



## INDEPENDENT AUDITORS' REPORT

*To the Supervisory Council of Bank of Albania*

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### OPINION

We have audited the financial statements of Bank of Albania (the "Bank"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policy 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 2023 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 ("ISA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements section of our report*. We are independent of the Bank in accordance with *the International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code") and with Institute of Authorizes 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.

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



## **OTHER INFORMATION INCLUDED IN THE BANK OF ALBANIA 2023 ANNUAL REPORT**

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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**

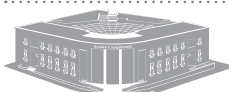
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud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

## **AUDITOR'S 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 of Albania's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report.
- 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 true and fair presentation.

We communicate with those charged with governance of the Bank of Albania 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.

*Ernst & Young Certified Auditors*  
Ernst & Young Statutory Auditors,  
Branch in Albania

*Mario Vangjel*  
Mario Vangjel  
Statutory Auditor

27 March 2024  
Tirana, Albania

Nikolay Garnev  
Country Managing Partner

*Nikolay Garnev*



## STATEMENT OF FINANCIAL POSITION

In ALL million	Note	31 December 2023	31 December 2022
<b>ASSETS</b>			
Cash and balances with banks	9	128,980	90,273
Trading assets	13	13,041	14,313
Monetary gold	10	21,039	18,900
Accounts with the International Monetary Fund	11	41,043	47,697
Loans to banks	12	44,755	51,088
Investment in debt securities	14	486,787	485,221
Property, equipment, right-of-use and intangible assets	15	21,574	21,376
Other assets	16	3,335	3,502
<b>TOTAL ASSETS</b>		<b>760,554</b>	<b>732,370</b>
<b>LIABILITIES</b>			
Currency in circulation	17	407,968	401,129
Due to banks	18	224,111	217,692
Deposits and borrowings from third parties	19	1,997	2,007
Due to Government and public institutions	20	105,024	63,491
Due to the International Monetary Fund	11	37,156	41,932
Other liabilities	21	983	1,021
<b>TOTAL LIABILITIES</b>		<b>777,239</b>	<b>727,272</b>
<b>CAPITAL AND RESERVES</b>			
Statutory Capital and Realized Reserves	22	40,721	40,721
Unrealized Revaluation Reserves	22	(56,974)	(32,300)
Retained earnings	20	(432)	(3,323)
<b>TOTAL CAPITAL AND RESERVES</b>	<b>81</b>	<b>(16,685)</b>	<b>5,098</b>
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<b>760,554</b>	<b>732,370</b>

The financial statements were authorized for issuance by the Supervisory Council of the Bank of Albania and signed on 20 March 2024 on its behalf by:

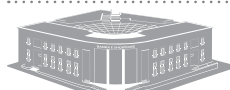




Gent Sejko  
Governor

Ledia Bregu  
Director, Payment Systems, Accounting and Finance Department

The notes on pages 137 to 200 are an integral part of these financial statements.



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In ALL million	Note	2023	2022
Interest income calculated using the effective interest method	23	15,716	4,857
Interest expense	23	(2,166)	(1,259)
<b>Net interest income</b>		<b>13,550</b>	<b>3,598</b>
Fee and commission income		184	150
Fee and commission expense		(47)	(45)
<b>Net income from fees and commissions</b>		<b>137</b>	<b>105</b>
Net trading income	24	882	35
Net losses from sales of financial assets at FVOCI	25	(2,772)	(4,165)
Net other income		130	24
Net losses from changes in the fair value of monetary gold	10	(128)	(98)
Net foreign exchange gains/losses	22	(36,020)	(14,473)
<b>Total income from banking operations</b>		<b>(24,221)</b>	<b>(14,974)</b>
Impairment losses on financial instruments, net		(6)	(18)
Employee benefit expenses	26	(1,639)	(1,507)
Depreciation and amortization	15	(360)	(356)
Other general and administrative expenses	27	(826)	(795)
<b>Net loss for the year</b>		<b>(27,052)</b>	<b>(17,650)</b>
<b>Other comprehensive income:</b>			
<i>Items that cannot be reclassified to profit or loss at a future point in time</i>			
<i>Items that can be reclassified to profit or loss at a future point in time</i>		11,526	(13,567)
Debt instruments at FVOCI – net change in fair value	22	11,526	(13,567)
<b>Other comprehensive profit / (loss) for the year</b>		<b>11,526</b>	<b>(13,567)</b>
<b>Total comprehensive loss for the year</b>		<b>(15,526)</b>	<b>(31,217)</b>

The notes on pages 137 to 200 are an integral part of these financial statements.



## STATEMENT OF CHANGES IN EQUITY

In ALL million	Statutory Capital and realized Reserves			Unrealized Revaluation Reserves			Retained earnings / (Accumulated losses)	Total
	Capital	Legal reserve	Other reserves	Revaluation reserve	Fair value reserve	Other reserves		
As at 1 January 2022	2,500	12,500	19,701	(5,995)	(355)	2,241	(296)	30,296
<b>Total comprehensive income</b>								
Net result for the year	-	-	-	-	-	-	(17,650)	(17,650)
<b>Other comprehensive income</b>	-	-	-	-	-	-	-	-
Fair value reserve (debt instruments FVOCI)	-	-	-	-	(13,567)	-	-	(13,567)
<b>Other comprehensive income, net of tax</b>	-	-	-	-	(13,567)	-	-	(13,567)
<b>Total comprehensive income</b>	-	-	-	-	(13,567)	-	(17,650)	(31,217)
Transfers to reserves (Note 22)	-	-	-	(14,571)	-	(53)	14,623	-
<b>Contributions and distributions</b>								
Capital deficit reserve (Note 22, 14)	-	-	6,020	-	-	-	-	6,020
Distribution to Government of Albania (Note 20)	-	-	-	-	-	-	-	-
<b>Total contributions and distributions</b>	-	-	6,020	(14,571)	-	(53)	14,623	6,020
As at 31 December 2022	2,500	12,500	25,721	(20,566)	(13,922)	2,188	(3,323)	5,098
<b>Total comprehensive income</b>								
Net result for the year	-	-	-	-	-	-	(27,052)	(27,052)
<b>Other comprehensive income</b>	-	-	-	-	-	-	-	-
Fair value reserve (debt instruments FVOCI)	-	-	-	-	11,526	-	-	11,526
<b>Other comprehensive income, net of tax</b>	-	-	-	-	11,526	-	-	11,526
<b>Total comprehensive income</b>	-	-	-	-	11,526	-	(27,052)	(15,526)
Transfers to reserves (Note 22)	-	-	-	(36,147)	-	(53)	36,200	-
<b>Contributions and distributions</b>								
Compensation of security for 2022 capital deficit (Note 22, 14)	-	-	-	-	-	-	(6,257)	(6,257)
Distribution to Government of Albania (Note 20)	-	-	-	-	-	-	-	-
<b>Total contributions and distributions</b>	-	-	-	(36,147)	-	(53)	29,943	(6,257)
As at 31 December 2023	2,500	12,500	25,721	(56,713)	(2,396)	2,135	(432)	(16,685)

The notes on pages 137 to 200 are an integral part of these financial statements.



