FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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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 2018, 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 2018, 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.

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.

KPMG

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.

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Partner, Audit
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Republic of North Macedonia

Tirana, 28 March 2019

STATEMENT OF FINANCIAL POSITION

In ALL million	Note	31 December 2018	31 December 2017
ASSETS			
Cash and balances with banks	9	189,967	161,765
Trading assets	13	13,985	14,240
Monetary gold	10	6,992	7,291
Accounts with the International Monetary Fund	11	33,512	41,733
Loans to banks	12	32,318	39,871
Investment securities	14	247,604	245,375
Property, equipment and intangible assets	15	20,195	20,226
Other assets	16	2,474	2,351
TOTAL ASSETS		547,047	532,852
LIABILITIES			
Currency in circulation	17	286,132	274,685
Due to banks	18	137,223	146,635
Deposits and borrowings from third parties	19	5,735	4,033
Due to Government and state institutions	20	63,111	35,295
Due to the International Monetary Fund	11	23,990	26,751
Other liabilities	21	365	484
TOTAL LIABILITIES		516,556	487,883
CAPITAL AND RESERVES			
Capital		2,500	2,500
Reserves	22	27,991	42,469
TOTAL CAPITAL AND RESERVES		30,491	44,969
TOTAL LIABILITIES, CAPITAL AND RESERVES		547,047	532,852

The notes on pages 135 to 196 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 28 March 2019 on its behalf by:

Gent Sejko

Governor

Ledia Bregu

Director, Payment Systems, Accounting and Finance Department

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In ALL million	Note	2018	2017
Interest income calculated using the effective interest method	23	3,421	2,731
Interest expense	23	(1,064)	(806)
Net interest income		2,357	1,925
Fee and commission income		84	75
Fee and commission expense		(40)	(48)
Net income from fees and commissions		44	27
Net trading income/(losses)	24	177	(1,400)
Net other (losses)/income	25	(140)	568
Net loss from changes in the fair value of monetary gold	10	(299)	(225)
Net foreign exchange losses	22	(14,106)	(12,855)
Total revenue		(11,967)	(11,960)
Impairment losses on financial instruments	8(C)(vi)(b)	(1)	-
Employee benefit expenses	26	(1,363)	(1,306)
Depreciation and amortization	15	(377)	(455)
Other general and administrative expenses		(613)	(611)
Net result for the period	27	(14,321)	(14,332)
Other comprehensive income:			
Items that are or may be reclassified to profit or loss			
Debt instruments at FVOCI – net change in fair value	22	432	-
Available-for-sale financial assets – net change in fair value	22	-	(736)
Other comprehensive loss for the year, net of tax		432	(736)
Total comprehensive loss for the year		(13,889)	(15,068)

The notes on pages 135 to 196 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 2017	2,500	12,500	23,240	531	16,548	5,619	-	60,938
Total comprehensive income								
Net result for the period	-	-	-	-	-	-	(14,332)	(14,332)
Other comprehensive income								
Fair value reserve (available-for-sale financial assets)	-	-	-	(736)	-	-	-	(736)
Other comprehensive income, net of tax	-	-	-	(736)	-	-	-	(736)
Total comprehensive income	-	-	-	(736)	-	-	(14,332)	(15,068)
Contributions and distributions								
Distribution to Government of Albania (Note 20)	-	-	-	-	(14)	-	(887)	(901
Total contributions and distributions	-	-	-	-	(14)		(887)	(901)
Reallocation of transition reserve and other reserves (Note 22)	-	-	-	-	5,619	(5,619)	-	-
Transfers to reserves (Note 22)	-	-	(15,247)	-	28	-	15,219	-
Balance at 31 December 2017	2,500	12,500	7,993	(205)	22,181	-	-	44,969
Adjustments on initial application of IFRS 9, net of tax (Note 8(B))	-	-	-	14	(27)			(13)
Restated balance at 1 January 2018	2,500	12,500	7,993	(191)	22,154	-	-	44,956
Total comprehensive income								
Net result for the period	-	-	-	-	-	-	(14,321)	(14,321)
Other comprehensive income						-		
Fair value reserve (debt instruments)	-	-	-	432	-	-	-	432
Other comprehensive income, net of tax	-	-	-	432	-	-	-	432
Total comprehensive income	-	-	-	432	-	-	(14,321)	(13,889)
Contributions and distributions						-		
Distribution to Government of Albania (Note 20)					(54)		(522)	(576)
Total contributions and distributions	-	-	-	-	(54)	-	(522)	(576)
Transfers to reserves (Note 22)	-	-	(14,843)	-	-		14,843	-
Balance at 31 December 2018	2,500	12,500	(6,850)	241	22,100	-	-	30,491

The notes on pages 135 to 196 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

In ALL million	Note	2018	2017
Cash flows from operating activities			
Net result for the period		(14,321)	(14,332)
Adjustments for:			
Depreciation and amortization	15	377	455
Net impairment loss on financials instruments	7(A)	1	-
Net interest income	23	(2,357)	(1,925)
Net trading income	24	(177)	1,400
Loss/(profit) from sale of investment securities	25	169	(533)
Net loss from changes in the fair value of monetary gold	10	299	225
Net foreign exchange losses	22	14,106	12,855
Provisions	21	11	25
		(1,892)	(1,830)
Changes in:			
Trading assets		432	541
Accounts with the International Monetary Fund		7,210	(319)
Loans to and deposits with banks		3,234	(9,937)
Other assets		(123)	(4,235)
Currency in circulation		11,447	15,864
Due to banks		(4,804)	(3,930)
Deposits and borrowings from third parties		1,715	726
Due to Government and state institutions		29,595	16,511
Due to the International Monetary Fund		(2,391)	(665)
Other liabilities		(104)	2,686
		44,319	15,412
Interest received		3,943	3,287
Interest paid		(1,042)	(770)
Net cash generated from operating activities		47,220	17,929
Cash flows from investing activities			
Acquisition of investment securities		(338,331)	(279,324)
Proceeds from sold and matured investment securities		324,632	320,158
Acquisition of property, equipment and intangible assets		(347)	(76)
Net cash generated from investing activities		(14,046)	40,758
Cash flows from financing activities			
Distributions to Government	20	(901)	(908)
Net cash used in financing activities		(901)	(908)
Increase in cash and cash equivalents		32,273	57,779
Cash and cash equivalents at the beginning of the year		161,765	105,490
Effect of movements in exchange rates on cash held		(8,390)	(1,504)
Cash and cash equivalents at the end of the year	9	185,648	161,765

The notes on pages 135 to 196 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2018

(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').

This is the first set of the Bank's annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 6.

3. 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.

4. BASIS OF MEASUREMENT

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

Items	Basis of measurement
Monetary gold	Fair value
Financial instruments at FVTPL	Fair value
Financial assets at FVOCI (applicable from 1 January 2018)	Fair value
Available-for-sale financial assets (applicable before 1 January 2018)	Fair value

5. USE OF ESTIMATES AND JUDGMENTS

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

A. Judgments

Information about 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:

— Applicable to 2018 only:
– Note 7(A)(ii) and Note 8(A)– classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding;
– Note 8(E)(vi)(a): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.
— Applicable to 2018 and 2017:
– Note 7(B) – currency in circulation: classification of cash in circulation as a financial liability; and
– Note 7(G) – monetary gold: measurement of monetary gold at fair value with changes in fair value 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 year ended 31 December 2018 is included in the following notes:

— Applicable to 2018 only:
– Note 8(E)(vi)(a) – impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-

looking information.
- Applicable to 2018 and 2017:
- Note 7(A)(vi) – determination of the fair value of financial instruments with significant unobservable inputs; and
- Note 7(A)(vii) – impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

6. CHANGES IN ACCOUNTING POLICIES

The Bank has initially adopted IFRS 9 (see (A)) and IFRS 15 (see (B)) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

The effect of initially applying these standards is limited to IFRS 9 and mainly attributed to the following:

- changes in classification and measurement categories of financial assets and liabilities (see Note 8(A));
- increase in impairment losses recognised on financial assets (see Note 8(B)); and
- additional disclosures related to IFRS 9 (see Notes 7(A), 8(A), 8(B) and 8(E)(vi)(a)

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 7 to all periods presented in these financial statements.

A. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method.

Additionally, Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Notes 8(A) and (B).

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 7(A)(ii).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. For an explanation of how the Bank classifies financial liabilities under IFRS 9, see Note 7(A)(ii).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 7(A)(vii).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and OCI, the Bank has changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'

- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

— If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Notes 7(A), 8(A), 8(B) and 8(E).

B. IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income was not impacted by the adoption of IFRS 15.

7. SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

Certain comparative amounts in the statement of profit or loss and OCI have been reclassified as a result of a representation of certain items in profit or loss (see Note 24).

A. Financial instruments

(i) Recognition and initial measurement

The Bank initially recognises loans and advances and deposits 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 – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

All other financial assets are classified as measured at FVTPL.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank 's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest ("SPPI")

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial assets – Policy applicable before 1 January 2018

The Bank classified 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).

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost or FVTPL. See (B), (D) 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 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.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

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

(iv) Modifications of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income (see 7(L)).

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss

(v) 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.

(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 neither evidenced 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 of a financial liability with a demand feature (e.g. 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) Impairment

Policy applicable from 1 January 2018

The Bank recognizes loss allowances for expected credit losses "ECL" for financial assets that are debt instruments and are not measured at FVTPL.

The Bank measures loss allowances at an amount equal to lifetime ECL except for the following for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

See also Note 8(E)(vi)(a).

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- the disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

At each reporting date, the Bank assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

Objective evidence that financial assets are impaired included:

- 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 were 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 were 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 continued to be recognized through the unwinding of the discount. If an event occurring after the impairment was recognized caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

Impairment losses on available-for-sale investment securities were recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was 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 were reflected as a component of interest income.

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

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

B. Currency in circulation

Currency in circulation includes banknotes and coins in circulation and is presented under liabilities as a net of nominal value of all the banknotes and coins issued and the nominal value of the banknotes and coins on hand as at the reporting date.

C. *Cash and cash equivalent*

Cash and cash equivalents include banknotes 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.

E. *Investment securities*

Policy applicable from 1 January 2018

Investment securities include debt securities measured at FVOCI; gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Policy applicable before 1 January 2018.

Investment securities included available-for-sale debt securities and were initially measured at fair value plus incremental direct transaction costs. Available-for-sale investments were non-derivative investments that were designated as available-for-sale or were not classified as another category of financial assets; they were measured at fair value after initial recognition.

Interest income was recognized in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments were recognized in profit or loss. Impairment losses were recognized in profit or loss (see 7(A)(vii)).

Other fair value changes, other than impairment losses (see 7(A)(vii)), were recognized in OCI and presented in the revaluation (fair value) reserve within equity. When the investment was sold, the gain or loss accumulated in equity was reclassified to profit or loss.

F. Loans and receivables

Policy applicable from 1 January 2018

Loans and advances include loans and advances measured at amortised cost (see Note 7(A)(ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised 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 recognised in the Banks's financial statements.

Policy applicable before 1 January 2018

Loans and advances were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Bank did not intend to sell immediately or in the near term. Loans and advances included loans and advances to banks and loans to employees; they were 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 purchased a financial asset and simultaneously entered into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement was accounted for as a loan or advance, and the underlying asset was 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 accumulated in the "Revaluation Reserve" in Capital and Reserves in accordance with 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

The costs of printing banknotes and minting coins, which have not yet been put into circulation, are initially recognized as assets at acquisition cost and subsequently amortized on a straight-line basis over 5 years and 10 years, respectively.

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 product is four 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. The cost of certain items of property and equipment was determined by reference to fair value at 31 December 2014, which the Bank elected to apply as deemed cost as part of the transition to IFRS.

(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

Policy applicable from 1 January 2018

Effective interest rate

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 instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected 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.

Amortised cost and gross carrying amount

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 that initial amount recognized and the maturity amount and for, financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 7(A)(vii).
Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on debt instruments measured at FVOCI 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 Note 7(O)).

Policy applicable before 1 January 2018

Interest income and expense were recognized in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted 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 estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were 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 OCI included:

- 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 were considered to be incidental to the Bank's trading operations and were presented together with all other changes in the fair value of trading assets and liabilities in net trading income (see accounting policy 7(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 when the fair value is 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 recognised in profit or loss in the period in which they arise and accumulated in the same period in the 'Revaluation reserve' included in Capital and Reserves. According to Article 64 (b) the above mentioned law, 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 less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

P. 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 Article 7 of the Law 'On the Bank of Albania', the Ministry of Finance shall transfer interest bearing negotiable government securities to the Bank, in such amount as would be necessary to remedy the deficiency.

Q. Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are recognized in profit or loss as the related service is provided and included in personnel expenses.

(ii) Social and health contributions

The Bank makes compulsory social security and health contributions in a fund operated by the Albanian state that provide pension, health and other social benefits for employees. Obligations for such contributions are recognized in profit or loss when they are due and included in personnel expenses. The Albanian state provides the legally set minimum threshold for such contributions.

(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.

R. 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.

S. 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 the 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 a change has occurred 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.

T. 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. The amount recognised as a provision is measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

U. Grants

Grants are recognized initially as deferred income when there is reasonable assurance that they will be received and that the Bank will comply with the conditions associated with the grant. Grants that compensate the Bank for expenses incurred are recognized in profit or loss on a systematic basis over the period in which the related expenses are recognized. Grants that compensate the Bank for the cost of an asset are recognized in profit or loss on a systematic basis over the expected life of the asset.

V. Standards issued and not yet adopted

A number of new Standards and amendments to Standards are effective for annual periods beginning on or after 1 January 2018, and earlier application is permitted; however the Bank has not early adopted them in preparing these financial statements.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires entities to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

The new Standard, when initially applied, will require the Bank to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Bank acts as a lessee.

The Bank will recognise new assets and liabilities for its operating leases of office premises. The nature and expenses related to those leases will change because the Bank will recognise a depreciation charge for right-of-use assets and interest expense on the lease liabilities. Previously, the Bank recognised operating lease expenses on a straight-line basis over the time of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the expense recognised. Based on the information currently available, the Bank estimates that it will recognise a right of use asset and a lease liability of ALL 93 million as at 1 January 2019.

The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Bank presents its first financial statements that include the date of initial application. The Bank plans to apply IFRS 16 initially on 1 January 2019 using the modified retrospective approach. Therefore the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Other standards and interpretations

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

- IFRIC 23 Uncertainty over Income Tax Treatments;

- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);
- Annual Improvements to IFRS 2015-2017 Cycle – various standards;
- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- IFRS 17 Insurance Contracts.;

8. FINANCIAL INSTRUMENTS: CLASSIFICATION, RISK MANAGEMENT AND FAIR VALUES

A. Classification of financial assets and financial liabilities

See accounting policies in Note 7(A)(ii).

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2018	FVTPL	FVOCI – debt instruments	Amortised cost	Total carrying amount
ASSETS				
Cash and balances with banks	-		189,967	189,967
Trading assets	13,985	-	-	13,985
Accounts with the International Monetary Fund	-	-	33,512	33,512
Loans to banks	-	-	32,318	32,318
Investment securities measured at fair value	-	247,604	-	247,604
Other assets	-	-	1,821	1,821
Total financial assets	13,985	247,604	257,618	519,207
LIABILITIES				
Currency in circulation	-	-	286,132	286,132
Due to banks	-	-	137,223	137,223
Deposits and borrowings from third parties	-	-	5,735	5,735
Due to Government and state institutions	-	-	63,111	63,111
Due to the International Monetary Fund	-	-	23,990	23,990
Other liabilities	-	-	212	212
Total financial liabilities	-	-	516,403	516,403

31 December 2017	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount
ASSETS					
Cash and balances with banks	-	161,765	-	-	161,765
Trading assets	14,240	-	-	-	14,240
Accounts with the International Monetary Fund	-	41,733	-	-	41,733
Loans to banks	-	39,871	-	-	39,871
Investment securities: Measured at fair value	-	-	245,375	-	245,375
Other assets	-	1,712	-	-	1,712
Total financial assets	14,240	245,081	245,375	-	504,696
LIABILITIES					
Currency in circulation	-	-	-	274,685	274,685
Due to banks	-	-	-	146,635	146,635
Deposits and borrowings from third parties	-	-	-	4,033	4,033
Due to Government and state institutions	-	-	-	35,295	35,295
Due to the International Monetary Fund	-	-	-	26,751	26,751
Other liabilities	-	-	-	328	328
Total financial liabilities	-	-	-	487,727	487,727

B. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carring amount under IAS 39	New carring amount under IFRS 9
FINANCIAL ASSETS				
Cash and balances with banks	Loans and receivables	Amortised cost	161,765	161,752
Trading assets	FVTPL	FVTPL	14,240	14,240
Accounts with the International Monetary Fund (a)	Loans and receivables	Amortised cost	41,733	41,733
Loans to banks	Loans and receivables	Amortised cost	39,871	39,871
Investment securities (b)	Available for sale	FVOCI	245,375	245,375
Other assets – loans to employees	Loans and receivables	Amortised cost	1,712	1,712
Total financial assets			504,696	504,683
FINANCIAL LIABILITIES				
Currency in circulation	Amortised cost	Amortised cost	274,685	274,685
Due to banks	Amortised cost	Amortised cost	146,635	146,635
Deposits and borrowings from third parties	Amortised cost	Amortised cost	4,033	4,033
Due to Government and state institutions	Amortised cost	Amortised cost	35,295	35,295
Due to the International Monetary Fund	Amortised cost	Amortised cost	26,751	26,751
Other liabilities	Amortised cost	Amortised cost	328	328
Total financial liabilities			487,727	487,727

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in note 7(A)(ii). The application of these policies resulted in the reclassifications set out in the table above and explained below:

(a) On the adoption of IFRS 9, the Bank has classified the exposures with IMF as debt instruments measured at amortised cost, given the long-term strategic objective of the Bank to hold these instruments and their contractual cash flows meeting the SPPI criteria.

