In order to manage this type of exposure, over the years, action has been taken to increase capital, inflow funds and, in exceptional cases, when the value of the revaluation of the foreign currencies was negative, debt instruments of the Republic of Albania were issued in compliance with the provisions of the law 'On the Bank of Albania'.

Forward contracts

Trading derivatives include forward exchange contracts that are entered into by the Bank with the Albanian Government. These instruments are not usually closed out before contractual maturity.

The fair value of forward contracts at 31 December 2015 is ALL 130 million (see note 12). There were no such contracts at 31 December 2016.

The Bank's exposure to foreign currency risk as at 31 December 2016 and 31 December 2015 is as follows:

31 December 2016	ALL	USD	EUR	GBP	Other	Total
Assets						
Cash and cash equivalents	-	12,876	78,428	1,778	12,408	105,490
Trading assets	-	16,183	-	-	-	16,183
Accounts with the IMF	-	-	-	-	43,683	43,683
Loans to banks	29,934	-	-	-	-	29,934
Available-for-sale investment securities	53,235	60,339	171,078	9,446	4,832	298,930
Other assets	1,718	-	-	-	-	1,718
Total assets	84,887	89,398	249,506	11,224	60,923	495,938
Liabilities						
Currency in circulation	258,821	-	-	-	-	258,821
Trading liabilities	-	2	-	-	-	2
Due to banks	57,981	14,038	80,333	-	-	152,352
Deposits and borrowings from third parties	3,309	-	1	-	-	3,310
Due to Government and state institutions	9,088	119	7,281	1	3,403	19,892
Due to the IMF	-	-	-	-	28,078	28,078
Other liabilities	-	78	-	-	-	78
Total liabilities	329,199	14,237	87,615	1	31,481	462,533
Net currency position	(244,312)	75,161	161,891	11,223	29,442	33,405

31 December 2015	ALL	USD	EUR	GBP	Other	Total
Assets						
Cash and cash equivalents	-	3,848	78,252	3,103	8,274	93,477
Trading assets	-	15,740	-	-	130	15,870
Accounts with the IMF	-	-	-	-	34,403	34,403
Loans to banks	12,987	-	-	-	-	12,987
Available-for-sale investment securities	53,226	57,448	186,417	10,012	836	307,939
Other assets	1,646	-	-	-	-	1,646
Total assets	67,859	77,036	264,669	13,115	43,643	466,322
Liabilities						
Currency in circulation	239,191	-	-	-	-	239,191
Trading liabilities	-	16	-	-	-	16
Due to banks	66,119	5,876	70,972	-	-	142,967
Deposits and borrowings from third parties	2,147	-	1,214	-	-	3,361
Due to Government and state institutions	14,252	170	12,215	1	813	27,451
Due to the IMF	-	-	-	-	18,711	18,711
Other liabilities	-	72	-	-	-	72
Total liabilities	321,709	6,134	84,401	1	19,524	431,769
Net currency position	(253,850)	70,902	180,268	13,114	24,119	34,553

(e) Fair value of financial instruments

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and yields ranges of possible inputs and estimates of fair value, and management judgment is required to select the most appropriate point in the range.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed securities, exchange traded derivatives like interest rate futures and simple over the counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Financial instruments measured at fair value – Fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position.

31 December 2016	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Non-derivative trading assets	12	16,183	-	-	16,183
Investments in securities	13	232,149	66,781	-	298,930
Total		248,332	66,781	-	315,113
Trading liabilities					
Derivative trading liabilities	12	2	-	-	2
Total		2	-	-	2

31 December 2015	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Non-derivative trading assets	12	15,740	-	-	15,740
Derivative trading assets	12	-	-	130	130
Investments in securities	13	249,907	58,032	-	307,939
Total		265,647	58,032	130	323,809
Trading liabilities					
Derivative liabilities	12	16	-	-	16
Total		16	-	-	16

Financial instruments not measured at fair value

The following table sets out the fair values of certain financial instruments not measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised.