## STATEMENT OF CASH FLOWS

In ALL million	Note	2023	2022
<b>Cash flows from operating activities</b>			
Net result for the period		(27,052)	(17,650)
Adjustments for:			
Depreciation and amortization	15	360	356
Net impairment loss on financials instruments		6	18
Net interest income	23	(13,550)	(3,594)
Net trading income	24	901	(131)
Net loss on sale of investments in debt securities	25	(2,772)	(4,165)
Net gain from changes in the fair value of monetary gold	10	128	98
Net realized losses from foreign exchange	22	34,238	14,566
		<b>(7,741)</b>	<b>(10,502)</b>
Changes in:			
Trading assets		384	582
Monetary Gold	10	(2,270)	(1,892)
Accounts with the International Monetary Fund	11	6,194	10,426
Loans to and deposits with banks	12	6,359	(9,471)
Other assets		166	180
Currency in circulation		6,838	22,987
Due to banks		18,431	36,265
Deposits and borrowings from third parties		4	(766)
Due to Government and state institutions		45,205	(40,121)
Due to the International Monetary Fund		(4,735)	(1,676)
Other liabilities		66	(310)
Reserve		(57)	(28)
Other		171	18
		<b>69,015</b>	<b>5,692</b>
Interest received		14,486	4,125
Interest paid		(2,208)	(1,277)
<b>Net cash flows from operating activities</b>		<b>81,293</b>	<b>8,540</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities		(323,294)	(390,008)
Proceeds from sold and matured investment securities		286,900	200,151
Acquisition of property, equipment and intangible assets		(560)	(700)
<b>Net cash used in investing activities</b>		<b>(36,954)</b>	<b>(190,557)</b>
<b>Cash flows from financing activities</b>			
Distributions to Government	20	-	-
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>
<b>Increase in cash and cash equivalents</b>		<b>44,339</b>	<b>(182,017)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>90,273</b>	<b>274,725</b>
Effect of movements in exchange rates on cash held		(5,632)	(2,435)
<b>Cash and cash equivalents at the end of the year</b>	9	<b>128,980</b>	<b>90,273</b>

The notes on pages 137 to 200 are an integral part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2023

*(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', as amended.

Pursuant to this Law, 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, adviser to, and fiscal agent of the Government of the Republic of Albania; and
- promoting an effective operation of payment systems.

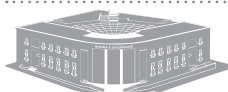
The Bank is subject to the regulatory requirements of the Assembly of the Republic of Albania and the Law 'On the Bank of Albania', as amended.

#### *Macroeconomic and geopolitical uncertainty*

##### *The war in Ukraine and in the Middle-East*

Volatility in international markets due to the war in Ukraine has subsided in 2023. Overall commodity prices decreased throughout the year and both securities and foreign exchange markets were less volatile. The monetary policy normalisation drive of the major global central banks continued, resulting in decreased credit flows, subdued activity, slowdown of private consumption and investments. The start of the conflict in the Middle-East was accompanied with fears of renewed volatility in international markets, decoupling of global supply-chains and new inflationary waves. By the end of 2023, the latter were not materialised owing partly to tight global financial markets, reduced demand and the localised nature of the conflict.

The domestic market was characterised by appreciation of the local currency to the euro due to strong tourism inflows, declining inflation and higher interest rates. Economic activity has proved resilient as private consumption and investments continued to expand.





***Inflation, interest rate, foreign currency fluctuations and the current economic environment***

The Bank is an institution mandated by the Law to draft the monetary, regulatory and macroprudential supervision policies, in support of price and financial stability.

With the aim of efficiently fulfilling these tasks, the Bank has a high level of operational and financial independence. This means that: (i) the Bank has the opportunity and obligation to follow those policies and use those instruments which it deems most appropriate for the fulfillment of its objectives, without (ii) being limited by their impact on the financial result of the Bank.

As a result of stressed international market conditions, with strong and rapid developments, the monetary policy normalisation was deemed necessary, in order to control the increase in inflation and to support the overall economic and financial stability of the country. The Bank of Albania continued its monetary policy normalisation drive in 2023, with two additional policy rate hikes of 0.25 percentage points each. These hikes were aimed at avoiding the disanchoring of inflation expectations, reducing domestic inflationary pressures and avoiding potential wage-price spirals in the light of a very tight labour market and fast wage growth.

The strengthening of the exchange rate reflecting primarily structural improvements of the external position of the economy has brought - as a whole - positive consequences to the soundness of public balances and has helped monetary and financial stability. The former has helped cushion foreign inflationary pressures, led to a more measured policy normalisation drive, increase in the domestic currency credit stock and further decrease of non-performing loans in foreign currency.

On the other hand, the strengthening of the local currency has decreased the value of the foreign reserves in local currency terms, while in original currency terms the foreign currency reserves have increased by 17.9 %. The Bank by its nature has an open exposure to foreign currency risk due to its obligation of maintaining these reserves, and a strengthening local currency will cause a negative impact in profit and loss, and the capital of the Bank (see Note 8(I)).

**2. STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board (IASB).

**3. FUNCTIONAL AND PRESENTATION CURRENCY**

These financial statements are presented in Albanian Lek ('ALL), 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	Fair value

#### 5. USE OF ESTIMATES AND JUDGMENTS

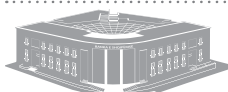
In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's material accounting policy information and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 2023 and 2022:
  - 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 ECLs;
  - Note 7(B) – currency in circulation: classification of cash in circulation as a financial liability;
  - Note 7(G) – monetary gold: measurement of monetary gold at fair value with changes in fair value recognized in profit or loss; and
  - Note 7(V) - The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.



## 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 2023 is included in the following notes:

- Applicable to 2023 and 2022:
  - Note 8(E)(vi)(a) and Note 7(A)(vii) – impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information and key assumptions used in estimating recoverable cash flows;
  - Note 7(A)(vi) – determination of the fair value of financial instruments with significant unobservable inputs; and use of fair value models.

## 6. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

### *New and amended standards and interpretations.*

The Bank has not early adopted any new standards, interpretation or amendments that have been issued but are not yet effective in these financial statements.

**The amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2:** Disclosure of Accounting policies provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. As a result of these amendments the Bank has re-assessed its accounting policies disclosure and the amendments had no impact on the measurement, recognition and presentation of the items in the financial statements.

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Bank's financial statements.

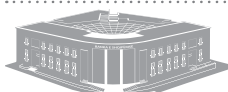
*The following amendments are effective for the periods after 31 December 2023 and are not expected to have a material impact on the Bank.*

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments).** The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the



meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The Bank will analyze and assess the impact of the new amendments on its financial position or performance.

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments).** The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The Bank will analyze and assess the impact of the new amendments on its financial position or performance.
- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)** The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments



note that an entity can use an observable exchange rate without adjustment or another estimation technique. No impact is expected from the amendment as the Bank rarely enters in currency transactions with lacking exchange rate.

## 7. ACCOUNTING POLICIES

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

The Bank may recognise a financial asset or liability in its balance sheet if, and only if it becomes a party to the contractual terms of the financial instruments used. The Bank derecognises a financial asset from its balance sheet:

- when it loses control over the contractual rights that constitute the financial asset;
- when the obligation stated in the contract is extinguished, cancelled or expired.