(b) Investment debt securities are held by the Bank in separate portfolios to meet everyday liquidity needs. The Bank seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Bank considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount 1 January 2018
FINANCIAL ASSETS				
Amortised cost				
Cash and balances with banks	161,765	-	(13)	161,752
Accounts with the IMF	41,733	-	-	41,733
Loans to banks	39,871	-	-	39,871
Other assets – loans to employees	1,712	-	-	1,712
Total amortised cost	245,081	-	(13)	245,068
Available-for-sale				
Investment securities:	245,375		-	-
To FVOCI – debt	-	(245,375)	-	-
FVOCI – debt	-		-	245,375
From available-for-sale	-	245,375		
Total FVOCI	245,375	-	-	245,375
FVTPL				
Trading assets	14,240	-	-	14,240
Total FVTPL	14,240	-	-	14,240
	IAS 39 carrying amount 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount 1 January 2018
FINANCIAL LIABILITIES				
Amortised cost				
Currency in circulation	274,685	-	-	274,685
Due to banks	146,635	-	-	146,635
Deposits and borrowings from third parties	4,033	-	-	4,033
Due to Government and state institutions	35,295	-	-	35,295
Due to the International Monetary Fund	26,751	-	-	26,751
Other liabilities	328	-	-	328
Total amortised cost	487,727	-	-	487,727

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. The impact relates to the fair value reserve and retained earnings. There is no impact on other components of equity.

	Impact of adopting IFRS 9 at 1 January 2018
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	(205)
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	14
Opening balance under IFRS 9 (1 January 2018)	(191)
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	-
Recognition of expected credit losses under IFRS 9	(27)
Opening balance under IFRS 9 (1 January 2018)	(27)

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 (IAS39)	Reclassification	Remeasurement	1 January 2018 (IFRS 9)
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9 (includes Cash and balances with banks, loans to banks and other financial assets)	8	-	13	21
Available-for-sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS	-	-	14	14
Total	8	-	27	35

C. Risk management framework

The financial instruments of the Bank are mainly used for the purposes of the foreign reserve management and monetary policy implementation. The Bank has exposure to the liquidity risk, credit risk, market risk, legal risk and operational risk from investments in financial instruments.

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 Governor, 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', the Investment Committee is responsible for approving the 'Operational Procedure of Investment' document, while the Governor approves other guidelines to ensure a more comprehensive regulation of the reserve management function. 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 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 related with these 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 7(G)) in 2016, the Bank concluded that monetary gold is not a financial instrument.

D. *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 and with the objectives determined by the Supervisory Council. 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 2018	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
Financial assets								
Non-derivative assets								
Cash and balances with banks	175,243	10,406	4,318	-	-	-	-	189,967
Trading assets	380	456	584	1,009	11,544	-	-	13,973
Account with the IMF	12,634	-	-	-	-	-	20,878	33,512
Loans to banks	21,676	10,642	-	-	-	-	-	32,318
Investment securities	3,227	4,001	23,041	80,956	131,157	5,222	-	247,604
Other assets (note 16)	-	-	-	-	-	1,821	-	1,821
	213,160	25,505	27,943	81,965	142,701	7,043	20,878	519,195
Derivative assets								
Interest rate future contracts	-	12	-	-	-	-	-	12
Total financial assets	213,160	25,517	27,943	81,965	142,701	7,043	20,878	519,207
Financial liabilities								
Non-derivative liabilities								
Currency in circulation	-	-	-	-	-	-	286,132	286,132
Due to banks	137,223	-	-	-	-	-	-	137,223
Deposits and borrowings from third parties	5,735	-	-	-	-	-	-	5,735
Due to Government and state institutions	62,035	-	576	-	-	-	500	63,111
Due to the IMF	17,025	-	-	-	-	-	6,965	23,990
Other liabilities	212	-	-	-	-	-	-	212
Total financial liabilities	222,230	-	576	-	-	-	293,597	516,403
Asset-liability maturity mismatch as at 31 December 2018	(9,070)	25,517	27,367	81,965	142,701	7,043	(272,719)	2,804

31 December 2017	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
Financial assets								
Non-derivative assets								
Cash and balances with banks	159,375	2,390	-	-	-	-	-	161,765
Trading assets	112	557	914	2,630	9,950	-	-	14,163
Account with the IMF	18,437	-	-	-	-	-	23,296	41,733
Loans to banks	30,519	9,352	-	-	-	-	-	39,871
Investment securities	16,777	30,039	47,465	51,636	96,515	2,943	-	245,375
Other assets (note 16)	-	-	-	-	-	1,712	-	1,712
	225,220	42,338	48,379	54,266	106,465	4,655	23,296	504,619
Derivative assets								
Foreign exchange forwards	-	77	-	-	-	-	-	77
Total financial assets	225,220	42,415	48,379	54,266	106,465	4,655	23,296	504,696
Financial liabilities								
Non-derivative liabilities								
Currency in circulation	-	-	-	-	-	-	274,685	274,685
Due to banks	146,635	-	-	-	-	-	-	146,635
Deposits and borrowings from third parties	4,033	-	-	-	-	-	-	4,033
Due to Government and state institutions	33,894	-	901	-	-	-	500	35,295
Due to the IMF	19,260	35	19	70	35	-	7,332	26,751
Other liabilities	328	-	-	-	-	-	-	328
Total financial liabilities	204,150	35	920	70	35	-	282,517	487,727
Asset-liability maturity mismatch as at 31 December 2017	21,070	42,380	47,459	54,196	106,430	4,655	(259,221)	16,969

E. *Credit risk*

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 risk in respect of changes in value in trading assets arising from changes in market spreads applied to debt securities and derivatives is managed as a component of market risk (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 following table sets out the carrying amounts of the financial assets that are exposed to credit risk as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Assets		
Cash and balances with banks (excluding cash on hand -Note 9)	189,949	161,747
Accounts with the IMF (Note 11)	33,512	41,733
Loans to banks (Note 12)	32,318	39,871
Trading assets (Note 13)	13,985	14,240
Investment securities (Note 14)	247,604	245,375
Other financial assets (loans to employees) (Note 16)	1,821	1,712
Total	519,189	504,678

For the management of credit risk related to foreign exchange reserve exposures 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.

Assets denominated in foreign currency that are part of the foreign exchange reserve, include cash and balances with banks (excluding cash on hand), trading assets, account with the IMF and investment securities denominated in foreign currency. 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 and 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 implementation operations and for payments, the Bank may operate through current accounts opened with banks with a minimum credit rating of BBB.

For the purpose of the administration of foreign reserves portfolio, as a first step the Bank monitors economic developments in the economies in which Bank is exposed though investments in securities. The extent of monitoring and the level of management input varies. For the major currencies, the Bank considers that the rating agencies' credit ratings and other public information is reflected in the prices and data for Expected Credit Loss (ECL). In addition, the portfolio manager and the risk unit monitors the creditworthiness of each borrower using market research and other sources such as public financial statements. The PDs associated with each grade are determined based on long time historical realized default rates updated on an annual basis, as published by the rating agency.

Assets denominated in domestic currency

Assets denominated in domestic currency include loans to banks, investment debt securities issued by the Albanian Government and loans to employees included in other financial assets. The Bank does not actively manage the credit risk for assets denominated in domestic currency, as they are largely originated for the purposes of the monetary policy implementation operations. For the monitoring of credit risk for these assets the Bank uses both external and internally developed analysis and information, which includes also information available to the Bank due to its role as regulator and Central Bank.