		31 December 2016		31 December 2015	
	Note	Fair value Level 2	Carrying amount	Fair value Level 2	Carrying amount
		2016	2016	2015	2015
Assets					
Cash and cash equivalents	8	105,490	105,490	93,477	93,477
Loans to banks	11	29,934	29,934	12,987	12,987
Special Drawing Rights ("SDR") held	10	43,683	43,683	34,403	34,403
Other financial assets	15	1,718	1,718	1,646	1,646
Liabilities					
Due to the IMF	10	28,078	28,078	18,711	18,711
Due to banks	17	152,352	152,352	142,967	142,967
Deposits and borrowings from third parties	18	3,310	3,310	3,361	3,361
Due to Government and state institutions	19	19,892	19,892	27,451	27,451

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

Operational risk management is supported by the internal control systems on several activities of the Bank of Albania and standards for the management of operational risk and a wide range of common policies, staff management regulations and obligatory requirements.

8. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash	24	66
Current accounts	78,493	70,252
Short-term deposits	26,973	23,159
Total	105,490	93,477

The annual interest rates for short-term deposits are as follows:

In %	EUR	USD	AUD	CNH
31 December 2016	(0.45) -(0.35)	0.46	1.41 – 1.42	3.35 – 6.45
31 December 2015	(0.30) - 0.00	0.36	n/a	n/a

9. MONETARY GOLD

	31 December 2015	31 December 2015
Monetary gold	7,516	6,762
Total	7,516	6,762

The monetary gold is placed in time deposits and current accounts with foreign banks.

The increase of ALL 754 million compared to the previous year (2015: decrease of ALL 231 million compared to 2014) is a result of valuing the monetary gold at the market price at the reporting date, and is initially recognized in profit or loss, and subsequently transferred from retained earnings to the revaluation reserve (see note 21).

10. ACCOUNTS WITH/DUE TO THE INTERNATIONAL MONETARY FUND (IMF)

Accounts with the IMF	31 December 2016	31 December 2015
Quotas with IMF	23,986	10,586
Special Drawing Rights ("SDR") held	19,697	23,817
Total assets	43,683	34,403

Due to the IMF	31 December 2016	31 December 2015
SDR allocations	7,978	8,104
IMF securities account	17,258	7,422
IMF account No.1	2,524	2,587
IMF account No.2	1	1
Poverty Reduction and Growth Facility ('PRGF')	314	595
Accrued interest	3	2
Total liabilities	28,078	18,711

Quotas with the IMF of ALL 23,986 million or SDR 140 million (2015: ALL 10,586 million or SDR 60 million) originate from the membership of the Republic of Albania in the IMF, according to the Law No.8269, dated 23 December 1997 'On the Bank of Albania'.

The SDR holdings of ALL 19,697 million or SDR 115 million (2015: ALL 23,817 million or SDR 137 million) represent deposits with the IMF. The SDR holdings bear interest, which is determined on a weekly basis. The interest rate at 31 December 2016 is 0.246% p.a. (2015: 0.05% p.a.).

SDR Allocations of ALL 7,978 million or SDR 46 million (2015: ALL 8,104 million or SDR 46 million) represent amounts borrowed from the IMF with two tranches in August and September 2009, whose purpose is to provide immediate response to the short-term and long-term liquidity needs of the member countries.

The IMF accounts represent liabilities towards Albania's participation in the IMF. The IMF accounts do not have a defined maturity. The IMF securities account includes borrowings that are part of the Extended Fund Facility (EFF) program. EFF borrowing of ALL 261 million or SDR 1.5 million (2015: ALL 496 million or SDR 3 million) were disbursed during the period from 2006 to 2009. The facility is repayable within 10 years, after a grace period of four and a half years. The interest on these borrowings is floating and is paid on quarterly basis. At 31 December 2016, the annual interest rate was 1.247 % (2015: 1.05%).

IMF pays remuneration to members with remunerated reserve tranche positions, at 0.241% p.a. (2015: 0.044% p.a.). The reserve tranche position is calculated as the difference between Quotas in the IMF and the currency holdings in the IMF accounts, excluding holdings acquired as a result of the use of the Fund credit and holdings in the IMF account No.2.