### 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.

Financial assets and liabilities are recognised in off-balance-sheet accounts from the trade date to the date of their settlement and are recorded in the Bank of Albania's balance sheet at the settlement date (value date). The initial recognition is at acquisition cost, i.e. the fair price paid on acquisition. Transaction costs are included in the acquisition cost of all assets and liabilities, except for financial assets and financial liabilities recorded at FVPL, where transaction costs are added to, or subtracted from, this amount. From that moment on, any changes in their fair value are recognised by the Bank as income or expense.

#### (ii) Classification

On initial recognition, a financial asset is classified as measured at either one of the following categories:

- 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 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.

The business model of financial assets held to collect contractual cash flows includes all current accounts and deposits of the Bank with foreign correspondents, and the cash flows under the model used for these assets represent only principal and interest payments.

These financial assets are measured at amortised cost.

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.

The business model of financial assets held to collect contractual cash flows and for sale includes: securities and investment. Assets in this group are measured, as follows:

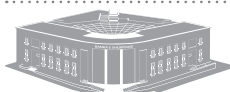
- debt securities: at fair value in other comprehensive income.

All other financial assets are classified as measured at FVTPL.

#### *Business model assessment*

The Bank makes an assessment of the objectives 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 portfolios 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 future 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:

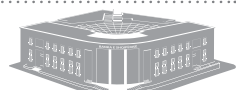
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

*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 liabilities**

The Bank classifies its financial liabilities as measured at amortised cost. For details, refer to (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.

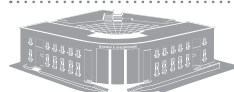
**Financial liabilities**

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

**(iv) Modifications of financial assets and financial liabilities****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 (refer to (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as a separate line as an "interest income" (refer to Note 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 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**

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 ECLs are the portion of ECLs that results 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 ECLs are the ECLs 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 ECLs***

ECLs 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.

For more details, refer to Note 8(D)(vi)(b).

#### ***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 ECLs in the statement of financial position***

Loss allowances for ECLs 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.

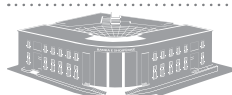
Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

## ***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. Financial assets and liabilities at fair value through profit or loss (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. Financial assets and liabilities at fair value through other comprehensive income***

Financial assets and liabilities at fair value through other comprehensive income represent those for which the Bank expects to collect contractual cash flows by either holding or selling the instrument. 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;
- ECLs 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.

#### ***F. Loans and receivables***

Loans and receivables include loans measured at amortised cost (refer to 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 Bank's financial statements.

#### ***G. Monetary Gold***

The Bank of Albania as a central bank maintains particular volumes of gold as part of Albania's international reserves. In compliance with the requirements



of the Law on the Bank of Albania, the Bank may take any necessary action in connection with the acquisition, possession and sale of gross international reserves, including monetary gold. Consequently, monetary gold as part of international reserves may be immediately used by the Bank without further constraints which determines it as a monetary asset. Pursuant to the requirements of the 'General Provisions for Defining the Valuation Basis in the Financial Statements' to the IFRS, the Bank defines the recognition and valuation of the monetary gold as an asset reported at fair value through profit or loss as the most reliable and appropriate base for a subsequent valuation of this monetary asset. Gold is measured at market value based on the London Bullion Market fixing in US dollar at the reporting date. Gold in standard form (monetary gold) is initially recognised at acquisition cost.

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'. Unrealised gains and losses on the revaluation of the monetary gold and other gold instruments of the Bank are recognised in the income statement.

#### *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*

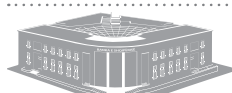
The costs of printing banknotes and minting coins, which have not yet been put into circulation, are initially recognized as assets at acquisition cost and subsequently amortized on a straight-line basis over 5 years and 10 years, respectively.

#### *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 and licenses.

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

Subsequent expenditure on intangible assets 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 intangible asset, from the date that it is available for use. Work in progress is not amortized.

The estimated useful lives are as follows:

-	Software and licenses	4 years
-	Other intangible asset	6.6 years

## 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 (refer to Note 22). Adjustments to the accounting records, as well as the relevant recognition records in the revaluation reserve are reported in accordance with International Financial Reporting Standards.

### (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 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	25 - 70 years
•	Installations	4 - 20 years
•	Vehicles	5 - 10 years
•	Furniture and equipment	4 - 20 years

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



## L. Interest

### **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 by 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 by 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.

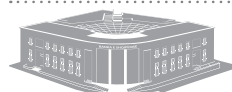
The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

### **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, refer to Note 7(A) (vii).

As at 31 December 2023 and 31 December 2022 there are no credit-impaired financial assets.

### **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 (refer to Note 7(O)). Profits and losses, arising from changes in the fair value of financial instruments reported at fair value through profit or loss, are recognised in the income statement.

Interest income and expense are recognised on an accrual basis in accordance with the Bank's interest rate policy and concluded agreements with international financial institutions and customers of the Bank. Interest income and expense are recognised in the income statement. Interest income and expense also include the amortisation of the discount and premium calculated on the basis of the effective interest rate.

Interest income on foreign securities held in the Bank of Albania's portfolio includes interest rates on interest coupons of securities issued. Interest income on deposits includes interest income on deposits in foreign currency and in gold.

Other financial income/expenses include income and expenses from sales and changes in the fair value of financial assets and liabilities held for trading and assets available for sale.

Net gains/losses from financial assets and liabilities include net gains from operations in securities, net gains from operations in foreign currency, net revaluation gains on securities, net gains from gold revaluation, net gains from revaluation of futures, and net gains from revaluation of assets and liabilities denominated in foreign currency.



### *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 at the moment the related services are performed.

In accordance with IFRS 15, revenue from contracts with customers is recognised when the Bank has fulfilled its performance obligations by transferring the promised services to the customer. Revenue is recognised at an amount reflecting the consideration expected to be received in return. No changes in the valuation and recognition of fees and commissions have occurred as a result of the entry into effect of IFRS 15. 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*

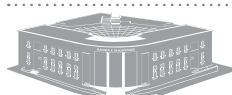
Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions. The exchange rates of the major foreign currencies as of 31 December 2023 and 31 December 2022 are disclosed in Note 8 F(ii).

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 and those arising from available-for-sale investments 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 are accumulated to the 'Revaluation reserve' included in Capital and Reserves. According to Article 64 (b) in 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 and government security compensation pursuant to the Article 10(1) of 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 (refer to Note 14).

#### **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. Leases**

The Bank assesses at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank applies a single recognition and measurement approach for all leases, except for the short term leases and leases of low-value assets.

The Bank recognises lease liabilities to make lease payments and Right-of-use assets representing the right to use the underlying assets.

**Right-of-use asset**

The Bank recognises right-of-use assets at the commencement date of the lease. Right-of use assets are measured of cost, less any depreciation or impairment losses, and adjusted for any remeasurement of lease liabilities.

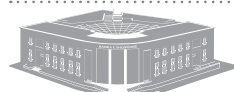
The cost of the right-of-use assets include the amount of the lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated in a straight-line basis over the lease term.

The right-of-use assets are presented within Note 15 "Property, equipment, right-of-use and intangible assets".

**Lease liabilities**

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any incentive receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalty for terminating the lease, if the lease reflects exercising the option to terminate.

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.



As at 31 December 2023, the Bank does not have any lease contracts except for a short-term 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.



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

### A. Classification of financial assets and financial liabilities

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in note 7(A)(ii).