For loans to domestic commercial banks (overnight loans and reverse repo transactions), the Bank mitigates the credit risk through the collateral, which consists of debt securities issued by the Albanian Government. The collateral value for each transaction is not lower than the value of the granted loan plus a certain margin. If the value of the security placed as collateral drops under a defined level, Bank of Albania asks commercial banks to place additional collateral, based on the revaluation of the securities.
The risk grading model used by the Bank for the assessment of ECLs for loans to domestic commercial banks is based on criteria that are similar to those used for supervisory purposes, such as the capital adequacy, credit growth, liquidity and profitability of the counterparties. The risk grades and the methodology is subject to regular reviews by the Bank.Investment securities denominated in domestic currency consist of Treasury Bills issued by the Albanian Government, with maturity of up to one year. This portfolio is originated as the Bank of Albania intervenes in the money market through outright transactions, intended to manage the liquidity structure of the banking system with potential impact in the short-term interest rates in this market.

The credit risk of the portfolio of investment securities denominated in domestic currency is assessed based on historical data and assessment of the ability of the Albanian Government to meet its contractual cash flows obligations in domestic currency in the near term.

For loans to employees the Bank assesses ECLs based on historic loss ratios, adjusted for forward-looking macroeconomic information.

(iv) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' are included in Note 7(A)(vii). The credit ratings show the second best rating amongst Standard & Poor's, Moody's and Fitch.

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances with banks at amortised cost					
Rated AAA	8,867	-	-	8,867	6,645
Rated AA- to AA+	146,502	-	-	146,502	141,548
Rated A- to A+	18,106	-	-	18,106	5,907
Rated BBB+ and below	11	-	-	11	314
Albanian Government B+*	4	-	-	4	3
BIS Basel	16,473	-	-	16,473	7,330
	189,963	-	-	189,963	161,747
Loss allowance	(14)	-	-	(14)	-
Carrying amount	189,949	-	-	189,949	161,747
Accounts with IMF**					
Unrated	33,512	-	-	33,512	41,733
	33,512	-	-	33,512	41,733
Loss allowance	-	-	-	-	-
Carrying amount	33,512	-	-	33,512	41,733
Loans to banks at amortised cost					
Grade: Low-fair risk	-	-	-	-	-
Grade: Low risk	32,318	-	-	32,318	39,871
Grade: Average risk	-	-	-	-	-
Grade: Moderately high risk	-	-	-	-	-
Grade: High risk	-	-	-	-	-
	32,318	-	-	32,318	39,871
Loss allowance	-	-	-	-	-
Carrying amount	32,318	-	-	32,318	39,871
Debt investment securities at FVOCI (2017: available-for-sale)					
Rated AAA	72,619	-	-	72,619	82,930
Rated AA- to AA+	79,090	-	-	79,090	77,980
Rated A- to A+	23,375	-	-	23,375	17,793
Rated BBB+ and below	14,812	-	-	14,812	13,684
Albanian Government (B+)*	55,587	-	-	55,587	52,719
BIS Basel	2,121	-	-	2,121	269
	247,604	-	-	247,604	245,375
Loss allowance	(16)	-	-	(16)	-
Carrying amount – fair value	247,604	-	-	247,604	245,375
Other financial assets at amortised cost					
Unrated	1,827	-	-	1,827	1,720
	1,827	-	-	1,827	1720
Loss allowance	(6)	-	-	(6)	(8)
Carrying amount	1,821	-	-	1,821	1,712

* *The Albanian Government is rated as B+, stable, based on the credit rating of Standard & Poor's and B1, stable, based on the credit rating of Moody`s.*

** *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 (US dollar, Euro, Pound sterling, Chinese yuan and Japanese yen). The SDR currency value is calculated daily and the valuation basket is reviewed and adjusted every five years.*

The following table sets out the credit quality of trading debt securities. The analysis has been based on the second best rating amongst Standard & Poor's, Moody's and Fitch ratings.

	2018	2017
Bonds of foreign agencies		
Rated AAA	2,446	3,585
Rated AA- to AA+	2,419	2,453
	4,865	6,038
Bonds of foreign governments and multilateral institutions		
Rated AAA	7,520	7,546
Rated AA- to AA+	1,588	578
	9,108	8,125
Total trading debt securities	13,973	14,163

(v) Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

		Percentage of exposure that is subject to collateral requirements		
	Note	31 December 2018	31 December 2017	Principal type of collateral held
Loans to banks Reverse repurchase agreements and over-night loans	12	100	100	Albanian Government debt securities
Other financial assets Loans to employees	16	100	100	Mortgage or contract guarantees

At 31 December 2018, the Bank held loans to banks of ALL 32,318 million (1 January 2018: ALL 39,871 million), for which no loss allowance is recognised because of full collateral coverage.

(vi) Amounts arising from ECL

(a) Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 7(A)(vii)

Significant increase in credit risk

When determining whether the risk of default of the invested amount on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and credit risk specialists assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades/ratings

For assessing the risk of default, at initial recognition, the Bank assigns to each exposure in foreign currency the second best rating amongst Standard & Poor's, Moody's and Fitch for that particular counterparty.

The Bank, at initial recognition, allocates each exposure to banks to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade/rating. The monitoring typically involves use of the following data.

Foreign currency exposures	Domestic currency exposures	Other assets
– Data from credit rating agencies, press articles, changes in external credit ratings	– Internally collected data on banks and supervisory indicators	– Repayment history – this includes overdue status and financial situation of the borrower.
– Quoted bond prices for the counterparty, where available	– Existing and forecast changes in business, financial and economic conditions	– Existing and forecast changes in financial and economic conditions
– Actual and expected significant changes in the political, regulatory and technological environment of the counterparty or in its business activities	– Affordability metrics	

Generating the term structure of probability of default "PD"

Credit risk grades/ratings are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by counterparty as well as by credit risk grading/ratings. The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors. Key macro-economic indicators include: GDP growth, exchange rates, benchmark interest rates and credit growth.

The methodology for determining PDs for domestic commercial banks is based on the Risk Assessment System (RAS) used for supervisory purposes. Factors considered by this system include the capital adequacy, credit risk, liquidity and profitability of the counterparty. The PDs are calculated as the average weighted PDs for each factor, where the weights are determined based on the importance of the factor.

For the assets denominated in foreign currency, Bank uses 12-month PDs for sovereign and non-sovereign issuances, estimated based on transition matrices published by S&P which indicate a possibility of bankruptcy over 12 months for issuers per each respective rating category. For the sovereign issuance, a long-term transition matrix is used. For non-sovereign issuance, two matrices are used, a long-term transition matrix of financial institutions (normal scenario) and the transition matrix of a financial crisis year (alternative recession scenario), weighted against respective probabilities.

For exposures to the Albanian Government in domestic currency, the estimated PD considers the short-term maturity of such exposures, the absence of historical defaults and detailed assessments of the ability of the Albanian Government to fulfill its contractual cash flow obligations in the short-term which consider also the macroeceonimc indicators over the assessment period.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure in foreign currency is deemed to have increased significantly since initial recognition if:

- the credit rating from all the three rating agencies (Standard & Poor's, Moody's and Fitch) falls below BBB- (or its' equivalent); or
- the credit rating from one of the above agencies is downgraded to BB-; or
- there is a delay in the repayment of an obligation to the Bank by more than or equal to 30 days. In this case the credit risk will be deemed to have significantly increased for all exposures to that issuer.

The credit risk of a particular exposure in domestic currency for commercial banks is deemed to have increased significantly since initial recognition if one of the following criteria is met:

- a commercial bank receives Emergency Liquidity Assistance (ELA) loan and the PD is over 30%;
- the PD is higher than 40% in the reporting period;
- the PD is higher than 25%, and it has increased by more than 5 percentage points in the reporting period compared to the initial recognition period; or
- there is a delay in the repayment of an obligation (excluding ELA) to the Bank by more than or equal to 30 days. In this case the credit risk will be deemed to have significantly increased for all exposures to that counterparty.

Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower

For exposures toward Albanian government the credit risk is considered to be increased significantly since initial recognition if there is delay of 30 days or more in the repayment of an obligation to the Bank.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is in default.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenants;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

For exposures in domestic currency, the Bank formulates a 'base scenario' view of the future direction of relevant economic variables (GDP growth, exchange rates, benchmark interest rates and credit growth) as well as a representative range of other possible forecast scenarios "moderate scenario", considering the relative probabilities of each outcome by comparing the results of previous stress tests with financial agents' economic indicators during the reference period. The base scenario represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and forecasting. The other scenarios "moderate scenario" represent more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

For non-sovereign issuances in foreign currency, forward-looking information is incorporated in the assessment of the probability of defaults, as the probability of the normal scenario and alternative scenario is calculated based on the probability of recession of major economies (as one of the main indicators of increased probability of default for non-sovereign issuers), to which additional quality factors may be applied. For sovereign issuances in foreign currency forward-looking economic variable are incorporated in the determination of the PD through respective rating in transition matrices published by external rating agencies. These variables are reviewed periodically and in case of significant market changes by the credit rating agencies.