PRGF borrowings of ALL 314 million or SDR 2 million (2015: ALL 595 million or SDR 3 million) include PRGF No. 4 that was granted in 2006 and bears an interest rate of 0.5% p.a. This facility had a grace period of five and a half years and is payable in 10 semi-annual equal instalments.

Direct budget support provided by the IMF

Direct budget support provided by the IMF to the Government of Albania, where the Government assumes the Fund liability, is not recognised as a liability of the Bank to the Fund, even though the funds are initially deposited in the Government accounts at the Bank. During the years 2014 - 2016, the IMF disbursed tranches with a total balance of ALL 41,029 million (2015: ALL 21,743 million), as part of the EFF facility program approved by the IMF in favour of Albania. These tranches are used to provide direct budget financing to the Government of Albania represented by the Ministry of Finance. The borrowing is repayable within 3 years, by the Albanian Government through the accounts of the Bank with the IMF. The Albanian Government will repay all principal, interest and any other expense associated with the above tranches, and those expected to be disbursed in the future. In relation to this borrowing, the Ministry of Finance issued promissory notes in favour of the IMF.

11. LOANS TO BANKS

	31 December 2016	31 December 2015
Reverse repurchase agreements	29,934	12,987
Total	29,934	12,987

At 31 December 2016, reverse repurchase agreements between the Bank and commercials banks have original maturities from one week to three months (2015: from one week to one month).

12. TRADING ASSETS

Trading assets	31 December 2016	31 December 2015
Non-derivatives:		
Government Treasury Notes	10,755	11,996
Agencies and Corporate Securities	5,428	3,744
Derivatives:		
Foreign exchange forwards	-	130
Total	16,183	15,870

Trading assets are administrated by the International Bank for Reconstruction and Development ('IBRD') as stated in the agreement 'On the administration and technical assistance on investing the foreign reserve of Bank of Albania (Reserves and Advisory Management Program) signed between Bank of Albania and IBRD on 23 September 2005. Investments in this portfolio are denominated in USD.

Trading liabilities	31 December 2016	31 December 2015
Derivatives:		
Interest rate futures	2	16
Total	2	16

The annual interest rates for non-derivative assets at 31 December 2016 and 2015 are as follows:

In %	USD
At 31 December 2016	0.625-2.875
At 31 December 2015	0.38-2.75

13. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

	31 December 2016	31 December 2015
Foreign Governments Treasury Notes	149,299	163,734
Foreign Governments Treasury Bills	3,389	2,905
Agencies and Corporate long-term securities	77,486	81,408
Agencies and Corporate short-term securities	15,521	6,667
Treasury Bills of the Albanian Government	53,235	53,225
Total	298,930	307,939

The annual yields for each currency at 31 December 2016 and 2015 are as follows:

In %	ALL	USD	GBP	AUD	JPY	EUR
31 December 2016	1.23-3.17	0.50-3.65	0.00-0.48	1.73-2.04	n/a	(0.80)-1.73
31 December 2015	1.75-2.56	0.22-3.76	0.32-1.62	n/a	0.006	(0.39)-3.38

Available for sale investments in Allat 31 December 2016, represent Albanian Government treasury bills with a maturity period from 3 months to 12 months (2015: from 3 months to 12 months).

As a result of further relaxing monetary policies of certain central banks during 2016 and 2015, the return rates of some of the instruments in the EUR portfolios, are negative. These instruments represent mainly treasury securities issued by euro area governments with high credit ratings, including those issued by the governments of Germany and France with maturities of 8 years and 6 years, respectively.

14. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land, buildings and installa-tions	Furniture and equip-ment	Vehi-cles	Work in progress	Numis-matic coins and objects	Total property and equip-ment	Computer software	Work in progress	Total intangible assets	Total
Amortized costs										
At 1 January 2015	9,402	2,520	275	213	10,392	22,802	496	43	539	23,341
Additions	-	87	5	75	60	227	31	-	31	258
Transfers	-	119	-	(119)	-	-	43	(43)	-	-
Disposal	(5)	(90)	-	-	-	(95)	(2)	-	(2)	(97)
At 31 December 2015	9,397	2,636	280	169	10,452	22,934	568	-	568	23,502
Additions	1	58	46	38	80	223	14	7	21	244
Transfers	1	2	-	(3)	-	-	1	(1)	-	-
Disposal	(15)	(78)	(33)	-	-	(126)	(1)	-	(1)	(127)
Adjustments	22	-	-	-	-	22	-	-	-	22
At 31 December 2016	9,406	2,618	293	204	10,532	23,053	582	6	588	23,641
Depreciation/amortization and impairment losses										
At 1 January 2015	-	1,532	188	-	-	1,720	461	-	461	2,181
Change of the year	145	338	15	-	-	498	64	-	64	562
Disposal	(5)	(89)	-	-	-	(94)	(2)	-	(2)	(96)
At 31 December 2015	140	1,781	203	-	-	2,124	523	-	523	2,647
Amortization	145	308	20	-	-	473	15	-	15	488
Disposal	(15)	(71)	(33)	-	-	(119)	(1)	-	(1)	(120)
Adjustments	22	-	-	-	-	22	-	-	-	22
At 31 December 2016	292	2,018	190	-	-	2,500	537	-	537	3,037
Net carrying value										
At 31 December 2015	9,257	855	77	169	10,452	20,810	45	-	45	20,855
At 31 December 2016	9,114	600	103	204	10,532	20,553	45	6	51	20,604

15. OTHER ASSETS

	31 December 2016	31 December 2015
Loans to employees	1,718	1,646
Numismatics (banknotes and coins)	304	304
Printing and minting costs	228	230
Inventory	26	43
Other	40	36
Total	2,316	2,259

Loans to employees at 31 December 2016 are net of allowance for impairment of ALL 8 million (2015: ALL 8 million).

16. CURRENCY IN CIRCULATION

The exclusive right of issuing Albanian currency is vested with the Bank. Currency in circulation comprises domestic banknotes and coins in circulation issued by the Bank.

The following banknotes and coins were in circulation as at 31 December 2016 and 31 December 2015:

	31 December 2016		31 December 2015	
Nominal value ALL	Number in thousand	Total ALL (million)	Number in thousand	Total ALL (million)
Notes				
100	3,404	340	3,409	341
200	11,399	2,280	10,525	2,105
500	19,343	9,671	19,046	9,523
1,000	39,658	39,658	40,817	40,817
2,000	28,075	56,149	24,994	49,988
5,000	29,325	146,625	26,524	132,618
Coins		4,098		3,799
		258,821		239,191

17. DUE TO BANKS

	31 December 2016	31 December 2015
Compulsory reserve and current accounts	135,602	132,145
Compulsory reserve – cash in custody	9,990	10,822
Overnight deposits	6,760	-
Total	152,352	142,967

Based on the Decision of the Supervisory Council, No. 39, dated 25 June 2014, amended by the Decision No. 76, dated 06 July 2016, the compulsory reserve in euro is negatively remunerated at 0.4%, which is the deposit rate defined by ECB (2015: nil), whilst the compulsory reserve in USD is not remunerated. The compulsory reserve in lek is remunerated at 0.875% (2015: 1.225%).

Based on the Decision of the Supervisory Council, No. 29, dated 16 May 2012, 'On the minimum compulsory reserve held at the Bank of Albania by commercial banks', amended by the Decision No. 75, dated 06 July 2016, the Bank allows the commercial banks to maintain the compulsory reserve in the form of cash in custody with the Bank.

18. DEPOSITS AND BORROWINGS FROM THIRD PARTIES

	31 December 2016	31 December 2015
Borrowing from the Republic of Greece	-	1,215
Deposits from individuals for participation in Treasury Bills auctions	122	364
Deposits from the pension fund	47	31
Deposits from the Deposit Insurance Agency	3,141	1,751
Total	3,310	3,361

The borrowing from the Republic of Greece, amounting ALL 1,215 million or EUR 8.8 million at 31 December 2015, which was granted for the purpose of funding the balance of payments of the Republic of Albania, was fully repaid in 2016.