- (a) The Bank has classified the exposures with the 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. See accounting policies in Note 7(A)(ii).
- (c) Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments and trading assets administered by "IBRD".

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



31 December 2023	FVTPL	FVOCI – debt instruments	Amortised cost	Total carrying Amount
<b>ASSETS</b>				
Cash and balances with banks	-	-	128,980	128,980
Trading assets	13,041	-	-	13,041
Accounts with the International Monetary Fund	-	-	41,043	41,043
Loans to banks	-	-	44,755	44,755
Investment securities FVOCI	-	486,787	-	486,787
Other assets	-	-	2,158	2,158
<b>Total financial assets</b>	<b>13,041</b>	<b>486,787</b>	<b>216,936</b>	<b>716,764</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	407,968	407,968
Due to banks	-	-	224,111	224,111
Deposits and borrowings from third parties	-	-	1,997	1,997
Due to Government and state institutions	-	-	105,024	105,024
Due to the International Monetary Fund	-	-	37,156	37,156
Other liabilities	-	-	880	880
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>777,136</b>	<b>777,136</b>

31 December 2022	FVTPL	FVOCI – debt instruments	Amortised cost	Total carrying Amount
<b>ASSETS</b>				
Cash and balances with banks	-	-	90,273	90,273
Trading assets	14,313	-	-	14,313
Accounts with the International Monetary Fund	-	-	47,697	47,697
Loans to banks	-	-	51,088	51,088
Investment securities at FVOCI	-	485,221	-	485,221
Other assets	-	-	2,298	2,298
<b>Total financial assets</b>	<b>14,313</b>	<b>485,221</b>	<b>191,356</b>	<b>690,890</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	401,129	401,129
Due to banks	-	-	217,692	217,692
Deposits and borrowings from third parties	-	-	2,007	2,007
Due to Government and state institutions	-	-	63,491	63,491
Due to the International Monetary Fund	-	-	41,932	41,932
Other liabilities	-	-	921	921
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>727,172</b>	<b>727,172</b>

## B. 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 document 'Operational Guidelines for Investment'; 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 income securities, in deposits or certificates of deposit, and in derivative instruments related with these instruments.

The remaining foreign reserves are held in Special Drawing Rights ("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.

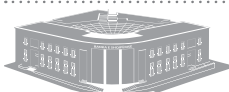
Following the review of the accounting policy for monetary gold (see Notes 5(A) and 7(G)) in 2016, the Bank concluded that monetary gold is not a financial instrument.

### **C. 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 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.

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 2023	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 12 months	1 to 5 years	Over 5 years	Undefined maturity	Total
<b>Financial assets</b>								
<b>Non-derivative assets</b>								
Cash and balances with banks	124,898	3,549	267	266	-	-	-	128,980
Trading assets	-	383	428	1,129	11,101	-	17,593	13,041
Account with the IMF	23,450	-	-	-	-	-	-	41,043
Loans to banks	37,785	6,970	-	-	-	-	-	44,755
Investment securities	15,974	37,379	52,199	76,864	288,374	15,997	-	486,787
Other assets (note 16)	2	-	-	-	37	2,119	-	2,158
	<b>202,109</b>	<b>48,281</b>	<b>52,894</b>	<b>78,259</b>	<b>299,512</b>	<b>18,116</b>	<b>17,593</b>	<b>716,764</b>
<b>Derivative assets</b>								
Exchange rate forward contracts								
Interest rate future contracts	-							
	<b>202,109</b>	<b>48,281</b>	<b>52,894</b>	<b>78,259</b>	<b>299,512</b>	<b>18,116</b>	<b>17,593</b>	<b>716,764</b>
<b>Financial liabilities</b>								
<b>Non-derivative liabilities</b>								
Currency in circulation	-	-	-	-	-	-	407,968	407,968
Due to banks	213,731	-	10,380	-	-	-	-	224,111
Deposits and borrowings from third parties	1,997	-	-	-	-	-	-	1,997
Due to Government and state institutions	104,524	-	-	-	-	-	500	105,024
Due to the IMF	14,316	-	-	-	-	-	22,840	37,156
Other liabilities	880	-	-	-	-	-	-	880
	<b>335,448</b>	<b>-</b>	<b>10,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>431,308</b>	<b>777,136</b>
<b>Asset-liability maturity mismatch as at 31 December 2023</b>	<b>(133,339)</b>	<b>48,281</b>	<b>42,514</b>	<b>78,259</b>	<b>299,512</b>	<b>18,116</b>	<b>(413,715)</b>	<b>(60,372)</b>



31 December 2022	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 12 months	1 to 5 years	Over 5 years	Undefined maturity	Total
<b>Financial assets</b>								
<b>Non-derivative assets</b>								
Cash and balances with banks	90,273	-	-	-	-	-	-	90,273
Trading assets	20	-	969	1,500	11,822	-	-	14,311
Account with the IMF	27,818	-	-	-	-	-	19,879	47,697
Loans to banks	40,262	10,826	-	-	-	-	-	51,088
Investment securities	9,167	29,866	65,919	95,381	278,281	6,607	-	485,221
Other assets (note 16)	2	-	-	-	27	2,269	-	2,298
	<b>167,542</b>	<b>40,692</b>	<b>66,888</b>	<b>96,881</b>	<b>290,130</b>	<b>8,876</b>	<b>19,879</b>	<b>690,888</b>
<b>Derivative assets</b>								
Exchange rate forward contracts	-	1	-	-	-	-	-	2
Interest rate future contracts	-	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>167,542</b>	<b>40,693</b>	<b>66,888</b>	<b>96,882</b>	<b>290,130</b>	<b>8,876</b>	<b>19,879</b>	<b>690,890</b>
<b>Financial liabilities</b>								
<b>Non-derivative liabilities</b>								
Currency in circulation	-	-	-	-	-	-	401,129	401,129
Due to banks	205,252	-	12,440	-	-	-	-	217,692
Deposits and borrowings from third parties	2,007	-	-	-	-	-	-	2,007
Due to Government and state institutions	62,991	-	-	-	-	-	500	63,491
Due to the IMF	16,174	-	-	-	-	-	25,757	41,932
Other liabilities	921	-	-	-	-	-	-	921
	<b>287,345</b>	<b>-</b>	<b>12,440</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>427,386</b>	<b>727,172</b>
<b>Asset-liability maturity mismatch as at 31 December 2022</b>	<b>(119,803)</b>	<b>40,693</b>	<b>54,448</b>	<b>96,882</b>	<b>290,130</b>	<b>8,876</b>	<b>(407,507)</b>	<b>(36,282)</b>



## D. Credit risk

Credit risk is the risk of financial loss to the Bank, if 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's risks).

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

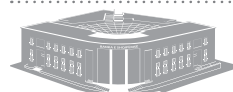
Custody risk is the risk of a loss of assets placed in custody in the case of insolvency, negligence, fraud, mismanagement or inadequate portfolio maintenance practices by the custodian. The Bank minimizes this risk by selecting for securities' custody services reputable international financial institutions 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 2023 and 31 December 2022:

	31 December 2023	31 December 2022
<b>Assets</b>		
Cash and balances with banks (excluding cash on hand -Note 9)	128,956	90,254
Accounts with the IMF (Note 11)	41,043	47,697
Loans to banks (Note 12)	44,755	51,088
Trading assets (Note 13)	13,041	14,313
Investment securities (Note 14)	486,787	485,221
Other financial assets (loans to employees) (Note 16)	2,158	2,298
<b>Total</b>	<b>716,740</b>	<b>690,871</b>

**Assets denominated in foreign currencies** - 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 and then the Director of the Monetary Operations Department are 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- ( 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 A-.