Modified financial assets

The contractual terms of a financial asset may be modified for a number of reasons, including changing market conditions, and other factors not related to a current or potential credit deterioration of the counterparty. An existing asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new one at fair value in accordance with the accounting policy set out in Note 7(A)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

— its remaining lifetime PD at the reporting date based on the modified terms; with
— the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are derived from internally developed statistical models, globally recognized external developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Transition matrixes data are used to derive the PD for foreign counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates, or parameters calculated by rating agencies and regulatory institutions such as BIS Basel, of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. EAD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

— instrument type;
— credit risk grading;
— collateral type;
— date of initial recognition;
— remaining term to maturity;
— industry; and
— geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL comprise financial assets in foreign currency as follows:

		External benchmarks used	
	Exposure	PD	LGD
Cash and balances with banks (current accounts and deposits)	189,949	2nd Best Rating (from: S&P, Moody`s and Fitch)	Moody`s recovery studies
Investment securities in foreign currency	192,017	2nd Best Rating (from: S&P, Moody`s and Fitch)	Moody`s recovery studies

(b) Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' and credit-impaired are included in Note 7(A)(vii).

				2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances with banks					
Balance at 1 January	13	-	-	13	-
Net remeasurement of loss allowance	1	-	-	1	-
Balance at end of the period	14	-	-	14	-
Other assests at amortised cost					
Balance at 1 January	8	-	-	8	8
Net remeasurement of loss allowance	(2)	-	-	(2)	-
Balance at end of the period	6	-	-	6	8
Investment debt securities at FVOCI					
Balance at the beginning of the period	14	-	-	14	-
Net remeasurement of loss allowance	2	-	-	2	-
Balance at end of the period	16	-	-	16	-
Total					
Balance at the beginning of the period	35	-	-	35	8
Net remeasurement of loss allowance	1	-	-	1	-
Balance at end of the period	36	-	-	36	8

The above loss allowance for debt investment securities at FVOCI is not recognized in the statement of financial position because the carrying amount of these assets is their fair value.

(c) Credit-impaired financial assets

See accounting policy in Note 7(A)(vii).

As at 31 December 2018 and 31 December 2017, the Bank had no credit-impaired financial assets.

(vii) Concentrations of credit risk

The Bank monitors concentrations of credit risk by geographic location and by counterparty type. An analysis of concentrations of credit risk is shown below. Concentration by location for investment securities is based on the country of domicile of the issuer of the security. Concentration by counterparty type is based on the customer's country of domicile

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

31 December 2018	Germany	France	Other EU countries	Switzer-land	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	4,473	128,402	21,269	20,792	6,112	4	8,897	189,949
Trading assets	2,339	1,218	2,894	108	6,701	-	725	13,985
Accounts with the IMF	-	-	-		-	-	33,512	33,512
Loans to banks	-	-	-	-	-	32,318	-	32,318
Investment securities	17,860	16,944	106,027	2,122	42,581	55,587	6,483	247,604
Other assets (Note 16)	-	-	-	-	-	1,821	-	1,821
Total	24,672	146,564	130,190	23,022	55,394	89,730	49,617	519,189

31 December 2017	Germany	France	Other EU countries	Switzer-land	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	5,632	122,246	6,372	8,657	10,106	3	8,731	161,747
Trading assets	3,307	967	2,441	-	7,227	77	221	14,240
Accounts with the IMF	-	-	-		-	-	41,733	41,733
Loans to banks	-	-	-	-	-	39,871	-	39,871
Investment securities	13,271	25,516	91,351	269	53,009	52,719	9,240	245,375
Other assets (Note 16)	-	-	-	-	-	1,712	-	1,712
Total	22,210	148,729	100,164	8,926	70,342	94,382	59,925	504,678

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

31 December 2018	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investment securities	Other assets	Total
Central Bank	160,291	-	33,512	-	-	-	193,803
Bank for International Settlements ("BIS Basel")	16,472	-	-	-	2,121	-	18,593
Foreign governments and multilateral institutions	3,084	9,108	-	-	139,605	-	151,797
Foreign agencies	4,319	4,865	-	-	18,039	-	27,223
Commercial Banks	5,783	-	-	32,318	32,252	-	70,353
Albanian Government	-		-	-	55,587	-	55,587
Other	-	12	-	-	-	1,821	1,833
Total	189,949	13,985	33,512	32,318	247,604	1,821	519,189

31 December 2017	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investment securities	Other assets	Total
Central Bank	146,869	-	41,733	-	-	-	188,602
Bank for International Settlements ("BIS Basel")	7,330	-	-	-	269	-	7,599
Foreign governments and multilateral institutions	111	8,125	-	-	150,552	-	158,788
Foreign agencies	-	6,038	-	-	25,303	-	31,341
Commercial Banks	7,437	-	-	39,871	16,532	-	63,840
Albanian Government	-	77	-	-	52,719	-	52,796
Other	-	-	-	-	-	1,712	1,712
Total	161,747	14,240	41,733	39,871	245,375	1,712	504,678

F. 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. 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, function performed by the Monetary Operations Department, Supervisory Council has established a set of criteria for the currency composition of the foreign reserve, in accordance with the objectives of holding the reserves. This serves as a reference for 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 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 the 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 2018 and 2017:

	31 December 2018	31 December 2017
VaR (95%) in Lek	(1,459)	(1,118)

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 effect on Profit (loss) ALL million	2018		2017	
	100 bp	50 bp	100 bp	50 bp
Increase	(3,921)	(1,961)	(3,085)	(2,003)
Decrease	3,921	1,961	3,085	2,003

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 2018	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 balances with banks	189,967	161,062	14,106	10,406	4,319	74
Trading assets	13,985	1,429	380	273	11,903	-
Accounts with the IMF	33,512	12,634	-	-	-	20,878
Loans to banks	32,318	-	21,677	10,641	-	-
Investment securities (2017: available-for-sale investment securities)	247,604	124	3,227	3,877	240,376	-
Other assets (Note 16)	1,821	-	-	-	1,821	-
Total	519,207	175,249	39,390	25,197	258,419	20,952
Interest-bearing liabilities						
Currency in circulation	286,132	-	-	-	-	286,132
Due to banks	137,223	-	137,223	-	-	-
Deposits and borrowings from third parties	5,735	-	3,886	-	-	1,849
Due to Government and state institutions	63,111	500	-	-	-	62,611
Due to the IMF	23,990	6,983	-	-	-	17,007
Other liabilities	212	-	-	-	-	212
Total	516,403	7,483	141,109	-	-	367,811
Interest-bearing financial instruments gap	2,804	167,766	(101,719)	25,197	258,419	(346,859))

31 December 2017	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 balances with banks	161,765	147,175	12,050	2,393	-	147
Trading assets	14,240	1,616	-	77	12,547	-
Accounts with the IMF	41,733	18,437	-	-	-	23,296
Loans to banks	39,871	-	30,519	9,352	-	-
Available-for-sale investment securities	245,375	557	16,777	30,039	198,002	-
Other assets (Note 16)	1,712	-	-	-	1,712	-
Total	504,696	167,785	59,346	41,861	212,261	23,443
Interest-bearing liabilities						
Currency in circulation	274,685	-	-	-	-	274,685
Due to banks	146,635	-	146,635	-	-	-
Deposits and borrowings from third parties	4,033	-	3,848	-	-	185
Due to Government and state institutions	35,295	500	-	-	-	34,795
Due to the IMF	26,751	7,447	-	-	-	19,304
Other liabilities	328	-	-	-	-	328
Total	487,727	7,947	150,483	-	-	329,297
Interest-bearing financial instruments gap	16,969	159,838	(91,137)	41,861	212,261	(305,854)

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 (mark 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 2018 is All 12 million (2017: nil) (see Note 13).

The nominal value of these contracts as at 31 December 2018 is composed by the following:

- buy contracts in the amount of ALL million 4,127 (2017: ALL 1,668 million); and
- sell contracts in the amount of ALL million 1,426 (2017: ALL 2,096 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 is taken to increase capital, inflow of funds and, in exceptional cases, when the balance of the revaluation reserve is negative, debt instruments of the Republic of Albania were issued in compliance with the provisions of the law 'On the Bank of Albania' (Note (7(N) and 22).