Deposits from the pension fund relate to the pension plan scheme, which is based on employee contributions and employer contributions. Based on the Decision No. 17, dated 26 February 2014, of the Supervisory Council, the pension fund reports its financial statements separately from the Bank.

19. DUE TO GOVERNMENT AND STATE INSTITUTIONS

	31 December 2016	31 December 2015
Profit to be distributed to the Government	908	1,095
Deposits from the Government	17,975	22,144
Due to state institutions	1,009	4,212
Total	19,892	27,451

The Bank does not pay interest for deposits from the Government, except for a guarantee deposit of ALL 500 million (2015: ALL 500 million), for which based on an agreement between the Bank and the Ministry of Finance, the remuneration rate is 1.25% (2015: 1.75%).

20. OTHER LIABILITIES

	31 December 2016	31 December 2015
Due to international financial institutions	871	323
Accrued expenses	253	179
Provisions for claims and litigations	139	65
Total	1,263	567

Balances due to international financial institutions include amounts payable to IBRD of ALL 793 million (2015: ALL 251 million) for the purchase of securities that are managed by the IBRD, and other amounts payable to IBRD, International Development Agency ('IDA'), Multilateral Investment Guarantee Agency ('MIGA'), and Islamic Development Bank ('IDB') totalling ALL 78 million (2015: ALL 72 million).

For the years ended 31 December 2016 and 31 December 2015, the movements in provisions for claims and litigations are presented below:

	2016	2015
Balance at 1 January	65	70
Charge for the year	83	46
Reversals for the year	(9)	(51)
Balance at 31 December	139	65

21. RESERVES

	31 December 2016	31 December 2015
Legal reserve	12,500	12,500
Revaluation reserves	23,240	24,206
Fair value reserve (available-for-sale assets)	531	995
Other reserves	16,548	16,548
Transition reserve	5,619	5,539
Total	58,438	59,788

According to the requirements of Article 9 of the Law 'On the Bank of Albania', the Bank sets aside 25 per cent of the net profit for the year into a Legal Reserve until the reserve amounts to 500% of the capital. The Bank has complied with this requirement as at 31 December 2011 with its legal reserve amounting to ALL 12,500 million.

Net gain/(loss) from changes in the fair value of the monetary gold (note 9) and net foreign exchange gains/(losses) are initially recognized in profit or loss and then transferred to the revaluation reserves.

The transition reserve is created as a result of the first-time adoption of International Financial Reporting Standards. The transition date was 1 January 2014.

Other reserves include the following:

	31 December 2016	31 December 2015
Reserve for the Balance of Payments	7,209	7,209
Reserve of gold and precious metals	7,042	7,042
Other	2,297	2,297
Total	16,548	16,548

The reserve for the Balance of Payments represents financial assistance provided by the European Community during the years 1992 and 1993. There have been no movements in such reserve since 1995.

The reserve of gold and precious metals represents the reserve created based on Law No. 9862, dated 24 January 2008 'On the transfer of ownership of gold and other precious metals from the Albanian Council of Ministers to the Bank of Albania'.

Other includes reserves of ALL 2,297 million (2015: ALL 2,297 million) created from the allocation of profits for the years 2004 - 2016 based on the Supervisory Council decisions in the respective following years.

22. NET INTEREST INCOME

	2016	2015
Interest income		
Available-for-sale investment securities	1,957	2,893
Loans to banks	300	631
Deposits with banks	52	12
Accounts with IMF	21	12
Other	164	65
Total interest income	2,494	3,613
Interest expense		
Compulsoryreserves	380	530
Loan from the Republic of Greece	9	15
Due to the International Monetary Fund	10	10
Due to the Albanian Government	62	14
Deposits from third parties	19	19
Negative interest from deposits with financial institutions	257	56
Total interest expense	737	644
Net interest income	1,757	2,969

Negative interest from deposits with financial institutions of ALL 257 million (2015: ALL 56 million) represents charges arising from negative yielding deposits and accounts placed with foreign financial institutions.