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 management of foreign reserves portfolio, as a first step the Bank monitors economic developments in the economies in which Bank is exposed through investments in securities. The extent of monitoring and the level of management input vary. For major currencies, the Bank considers that the rating agencies' credit ratings and other public information are reflected in the prices and data for Expected Credit Losses (ECLs). 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.

During 2023 the global economy was characterized by a high degree of uncertainty, though in a lower scale compared to 2022 . Events such as the ongoing military conflict between Russia and Ukraine, the conflict in Middle East between Palestine and Izrael and the crises on the American and European banking sector with the failure of the Sillicon Valley Bank and Credit Suisse AG have resulted in a high volatility of interest rates in the main global economies. Inflation has fallen significantly during the year but was still far from the objective



of the central banks. This has resulted in many central banks maintaining the base interest rates steady during the second half of the year in order to keep monitoring the inflation, but also to contain any eventual upcoming recession.

In terms of potential losses from credit risk, the Bank of Albania's well diversified and high quality portfolio has been neutral.

#### ***Assets denominated in domestic currency***

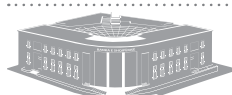
Assets denominated in domestic currency include loans to banks, investment debt securities issued by the Albanian Government and loans to employees included in other financial assets.

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 are 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. 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.

	2023				2022
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Cash and balances with banks at amortised cost</b>					
Rated AAA	38,947	-	-	38,947	50,946
Rated AA- to AA+	74,833	-	-	74,833	25,616
Rated A- to A+	11,885	-	-	11,885	10,799
Rated BBB+ and below	-	-	-	-	-
Albanian Government B+ *	-	-	-	-	-
BIS Basel	3,303	-	-	3,303	2,899
	<b>128,968</b>	-	-	<b>128,968</b>	<b>90,260</b>
Loss allowance	(12)	-	-	(12)	(6)
<b>Carrying amount</b>	<b>128,956</b>	-	-	<b>128,956</b>	<b>90,254</b>
<b>Accounts with the IMF**</b>					
Unrated	41,043	-	-	-	47,697
	<b>41,043</b>	-	-	<b>41,043</b>	<b>47,697</b>
Loss allowance	-	-	-	-	-
<b>Carrying amount</b>	<b>41,043</b>	-	-	<b>41,043</b>	<b>47,697</b>
<b>Loans to banks at amortised cost</b>					
Grade: Low-fair risk	-	-	-	-	-
Grade: Low risk	44,755	-	-	-	51,088
Grade: Average risk	-	-	-	-	-
Grade: Moderately high risk	-	-	-	-	-
Grade: High risk	-	-	-	-	-
	<b>44,755</b>	-	-	<b>44,755</b>	<b>51,088</b>
Loss allowance	-	-	-	-	-
<b>Carrying amount</b>	<b>44,755</b>	-	-	<b>44,755</b>	<b>51,088</b>
<b>Debt investment securities at FVOCI</b>					
Rated AAA	97,236	-	-	97,236	157,025
Rated AA- to AA+	241,969	-	-	241,969	155,931
Rated A- to A+	32,914	-	-	32,914	33,338
Rated BBB+ and below	17,293	-	-	17,293	8,144
Albanian Government (B+)*	68,639	-	-	68,639	74,065
BIS Basel	28,736	-	-	28,736	56,718
<b>Carrying amount – fair value</b>	<b>486,787</b>	-	-	<b>486,787</b>	<b>485,221</b>
Loss allowance	(43)	-	-	(43)	(47)
<b>Carrying amount – fair value</b>	<b>486,787</b>	-	-	<b>486,787</b>	<b>485,221</b>
<b>Other financial assets at amortised cost</b>					
Unrated	2,164	-	-	2,164	2,304
	<b>2,164</b>	-	-	<b>2,164</b>	<b>2,304</b>
Loss allowance	(6)	-	-	(6)	(6)
<b>Carrying amount</b>	<b>2,158</b>	-	-	<b>2,158</b>	<b>2,298</b>

\* The Albanian Government is rated as B+, positive, 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.

	2023	2022
<b>Bonds of foreign agencies</b>		
Rated AAA	999	776
Rated AA- to AA+	1,960	2,350
	<b>2,959</b>	<b>3,126</b>
<b>Bonds of foreign governments and multilateral institutions</b>		
Rated AAA	447	10,015
Rated AA- to AA+	9,635	1,170
	<b>10,082</b>	<b>11,185</b>
<b>Total trading debt securities</b>	<b>13,041</b>	<b>14,311</b>

(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.

	Note	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
		31 December 2023	31 December 2022	
<b>Loans to banks</b>				
Reverse repurchase agreements and overnight loans	12	100	100	Albanian Government debt securities
<b>Other financial assets</b>				
Loans to employees	16	100	100	Mortgage or contract guarantees

At 31 December 2023, the Bank held loans to banks of ALL 44,755 million (31 December 2022: ALL 51,088 million), for which no loss allowance is recognised because of full collateral coverage.

(vi) *Amounts arising from ECLs*

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

For more details refer to 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. The methodology for determining PDs for investments in domestic commercial banks is based on the main risk indicators used for supervisory purposes whereas the areas considered by this system include the capital adequacy, credit risk, liquidity and profitability of



the counterparty. This analysis includes the identification and calibration of relationships between changes in country's key macro-economic factors and the capital resilience of the domestic institution. Key macro-economic indicators include: GDP growth, exchange rates, benchmark interest rates and credit growth. 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 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 (base scenario) and the transition matrix of a financial crisis year (alternative recession scenario), weighted against respective probabilities of the different scenarios happening in the future.

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 fulfil its contractual cash flow obligations in the short-term which consider also the macroeconomic 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 due instalment 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 i.e. one-year PD transition matrix at reporting as per latest report available and one-year PD transition matrix relevant to the latest financial crisis obtained by S&P, weighted according to a given probability, and;
- LGD specified for the uncollateralized senior debt of sovereign, corporate and bank issuers and deposits. and current accounts at central banks obtained from Moody's.

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 ECLs.



For exposures in domestic currency, the Bank formulates a “Baseline 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” represents 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 ECLs***

The key inputs into the measurement of ECLs 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 ratings 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. For the portfolios in foreign currency based on bank's investment policy are used the ratings of the three main rating agencies as a key input to evaluate portfolios.

The portfolios for which external benchmark information represents a significant input into measurement of ECL comprise financial assets in foreign currency as follows:

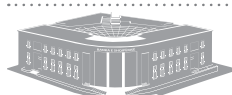
In ALL Million	Exposure	External benchmarks used	
		PD	LGD
Cash and balances with banks (current accounts and deposits)	128,381	2nd Best Rating (from: S&P, Moody's and Fitch)	Moody's recovery studies
Investment securities in foreign currency	418,148	2nd Best Rating (from: S&P, Moody's and Fitch)	Moody's 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 assets are included in Note 7(A)(vii).