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 foreign exhange forward contracts at 31 December 2018 is nil (2017: ALL 77 million) (see Note 13).

The following significant exchange rates have been applied.

ALL	Average 2018	Average 2017	Year-end spot rate 2018	Year-end spot rate 2017
United States Dollar (USD)	107.99	119.10	107.82	111.10
European Union Currency Unit (EUR)	127.59	134.15	123.42	132.95
British Pound (GBP)	144.21	153.20	137.42	149.95
Special Drawing Rights (SDR)	152.92	164.96	149.95	157.84
Japanese Yen (JPY)	0.98	1.06	0.98	0.99
Chinese Juan (offshore) (CNH)	16.34	17.62	15.68	17.06

Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR, USD, GBP or other currencies by 10% against ALL at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

The Bank's exposure to foreign currency risk as at 31 December 2018 and 31 December 2017 is as follows:

31 December 2018	ALL	USD	EUR	GBP	SDR	Other	Total
Assets							
Cash and balances with banks	4	6,731	169,150	116	-	13,966	189,967
Trading assets	-	13,985	-	-	-	-	13,985
Accounts with the IMF	-	-	-	-	33,512	-	33,512
Loans to banks	32,318	-	-	-	-	-	32,318
Investment securities	55,587	59,549	115,627	9,226	-	7,615	247,604
Other assets	1,821	-	-	-	-	-	1,821
Total assets	89,730	80,265	284,777	9,342	33,512	21,581	519,207
Liabilities							
Currency in circulation	286,132	-	-	-	-	-	286,132
Due to banks	55,535	11,049	70,639	-	-	-	137,223
Deposits and borrowings from third parties	4,204	-	1,532	-	-	-	5,735
Due to Government and state institutions	21,314	39	41,060	-	698	-	63,111
Due to the IMF	-	-	-	-	23,990	-	23,990
Other liabilities	114	96	2	-	-	-	212
Total liabilities	367,299	11,184	113,232	-	24,688	-	516,403
Net statement of financial position exposure	(277,569)	69,081	171,545	9,342	8,824	21,581	2,804
Sensitivity analysis							
Profit/(loss) effect: Strengthening (10%)	-	6,908	17,155	934	882	2,158	-
Weakening (10%)	-	(6,908)	(17,155)	(934)	(882)	(2,158)	-

31 December 2017	ALL	USD	EUR	GBP	SDR	Other	Total
Assets							
Cash and balances with banks	-	10,515	137,541	1,528	-	12,181	161,765
Trading assets	-	14,163	75	-	-	2	14,240
Accounts with the IMF	-	-	-	-	41,733	-	41,733
Loans to banks	39,871	-	-	-	-	-	39,871
Investment securities	52,718	63,218	114,821	8,708	-	5,910	245,375
Other assets	1,712	-	-	-	-	-	1,712
Total assets	94,301	87,896	252,437	10,236	41,733	18,093	504,696
Liabilities							
Currency in circulation	274,685	-	-	-	-	-	274,685
Due to banks	50,838	14,936	80,861	-	-	-	146,635
Deposits and borrowings from third parties	4,027	-	6	-	-	-	4,033
Due to Government and state institutions	22,390	250	11,894	-	761	-	35,295
Due to the IMF	-	-	-	-	26,751	-	26,751
Other liabilities	148	178	2	-	-	-	328
Total liabilities	352,088	15,364	92,763	-	27,512	-	487,727
Net currency position	(257,787)	72,532	159,674	10,236	14,221	18,093	16,969
Sensitivity analysis							
Profit/(loss) effect: Strengthening (10%)	-	7,253	15,967	1,024	1,422	1,809	-
Weakening (10%)	-	(7,253)	(15,967)	(1,024)	(1,422)	(1,809)	-

G. *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 2018	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Non-derivative trading assets	13	13,973	-	-	13,973
Derivative trading assets	13	12	-		12
Investments in securities	14	169,272	78,332	-	247,604
Total		183,257	78,332	-	261,589

31 December 2017	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Non-derivative trading assets	13	14,163	-	-	14,163
Derivative trading assets	13	-	-	77	77
Investments in securities	14	180,008	65,367	-	245,375
Total		194,171	65,367	77	259,615

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 2018		31 December 2017	
	Note	Fair value Level 2	Carrying amount	Fair value Level 2	Carrying amount
		2018	2018	2017	2017
Assets					
Cash and balances with banks	9	189,967	189,967	161,765	161,765
Loans to banks	12	32,318	32,318	39,871	39,871
Accounts with IMF	11	33,512	33,512	41,733	41,733
Other financial assets	16	1,821	1,821	1,712	1,712
Liabilities					
Due to the IMF	11	23,990	23,990	26,751	26,751
Due to banks	18	137,223	137,223	146,635	146,635
Deposits and borrowings from third parties	19	5,735	5,735	4,033	4,033
Due to Government and state institutions	20	63,111	63,111	35,295	35,295
Other liabilities	21	212	212	328	328

H. 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.

9. CASH AND BALANCES WITH BANKS

	31 December 2018	31 December 2017
Cash	18	18
Current accounts	161,131	147,306
Deposits maturing within three months	24,513	14,441
Less impairment loss allowance	(14)	-
Cash and cash equivalent	185,648	161,765
Deposits maturing after more than three months	4,319	-
Total	189,967	161,765

The interest rates for current accounts are as follows:

In %	EUR	USD	GBP	AUD	JPY	CNY	CNH
31 December 2018	(0.67)-(0.4)	2.09-2.40	0.00-0.62	0.05-1.40	(0.35)-0.00	0.00-2.00	0.00-2.00
31 December 2017	(0.72)-(0.05)	0.00-1.41	0.00-0.25	0.05-1.25	(0.35)-0.00	0.00-2.20	0.09

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

In %	EUR	USD	CNH
31 December 2018	(0.405)-(0.37)	3.04	2.6 – 3.24
31 December 2017	(0.40)	1.46	3.26 – 3.95

10. MONETARY GOLD

	31 December 2018	31 December 2017
Monetary gold	6,992	7,291
Total	6,992	7,291

The monetary gold is placed in time deposits and current account (2017: time deposits) with foreign banks.

The decrease of ALL 299 million compared to the previous year (2017: decrease of ALL 225 million compared to 2016) is a result of valuing the monetary gold at the market price at the reporting date, and is recognized in profit or loss, and accumulated to the revaluation reserve (see Note 22).

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

Accounts with the IMF	31 December 2018	31 December 2017
Quotas with IMF	20,878	23,296
Special Drawing Rights ("SDR") held	12,634	18,437
Total assets	33,512	41,733

Due to the IMF	31 December 2018	31 December 2017
SDR allocations	6,965	7,332
IMF securities account	14,798	16,813
IMF account No.1	2,195	2,481
IMF account No.2	1	1
Poverty Reduction and Growth Facility ('PRGF')	18	115
Accrued interest	13	9
Total liabilities	23,990	26,751

Quotas with the IMF of ALL 20,878 million or SDR 139 million (2017: ALL 23,296 million or SDR 139 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 12,634 million or SDR 84 million (2017: ALL 18,437 million or SDR 117 million) represent deposits with the IMF. The SDR holdings bear interest, which is determined on a weekly basis. The interest rate at 31 December 2018 is 1.103% p.a. (2017: 0.743% p.a.).

SDR Allocations of ALL 6,965 million or SDR 46 million (2017: ALL 7,332 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 SDR Allocations bear interest, which is determined on a weekly basis and is payable on a quarterly basis. The interest rate at 31 December 2018 is 1.103% p.a. (2017: 0.743% p.a.).

The IMF accounts represent liabilities of the Bank towards Albania's participation in the IMF. The IMF accounts do not have a defined maturity. The IMF securities account includes certain borrowings that are part of the Extended Fund Facility (EFF) program originally disbursed during the period from 2006 to 2009. At 31 December 2018, outstanding balance of EFF borrowings amount to ALL 15 million or SDR 0.1 million (2017: ALL 96 million or SDR 0.6 million). The facility matured on 28 January 2019. The interest on these borrowings is floating and is paid on quarterly basis. The annual interest rate at 31 December 2018 is 2.108% p.a. (2017: 1.747% p.a.). IMF pays remuneration to members with remunerated reserve tranche positions, at 1.098% p.a. (2017: 0.738% 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 18 million or SDR 0.12 million outstanding balance (2016: ALL 115 million or SDR 0.7 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. The facility matured on 30 January 2019.