Interest income from available-for-sale securities include income received from securities issued by the Albanian Government with a total value of ALL 1,012 million (2015: ALL 2,016 million).

23. NET TRADING INCOME

	2016	2015
Interest income from trading assets	176	143
Net loss from the sale of trading assets	(2)	(26)
Unrealized fair value changes	3	(18)
Net profit from forward and future contracts	859	404
Total	1,036	503

24. OTHER REVENUE

	2016	2015
Net profit from sale of available-for-sale investments	470	751
Other	10	58
Total	480	809

25. EMPLOYEE BENEFIT EXPENSES

	2016	2015
Employee salaries and compensations	1,040	882
Contributions for health and social security	91	88
Contribution for pension fund (see note 18)	107	83
Total	1,238	1,053

As at 31 December 2016, the Bank had 509 employees (2015: 502 employees).

26. CONTINGENCIES AND COMMITMENTS

(i) Reverse repurchase agreements

Reverse repurchase agreements as at 31 December 2016, represented collateralized loans (see note 11). The nominal value of the securities used as collateral as at 31 December 2016, was ALL 31,860 million (2015: ALL 14,380 million).

(ii) Rent agreements

The Bank has entered into rent agreements for its premises. Rent agreements in force at 31 December 2016, expire on 31 December 2018. Rent commitments payable within one year are ALL 36 million, whilst rent commitment payable within one and five years are ALL 36 million (2015: ALL 73 million).

(iii) Capital commitments

As at 31 December 2016 and 2015, the Bank has not entered into capital commitments.

(iv) Credit commitments and collaterals received from employees

The total value of registered collateral for long-term loans extended to employees (see note 15) at 31 December 2016, is ALL 2,414 million (2015: ALL 2,233 million). At 31 December 2016, unused credit commitments for employees amount to ALL 171 million (2015: ALL 58 million).

27. MANAGED ASSETS

At 31 December 2016, the Bank acts as custodian for short-term treasury bills with maturities from 3 to 12 months, with total nominal value of ALL 213 billion (2015: ALL 227 billion and EUR 24 million) and for long-term securities with maturities varying between 2 and 10 years, with nominal value of ALL 311 billion (2015: ALL 286 billion) and EUR 78 million (2015: EUR 81 million). These securities are issued by the Albanian Government.

28. RELATED PARTIES

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

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

The related parties of Bank of Albania include the directors and members of the Supervisory Council. As at 31 December 2016 and 2015, balances with related parties comprised:

	2016	2015
Loans to directors		
Directors	91	56
Total	91	56

Loans to directors have an interest rate of 0.5% p.a. and a grace period of two years, and are repayable within maximum of 30 years in equal monthly instalments. The mortgage loans are collateralized.

The increase of loans to directors of ALL 35 million (2015: decrease of ALL 67 million) in 2016, represents new granted loans of ALL 35 million (2015: nil), repayments of ALL 3 million (2015: ALL 3 million) and reclassifications of the loans after changes in the hierarchy structure of ALL 3 million (2015: ALL 64 million reclassified as not related).

	2016	2015
Administrative expenses		
Directors and Supervisory Council members:		
Telephone expenses	4	4
Salaries and bonuses	125	98
Per diems	6	6
Directors:		
Fuel compensation	3	3
Contribution to pension plan scheme	12	9
Total of administrative expenses for related parties	150	120

Balances with/(due to) the Albanian Government and state institutions are disclosed in Notes 13 and 19, and related interest income from securities and interest expenses are included in Note 22. Promissory notes issued by the Albanian Government in favour of the IMF are detailed in Note 10, whilst securities issued by the Albanian Government and managed by the Bank are detailed in Note 27.

29. SUBSEQUENT EVENTS

There are no significant events after the reporting date that may require adjustment or disclosure in the financial statements.