	2023				2022
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Cash and balances with banks</b>					
Balance at 1 January	6	-	-	6	15
Net remeasurement of loss allowance	6	-	-	6	(9)
<b>Balance at end of the period</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>12</b>	<b>6</b>
<b>Other assets at amortised cost</b>					
Balance at 1 January	6	-	-	6	6
Net remeasurement of loss allowance	-	-	-	-	-
<b>Balance at end of the period</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>6</b>
<b>Investment debt securities at FVOCI</b>					
Balance at the beginning of the period	47	-	-	47	22
Net remeasurement of loss allowance	(4)	-	-	(4)	25
<b>Balance at end of the period</b>	<b>43</b>	<b>-</b>	<b>-</b>	<b>43</b>	<b>47</b>
<b>Total</b>					
Balance at the beginning of the period	59	-	-	59	43
Net remeasurement of loss allowance	2	-	-	2	16
<b>Balance at end of the period</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>61</b>	<b>59</b>

For debt investment securities measured at FVOCI, the allowance for ECL does not reduce the carrying amount in the financial statement position, which remains at fair value.



(c) Credit-impaired financial assets

For more details refer to accounting policy in Note 7(A)(vii).

As at 31 December 2023 and 31 December 2022, 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 2023	Germany	France	Other EU countries	Switzerland	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	33,108	31,988	1,173	8,565	8,439	-	45,683	128,956
Trading assets	846	887	1,182	57	9,186	-	883	13,041
Accounts with the IMF	-	-	-	-	-	-	41,043	41,043
Loans to banks	-	-	-	-	-	44,755	-	44,755
Investment securities	53,243	85,673	155,525	28,736	69,120	68,639	25,851	486,787
Other assets (Note 16)	-	-	-	-	-	2,158	-	2,158
<b>Total</b>	<b>87,197</b>	<b>118,548</b>	<b>157,880</b>	<b>37,358</b>	<b>86,745</b>	<b>115,552</b>	<b>113,460</b>	<b>716,740</b>

31 December 2022	Germany	France	Other EU countries	Switzerland	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	40,297	9,064	55	2,899	10,647	-	27,292	90,254
Trading assets	972	1,007	1,361	73	9,428	2	1,470	14,313
Accounts with the IMF	-	-	-	-	-	-	47,697	47,697
Loans to banks	-	-	-	-	-	51,088	-	51,088
Investment securities	71,262	57,188	140,861	56,718	56,309	74,064	28,819	485,221
Other assets (Note 16)	-	-	-	-	-	2,298	-	2,298
<b>Total</b>	<b>112,531</b>	<b>67,259</b>	<b>142,277</b>	<b>59,690</b>	<b>76,384</b>	<b>127,452</b>	<b>105,278</b>	<b>690,871</b>



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

31 December 2023	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investment securities	Other assets	Total
Central Banks	85,421	9,046	41,043	-	-	-	135,510
Bank for International Settlements ("BIS Basel")	3,302	-	-	-	28,736	-	32,038
Foreign governments and multilateral institutions	-	677	-	-	322,393	-	323,070
Foreign agencies	-	2,885	-	-	34,937	-	37,822
Commercial Banks	40,233	433	-	44,755	32,082	-	117,503
Albanian Government	-	-	-	-	68,639	-	68,639
Other assets	-	-	-	-	-	2,158	2,158
<b>Total</b>	<b>128,956</b>	<b>13,041</b>	<b>41,043</b>	<b>44,755</b>	<b>486,787</b>	<b>2,158</b>	<b>716,740</b>

31 December 2022	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investment securities	Other assets	Total
Central Banks	70,846	9,461	47,697	-	-	-	128,004
Bank for International Settlements ("BIS Basel")	2,898	-	-	-	56,718	-	59,616
Foreign governments and multilateral institutions	-	667	-	-	280,893	-	281,560
Foreign agencies	-	3,358	-	-	34,502	-	37,860
Commercial Banks	16,510	825	-	51,088	39,044	-	107,467
Albanian Government	-	2	-	-	74,064	-	74,066
Other assets	-	-	-	-	-	2,298	2,298
<b>Total</b>	<b>90,254</b>	<b>14,313</b>	<b>47,697</b>	<b>51,088</b>	<b>485,221</b>	<b>2,298</b>	<b>690,871</b>

## E. Market risk

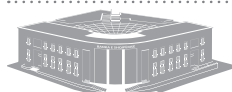
Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank of Albania's income or the value of its holdings of financial instruments. The objective 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 continuous 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, in such a manner, 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 at least 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 for active management at the tranche level. The limits for active management at portfolio level are established by the Director 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 Value at Risk ("VaR").

- Duration measures the sensitivity of the price of a fixed-income security due to 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 time horizon due to its exposure to the risk factors with a specified confidence interval.

For the purposes of foreign 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 or high quality agency issues, depending on the specific benchmark for each currency and for non-benchmark instruments the data used encompasses changes in interest rates for 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 2023 and 2022:

	31 December 2023	31 December 2022
VaR (95%) in ALL million	(14,191)	(10,592)

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) in OCI for each scenario is as follows:

Estimated effect on OCI in ALL million	2023		2022	
	100 bp	50 bp	100 bp	50 bp
Increase	(9,828)	(4,914)	(7,859)	(3,930)
Decrease	9,828	4,914	7,859	3,930

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 2023	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
<b>Interest-earning assets</b>						
Cash and balances with banks	128,979	114,349	9,950	3,549	533	598
Trading assets	13,041	241	-	383	12,417	-
Accounts with the IMF	41,043	23,450	-	-	-	17,593
Loans to banks	44,755	-	37,785	6,970	-	-
Investment securities	486,787	-	15,973	37,380	433,434	-
Other assets (Note 16)	2,159	-	2	-	2,157	-
<b>Total</b>	<b>716,764</b>	<b>138,040</b>	<b>63,710</b>	<b>48,282</b>	<b>448,541</b>	<b>18,191</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	407,968	-	-	-	-	407,968
Due to banks	224,111	-	213,731	-	10,380	-
Deposits and borrowings from third parties	1,997	-	1,997	-	-	-
Due to Government and state institutions	105,024	500	-	-	-	104,524
Due to the IMF	37,156	22,840	-	-	-	14,316
Other liabilities	880	-	-	-	-	880
<b>Total</b>	<b>777,136</b>	<b>23,340</b>	<b>215,728</b>	<b>-</b>	<b>10,380</b>	<b>527,688</b>
<b>Interest-bearing financial instruments gap</b>	<b>(60,372)</b>	<b>114,700</b>	<b>(152,018)</b>	<b>48,282</b>	<b>438,161</b>	<b>(509,497)</b>

31 December 2022	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
<b>Interest-earning assets</b>						
Cash and balances with banks	90,273	79,636	10,054	-	-	583
Trading assets	14,313	-	20	-	14,292	1
Accounts with the IMF	47,697	27,819	-	-	-	19,879
Loans to banks	51,088	-	40,262	10,826	-	-
Investment securities	485,221	-	9,167	29,866	446,188	-
Other assets (Note 16)	2,298	-	2	-	2,296	-
<b>Total</b>	<b>690,890</b>	<b>107,454</b>	<b>59,505</b>	<b>40,692</b>	<b>462,776</b>	<b>20,463</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	401,129	-	-	-	-	401,129
Due to banks	217,692	-	205,252	-	12,440	-
Deposits and borrowings from third parties	2,007	-	2,007	-	-	-
Due to Government and state institutions	63,491	500	-	-	-	62,991
Due to the IMF	41,932	25,757	-	-	-	16,175
Other liabilities	921	-	-	-	-	921
<b>Total</b>	<b>727,172</b>	<b>26,257</b>	<b>207,259</b>	<b>-</b>	<b>12,440</b>	<b>481,216</b>
<b>Interest-bearing financial instruments gap</b>	<b>(36,282)</b>	<b>81,197</b>	<b>(147,754)</b>	<b>40,692</b>	<b>450,336</b>	<b>(460,753)</b>

### 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 as at 31 December 2023 is ALL 0 million (2022: ALL 0 million) (see Note 13).