Direct budget support provided by the IMF

Funds provided for direct budget support by the IMF to the Government of Albania which are initially deposited in the Government accounts at the Bank, are not recognised as a liability of the Bank to the IMF. The Government assumes the obligation to repay the funds to IMF whereas the Bank processes such repayments on behalf of the Government. The IMF disbursed such funds in tranches during the years 2014 - 2017, 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 shall deposit in its accounts at the Bank sufficient funds to repay all principal, interest and any other expenses associated with the above tranches as such repayments fall due. In relation to this borrowing, the Ministry of Finance issued promissory notes in favour of the IMF. The Government started to repay the facility in October 2018. As at 31 December 2018 the facility amounted to ALL 43,683 million (2017: ALL 50,041 million).

12. LOANS TO BANKS

	31 December 2018	31 December 2017
Reverse repurchase agreements	32,318	39,461
Overnight loans to banks	-	410
Total	32,318	39,871

At 31 December 2018, reverse repurchase agreements between the Bank and commercials banks have original maturities from one week to three months (2017: from one week to three months).

13. TRADING ASSETS

Trading assets	31 December 2018	31 December 2017
Non-derivatives:		
Bonds of foreign agencies	4,865	6,038
Bonds of foreign governments and multilateral institutions	9,108	8,125
Derivatives:		
Interest rate future contracts	12	-
Foreign exchange forwards	-	77
Total	13,985	14,240

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. The annual interest rates for non-derivative assets at 31 December 2018 and 2017 are as follows:

In %	31 December 2018	31 December 2017
USD	1.250 - 3.125	0.750 - 2.375

14. INVESTMENT SECURITIES

	31 December 2018	31 December 2017
Investment securities measured at FVOCI	247,604	-
Available-for-sale investment securities	-	245,375
Total	247,604	245,375

Investment securities by type of issuer and security are presented as follows:

	31 December 2018	31 December 2017
Treasury Bills of foreign governments and multilateral institutions	3,709	5,813
Bonds of banks and other institutions	32,252	16,532
Bonds of foreign agencies	18,039	25,303
Bonds of foreign governments and multilateral institutions	138,017	145,008
Treasury Bills of the Albanian Government	55,587	52,719
Total	247,604	245,375

The annual yields for each currency at 31 December 2018 and 2017 are as follows:

In %	LEK	USD	GBP	AUD	CNH	EUR
31 December 2018	1.03- 1.54	2.46- 4.01	0.70 – 1.29	1.85 - 2.46	2.56 – 2.64	(0.69) – 1.00
31 December 2017	1.25- 2.68	1.33- 2.64	0.34 – 0.76	1.88 - 2.14	N/A	(0.85) – 1.82

Investment securities in ALL at 31 December 2018, represent Albanian Government treasury bills with a maturity period from 6 months to 12 months (2017: from 3 months to 12 months). As a result of further relaxing monetary policies of certain central banks during 2015 and onward, the return rates of the main part of foreign reserve portfolio in EUR, are negative.

15. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land, buildings and installations	Furniture and equipment	Vehicles	Work in progress	Numismatic coins and objects	Total property and equipment	Computer software	Work in progress	Total intangible assets	Total
Cost or deemed cost										
At 1 January 2017	9,406	2,618	293	204	10,532	23,053	582	6	588	23,641
Additions	-	65	-	-	-	65	10	1	11	76
Transfers	-	-	-	-	-	-	7	(7)	-	-
Disposal	-	(151)	(13)	-	-	(164)	-	-	-	(164)
Reclassification	-	3	1	-	-	4	(4)	-	(4)	-
At 31 December 2017	9,406	2,535	281	204	10,532	22,958	595	-	595	23,553
Additions	-	108	2	99	-	209	112	26	138	347
Disposal	-	(219)	(1)	-	-	(220)	-	-	-	(220)
At 31 December 2018	9,406	2,424	282	303	10,532	22,947	707	.26	733	23,680
Accumulated depreciation/amortization										
At 1 January 2017	292	2,018	190	-	-	2,500	537	-	537	3,037
Depreciation/amortization	145	268	21	-	-	434	21	-	21	455
Disposal	-	(147)	(14)	-	-	(161)	(4)	-	(4)	(165)
At 31 December 2017	437	2,139	197	-	-	2,773	554	-	554	3,327
Depreciation/amortization	145	174	19	-	-	338	39	-	39	377
Disposal	-	(219)	-	-	-	(219)	-	-	-	(219)
At 31 December 2018	582	2,094	216	-	-	2,892	593	-	593	3,485
Carrying amounts										
At 31 December 2017	8,969	396	84	204	10,532	20,185	41	-	41	20,226
At 31 December 2018	8,824	330	66	303	10,532	20,057	112	26	138	20,195

16. OTHER ASSETS

	31 December 2018	31 December 2017
Financial assets		
Loans to employees, net	1,821	1,712
	1,821	1,712
Non-financial -assets		
Numismatics (banknotes and coins)	300	302
Printing and minting costs	249	291
Inventory	21	21
Other	83	25
	653	639
Total	2,474	2,351

Loans to employees at 31 December 2018 are net of allowance for impairment of ALL 6 million (2017: ALL 8 million) (see Note 8(E)(vi)(b).

17. 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 2018 and 2017:

	31 December 2018		31 December 2017	
Nominal value ALL	Number in thousand	Total ALL (million)	Number in thousand	Total ALL (million)
Notes:				
100	3,401	340	3,402	340
200	10,730	2,146	11,333	2,267
500	18,795	9,397	17,921	8,961
1,000	36,708	36,708	39,006	39,006
2,000	33,782	67,564	31,203	62,405
5,000	33,032	165,160	31,454	157,269
Coins (1-100)		4,817		4,437
		286,132		274,685

18. DUE TO BANKS

	31 December 2018	31 December 2017
Reserve requirement and current accounts	131,123	146,635
Deposits	6,100	-
Total	137,223	146,635

In accordance with decision of the Supervisory Council no. 39, date 25.06.2014, amended with decision no. 11, date 07.02.2018, the remuneration rate for the reserve requirement in ALL is 100% of the rate of the repurchase and reverse repurchase agreements, approved by the Supervisory Council as on the last day of the base period. As at 31 December 2018, the interest rate is 1% (2017: 70% of the base rate or 0.875%).

Based on the decision no. 11, date 07.02.2018 the remuneration rate for the reserve requirement in EUR held in EUR is equal to the deposit rate defined by the European Central Bank (ECB). As at 31 December 2018 the remuneration rate is negative at 0.4% (2017: negative at 0.4%). The reserve requirement in EUR held in ALL is not remunerated.

As at 31 December 2018 the reserve requirement in USD held in USD and in ALL are not remunerated (2017: not remunerated).

Based on the Decision of the Supervisory Council, No. 29, dated 16 May 2012, 'On the minimum reserve requirement 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 reserve requirement in the form of cash in custody with the Bank.

19. DEPOSITS AND BORROWINGS FROM THIRD PARTIES

	31 December 2018	31 December 2017
Deposits from the Deposit Insurance Agency	5,420	3,856
Deposits from the pension fund	284	97
Deposits from individuals for participation in Treasury Bills auctions	31	80
Total	5,735	4,033

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.

20. DUE TO GOVERNMENT AND STATE INSTITUTIONS

	31 December 2018	31 December 2017
Profit to be distributed to the Government	576	901
Accounts and deposits with the Government	57,201	29,821
Due to state institutions	5,334	4,573
Total	63,111	35,295

Based on the agreement between the Bank and the Ministry of Finance, the Bank of Albania pays interest only for the time deposits placed by the Government of Albania, as well as for a guarantee deposit of ALL 500 million (2017: ALL 500 million) for which the interest rate is based on the decisions of the Supervisory Council. For these deposits the remuneration rate on 31 December 2018 is 1% (2017: 1.25%).

Profit to be distributed to the Government of Albania is detailed as follows:

	Note	31 December 2018	31 December 2017
Net result for the period		(14,321)	(14,332)
Transfer to reserves	22	14,843	15,219
Distribution from profit for the period		522	887
Distribution from other reserves	22	54	14
Total to be distributed to the Government		576	901

The profit to be distributed at 31 December 2018 will be distributed to the Government next year, whereas the profit to be distributed at 31 December 2017 was distributed to the Government in 2018.

21. OTHER LIABILITIES

	31 December 2018	31 December 2017
Financial liabilities		
Due to international financial institutions	53	168
Due to third parties	101	105
Accrued expenses	58	55
	212	328
Non-financial liabilities		
Provisions for claims and litigations	152	150
Grants	1	6
	153	156
Total	365	484

Balances due to international financial institutions include amounts payable to IBRD, International Development Agency ('IDA'), Multilateral Investment Guarantee Agency ('MIGA'), and Islamic Development Bank ('IDB').