The nominal value of these contracts as at 31 December 2023 is composed by the following:

- buy contracts in the amount of ALL 0 million (2022: ALL 0 million); and
- sell contracts in the amount of ALL 0 million (2022: ALL 0 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), 14 and 22) and a bilateral agreement with the Government of Albania. The creation of special reserves from distributable profit is a measure that the Bank can take to safeguard its Capital. However, the Bank is only reflective of fluctuations of the exchange rate and this is due to the free regime of the exchange rate it follows. The Bank does not foresee to reduce its foreign exchange reserve and therefore will not materialize these losses. In cases where the Bank will be forced to sell currency in the market (due to the currency market not functioning normally), it will do so in the conditions when there will be a rapid depreciation of Lek. Such events will indirectly reduce the balance of the revaluation account and increase the rate at which the reserve will be sold as well.

## 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 exchange forward contracts at 31 December 2023 is ALL 0 million (2022: 2 million) (see Note 13).

The following significant exchange rates have been applied.

ALL	Average		Year-end spot rate	
	2023	2022	2023	2022
United States Dollar (USD)	100.64	113.04	93.94	107.05
European Union Currency Unit (EUR)	108.8	118.98	103.88	114.23
British Pound (GBP)	125.01	139.60	119.47	128.92
Special Drawing Rights (SDR)	134.26	151.2	126.04	142.47
Japanese Yen (JPY)	0.72	0.86	0.66	0.81
Chinese Yuan (offshore) (CNH)	14.22	19.79	13.19	15.46



### Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR, USD, GBP or other currencies by 10% against ALL at 31 December 2023 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 2023 and 31 December 2022 is as follows:

31 December 2023	ALL	USD	EUR	GBP	SDR	Other	Total
<b>Assets</b>							
Cash and balances with banks	-	9,480	106,524	498	-	12,454	128,956
Trading assets	-	13,041	-	-	-	-	13,041
Accounts with the IMF	14,316	-	-	-	26,727	-	41,043
Loans to banks	44,755	-	-	-	-	-	44,755
Investment securities	68,639	80,337	308,828	11,633	-	17,350	486,787
Other assets	2,158	-	-	-	-	-	2,158
<b>Total assets</b>	<b>129,868</b>	<b>102,858</b>	<b>415,352</b>	<b>12,131</b>	<b>26,727</b>	<b>29,804</b>	<b>716,740</b>
<b>Liabilities</b>							
Currency in circulation	407,968	-	-	-	-	-	407,968
Due to banks	71,126	15,901	137,084	-	-	-	224,111
Deposits and borrowings from third parties	1,990	-	7	-	-	-	1,997
Due to Government and state institutions	24,274	125	80,542	-	83	-	105,024
Due to the IMF	-	-	-	-	37,156	-	37,156
Other liabilities	140	507	233	-	-	-	880
<b>Total liabilities</b>	<b>505,498</b>	<b>16,533</b>	<b>217,866</b>	<b>-</b>	<b>37,239</b>	<b>-</b>	<b>777,136</b>
<b>Net statement of financial position exposure</b>	<b>(375,630)</b>	<b>86,325</b>	<b>197,486</b>	<b>12,131</b>	<b>(10,512)</b>	<b>29,804</b>	<b>(60,396)</b>
<b>Sensitivity analysis</b>							
Profit/(loss) effect: Strengthening (10%)	-	8,633	19,749	1,213	(1,051)	2,980	-
Weakening (10%)	-	(8,633)	(19,749)	(1,213)	1,051	(2,980)	-

31 December 2022	ALL	USD	EUR	GBP	SDR	Other	Total
<b>Assets</b>							
Cash and balances with banks	-	11,312	66,759	764	-	11,438	90,273
Trading assets	2	14,311	-	-	-	-	14,313
Accounts with the IMF	16,174	-	-	-	31,523	-	47,697
Loans to banks	51,088	-	-	-	-	-	51,088
Investment securities	74,064	74,483	307,902	11,063	-	17,709	485,221
Other assets	2,298	-	-	-	-	-	2,298
<b>Total assets</b>	<b>143,626</b>	<b>100,106</b>	<b>374,661</b>	<b>11,827</b>	<b>31,523</b>	<b>29,147</b>	<b>690,890</b>
<b>Liabilities</b>							
Currency in circulation	401,129	-	-	-	-	-	401,129
Due to banks	71,231	18,391	128,070	-	-	-	217,692
Deposits and borrowings from third parties	2,000	-	7	-	-	-	2,007
Due to Government and state institutions	28,542	250	33,744	-	955	-	63,491
Due to the IMF	-	-	-	-	41,932	-	41,932
Other liabilities	259	580	82	-	-	-	921
<b>Total liabilities</b>	<b>503,161</b>	<b>19,221</b>	<b>161,903</b>	<b>-</b>	<b>42,887</b>	<b>-</b>	<b>727,172</b>
<b>Net currency position</b>	<b>(359,535)</b>	<b>80,885</b>	<b>212,758</b>	<b>11,827</b>	<b>(11,364)</b>	<b>29,147</b>	<b>(36,282)</b>
<b>Sensitivity analysis</b>							
Profit/(loss) effect: Strengthening (10%)	-	8,088	21,276	1,183	(1,136)	2,915	-
Weakening (10%)	-	(8,088)	(21,276)	(1,183)	1,136	(2,915)	-



## **F. Fair value of financial instruments**

### ***i) Determination of fair values***

The determination of fair values of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in the accounting policy. For financial instruments that are traded infrequently and whose price is not transparent, the fair value is less objective and requires an expert's judgement depending on liquidity, concentration, market factors uncertainty, pricing assumptions, and other risks affecting the particular instrument.

### ***ii) Valuation of financial instruments***

The Bank measures the fair value of financial instruments using the following hierarchy of methods:

- Level 1: Quoted market price or closing price for positions for which there is a reliable market.
- Level 2: Valuation techniques based on observable market information about the yield curve. This category of methods is used to measure debt securities for which there is no reliable market.
- Level 3: Valuation techniques, where inputs on financial assets and liabilities are not based on observable market data.

The fair values of financial assets and liabilities traded in international financial markets for which there is available market information are based on market quotations or closing market prices. The use of observable market prices and information reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of actual market prices and information varies depending on products and markets and changes because of specific events and the general conditions of financial markets.

The Bank determines the fair values of all other financial instruments for which there are no current market quotes by using valuation techniques. 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, foreign currency exchange rates, and expected price volatilities and correlations. The net present value is computed by means of market yield curves and credit spreads, where necessary, for the relevant instrument. 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. 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. For all other financial instruments, the Bank determines fair values using valuation techniques.