The comparative figures for due to third parties and grants, previously classified as accrued expenses have been reclassified to conform with the current year presentation

The movements in provisions for claims and litigations are set out below:

	31 December 2018	31 December 2017
Balance at 1 January	150	139
Provisions made during the year	11	25
Provisions used during the year	-	(5)
Provisions reversed during the year	(9)	(9)
Balance at 31 December	152	150

22. RESERVES

	31 December 2018	31 December 2017
Legal reserve	12,500	12,500
Revaluation reserve	(6,850)	7,993
Fair value reserve (investment securities)	241	(205)
Other reserves	22,100	22,181
Total	27,991	42,469

The legal reserve is created based on the requirements of Article 9 of the Law 'On the Bank of Albania', according to which, the Bank sets aside 25% of the net profit for the year into a Legal Reserve until the reserve amounts to 500% of the capital. The Bank achieved compliance with this requirement as at 31 December 2011 with its legal reserve amounting to ALL 12,500 million.

Based on the point "a" and "c", article 64 of the Law "On the Bank of Albania", the movement in revaluation reserve results from the following items, which are initially recognized in profit or loss and then transferred to revaluation reserves:

	2018	2017
Net foreign exchange losses, other than from trading assets and liabilities	14,106	12,855
Net foreign exchange losses from trading assets and liabilities (Note 24)	438	2,167
Net loss from changes in the fair value of monetary gold (Note 10)	299	225
Total	14,843	15,247

The decrease of ALL 14,843 million (2017: ALL 15,247 million) in revaluation reserve is a result of the depreciation of foreign currencies, and in particular of USD and EUR versus ALL (see Note 8(F)(ii)).

Negative revaluation reserve

Given the negative balance of the revaluation reserve at 31 December 2018 and, pursuant to the requirements of clause "b", article 64 of the Law 'On Bank of Albania' (Note 7(N)) and a bilateral agreement with the Government of Albania, the latter shall issue debt securities to cover the negative balance of the revaluation reserve within April 2019 and upon issuance of the external auditors' report on these financial statements.

Other reserves include the following:

	31 December 2018	31 December 2017
Reserve for the Balance of Payments	7,209	7,209
Reserve of gold and precious metals	7,042	7,042
Reserve for property and equipment	7,849	7,902
Reserve for the estimated effect from financial instruments	-	28
Total	22,100	22,181

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'.

The reserve for property and equipment of ALL 7,849 million (2017: 7,902 million was originally created based on the Decisions of the Supervisory Council of the Bank of Albania No. 19 and No. 20, dated 15 March 2018, as a result of the reallocation of the transition reserve of ALL 5,619 million, created as a result of the first-time adoption of IFRSs, and other reserves of ALL 2,297 million created through the years, less net distributions to the Government of

Albania of ALL 14 million. For the year 2018, the amount distributed to the Government of Albania is ALL 53 million. From the total reserve for property and equipment, an amount of ALL 2,400 million (2017: 2,453 million) is distributable in the future and such distributions are subject to decisions of the Supervisory Council of the Bank of Albania. The remaining part of the reserve for property and equipment is not distributable.

The reserve for the estimated effect from financial instruments was created based on the Decision of the Supervisory Council of Bank of Albania No. 20, dated 15 March 2018, to cover the estimated effect of expected credit losses from the initial adoption of the IFRS 9 on 1 January 2018, amounting to ALL 27 million (Note 8(B)). The remaining amount of such reserve, of ALL 1 million will be distributed to the Government of Albania in 2018 (Note 20).

23. NET INTEREST INCOME

	2018	2017
Interest income calculated using the effective interest method		
Investment securities	2,280	1,702
Loans to banks	482	444
Deposits and current accounts with banks	232	161
Accounts with IMF	173	130
Negative remuneration for reserve requirement	54	95
Other	200	199
Total interest income	3,421	2,731
Interest expense		
Reserve requirements	361	316
Due to the International Monetary Fund	67	42
Due to the Albanian Government	27	10
Deposits from third parties	42	46
Negative interest from deposits and current accounts with banks	567	392
Total interest expense	1,064	806
Net interest income	2,357	1,925

Negative interest from deposits and current accounts with banks of ALL 567 million (2017: ALL 392 million) represents charges arising from negative yielding deposits and accounts placed with foreign banks. Interest income from investment securities includes ALL 1,190 million (2017: ALL 1,091 million) of income from treasury bills issued by the Albanian Government and ALL 1,090 million (2017: ALL 611 million) of income from security lending and foreign reserve investment securities after accounting for the amortization of premium/discount.

24. NET TRADING INCOME

	2018	2017
Interest income from trading assets	257	200
Net loss from the sale of trading assets	(68)	(37)
Unrealized fair value changes	88	(36)
Net profit from forward and future contracts	338	640
Net foreign exchange losses from trading assets and liabilities	(438)	(2,167)
Total	177	(1,400)

The comparative amount for net foreign exchange losses included in net trading income of ALL 2,167 million, previously classified as net foreign exchange losses in the statement of profit or loss and OCI, has been represented to conform to the current year presentation.

25. OTHER REVENUE

See accounting policies in Notes 7(A)(iii) and 7(E).

	2018	2017
Net (loss)/gain on sale of debt investment securities	(169)	533
Other	29	35
Total	(140)	568

26. EMPLOYEE BENEFIT EXPENSES

	2018	2017
Employee salaries and compensations	1,147	1,094
Contributions for health and social security	101	98
Contribution for pension fund (see Note 19)	115	114
Total	1,363	1,306

As at 31 December 2018, the Bank had 516 employees (2017: 496 employees).

27. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Repair and maintenance expenses	154	148
Fees for third-party services	103	106
Information expeses	97	111
Amortization of currency printing and minting costs	75	60
Other staff expenses	62	59
Transportation fees	35	33
Operating lease expenses for office premises	34	36
Publication and membership expenses	13	10
Other expenses	39	48
Total	613	611

28. CONTINGENCIES AND COMMITMENTS

(i) Reverse repurchase agreements

Reverse repurchase agreements, as at 31 December 2018, represented collateralized loans (see Note 11). The nominal value of the securities used as collateral as at 31 December 2018, was ALL 33,350 million (2017: ALL 42,200 million).

(ii) Operating leases

The Bank has entered into operating lease agreements for its office premises for a three year period. At 31 December 2018, operating lease commitments payable within one year are ALL 33 million (2017: 34 million) and, between one and five years are ALL 67 million (2017: nil). There are no operating lease commitments payable after five years.

(iii) Capital commitments

As at 31 December 2018, the Bank has entered into capital commitments of ALL 2,108 million (2017: ALL 2,148 million) for the reconstruction of one of its buildings.

(iv) Credit commitments and collaterals received from employees

The total value of registered collateral for long-term loans extended to employees (see note 16) at 31 December 2018, is ALL 2,492 million (2017: ALL 2,372 million). At 31 December 2018, unused credit commitments for employees amount to ALL 69 million (2017: ALL 77 million).

(v) Legal proceedings

Claims against the Bank may be raised in the normal course of business. In two cases brought by third parties, although liability is not admitted, if the defense is unsuccessful, then certain amounts and legal costs would be paid by the Bank. The outcome of these actions and the amounts claimed by third parties have not yet been determined. The Bank estimates that no material losses will be incurred in respect of claims, in excess of provisions that have been made in these financial statements (see Note 21).

29. MANAGED ASSETS

At 31 December 2018, the Bank acts as custodian for short-term treasury bills with maturities from 3 to 12 months, with total nominal value of ALL 199 billion (2017: ALL 199 billion) and for long-term securities with maturities varying between 2 and 10 years, with nominal value of ALL 362 billion (2017: ALL 337 billion) and EUR 79 million (2017: EUR 114 million). These securities are issued by the Albanian Government.

30. 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 2018 and 2017, balances with related parties comprised:

	2018	2017
Loans to directors		
Directors	132	126
Total	132	126

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.

	2018	2017
Administrative expenses		
Directors and Supervisory Council members:		
Telephone expenses	5	4
Salaries and bonuses	142	136
Per diems	6	6
Directors:		
Fuel compensation	3	3
Contribution to pension plan scheme	14	13
Total of administrative expenses for related parties	170	162

Balances with/(due to) the Albanian Government and state institutions are disclosed in Notes 14 and 20, and related interest income from securities and interest expenses are included in Note 23. Promissory notes issued by the Albanian Government in favour of the IMF are detailed in Note 11, whilst securities issued by the Albanian Government and managed by the Bank are detailed in Note 28.

31. SUBSEQUENT EVENTS

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