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 2023	Note	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Non-derivative trading assets	13	13,041	-	-	13,041
Derivative trading assets	13	-	-	-	-
Investments in securities	14	388,176	98,611	-	486,787
<b>Total</b>		<b>401,217</b>	<b>98,611</b>	<b>-</b>	<b>499,828</b>

31 December 2022	Note	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Non-derivative trading assets	13	14,311	-	-	14,311
Derivative trading assets	13	-	-	2	2
Investments in securities	14	369,774	115,447	-	485,221
<b>Total</b>		<b>384,085</b>	<b>115,447</b>	<b>2</b>	<b>499,534</b>

### *Financial instruments not measured at fair value*

The fair value of balances with/due to banks balances with/due to the IMF, liabilities to banks and other financial institutions and of liabilities to government institutions is approximately equal to the reporting value as they are short-term.



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. Other financial assets consist of loans granted to employees (see note 16) pursuant to Article 4 point (b) of the Law No. 8269 "On the Bank of Albania", as amended.

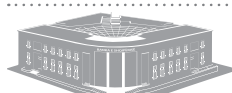
	Note	31 December 2023		31 December 2022	
		Fair value Level 2	Carrying amount	Fair value Level 2	Carrying amount
<b>Assets</b>					
Balances with banks	9	128,980	128,980	90,254	90,254
Loans to banks	12	44,755	44,755	51,088	51,088
Accounts with the IMF	11	41,043	41,043	47,697	47,697
<b>Liabilities</b>					
Due to the IMF	11	37,156	37,156	41,932	41,932
Due to banks	18	224,111	224,111	217,692	217,692
Deposits and borrowings from third parties	19	1,997	1,997	2,007	2,007
Due to Government and state institutions	20	105,024	105,024	63,491	63,491
Other liabilities	21	880	880	921	921

### G. 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.

### H. Maturity analysis of assets and liabilities

The Bank's assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity, are as follows:





31 December 2023	< 12 months	>12 months	Undefined maturity	Total
<b>ASSETS</b>				
Cash and balances with banks	128,980	-	-	128,980
Trading assets	1,940	11,101	-	13,041
Monetary gold	-	-	21,039	21,039
Accounts with the International Monetary Fund	23,450	-	17,593	41,043
Loans to banks	44,755	-	-	44,755
Investment securities	182,416	304,371	-	486,787
Property, equipment, right-of-use and intangible assets	-	-	21,574	21,574
Other assets	2	2,156	1,177	3,335
<b>TOTAL ASSETS</b>	<b>381,543</b>	<b>317,628</b>	<b>61,383</b>	<b>760,554</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	407,968	407,968
Due to banks	224,111	-	-	224,111
Deposits and borrowings from third parties	1,997	-	-	1,997
Due to Government and state institutions	104,524	-	500	105,024
Due to the International Monetary Fund	14,316	-	22,840	37,156
Other liabilities	983	-	-	983
<b>TOTAL LIABILITIES</b>	<b>345,931</b>	<b>-</b>	<b>431,308</b>	<b>777,239</b>
<b>Net</b>	<b>35,612</b>	<b>13,257</b>	<b>(65,554)</b>	<b>(16,685)</b>

31 December 2022	< 12 months	>12 months	Undefined maturity	Total
<b>ASSETS</b>				
Cash and balances with banks	90,273	-	-	90,273
Trading assets	2,491	11,822	-	14,313
Monetary gold	-	-	18,900	18,900
Accounts with the International Monetary Fund	27,818	-	19,879	47,697
Loans to banks	51,088	-	-	51,088
Investment securities	200,333	284,888	-	485,221
Property, equipment, right-of-use and intangible assets	-	-	21,376	21,376
Other assets	2	2,296	1,204	3,502
<b>TOTAL ASSETS</b>	<b>372,005</b>	<b>299,006</b>	<b>61,359</b>	<b>732,370</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	401,129	401,129
Due to banks	217,692	-	-	217,692
Deposits and borrowings from third parties	2,007	-	-	2,007
Due to Government and state institutions	62,991	-	500	63,491
Due to the International Monetary Fund	16,175	-	25,757	41,932
Other liabilities	1,021	-	-	1,021
<b>TOTAL LIABILITIES</b>	<b>299,886</b>	<b>-</b>	<b>427,386</b>	<b>727,272</b>
<b>Net</b>	<b>72,119</b>	<b>299,066</b>	<b>(366,027)</b>	<b>5,098</b>

## I. Capital Management

The Bank of Albania is accountable to the Assembly of the Republic of Albania and its paid-up capital of ALL 2.500 million is owned exclusively by the State



of Albania. The paid-up capital may be increased by the proposal of the Bank of Albania and approval by the Ministry of Finance. The entire paid-up capital shall be subscribed and owned exclusively by the State of Albania. This paid-up capital shall not be transferable or subject to encumbrance. The profit allocation policy is described in Note 7 G),N),P) and Note 22.

The shortfall of the value of assets below the sum of paid capital and liabilities is caused by the significant appreciation of the Lek and its impact on the foreign currency reserves held by the Bank, which have also substantially increased in volume, thus increasing the exposure to the currency risk. The Bank aims to hold its foreign currency reserves, hence the unrealized losses due to Lek appreciation are not expected to be realized as discussed in note 8E(ii).

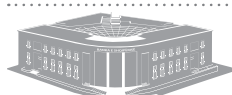
Under these circumstances, the Bank does not require any additional capital to meet its operational needs as its assets on the balance sheet date significantly exceed the liabilities that are expected to come due. In particular, it is not expected that the liabilities towards the IMF and Government of Albania accounts will be repaid in full in the foreseeable future.

As a result, the Bank and the Government of Albania, represented by the Ministry of Finance and Economy, in consultation with the IMF, amended the bilateral agreement dealing with profit distribution and recapitalization of the Bank.

As provisioned in Article 7 of the Law "On the Bank of Albania", whenever on the balance sheet of the Bank of Albania the value of its assets falls below the sum of paid-up capital and its liabilities, the Minister of Finance shall transfer to the Bank of Albania negotiable government securities, bearing interest at market rates, in such an amount as shall be necessary to remedy the deficiency.

The bilateral agreement between the Bank of Albania and Ministry of Finance and Economy dated 16.01.2015 and amended on 29.12.2023, defines that the term "liabilities" referring to Article 7 of the Law, does not include any liabilities towards the Albanian Government or the IMF, as their role is to guarantee or support the financial stability. Consequently, those liabilities are not expected to be repaid in circumstances of liquidity or capital shortfall.

While the Bank of Albania is recognizing exchange rate revaluation losses, it remains well capitalized on a realized equity basis though current appreciation has eroded its overall equity. Revaluation gains (losses) are volatile and subject to economic factors outside the direct control of the BoA and may reverse as global economic conditions change. The accumulated revaluation loss is as a result of the appreciation of the ALL to the EUR since 2019.



## 9. CASH AND BALANCES WITH BANKS

	31 December 2023	31 December 2022
Cash	24	18
Current accounts	114,934	80,206
Deposits maturing within three months	13,500	10,054
Less impairment loss allowance	(12)	(6)
<b>Cash and cash equivalents</b>	<b>128,446</b>	<b>90,273</b>
Deposits with maturity over 3 months	534	-
<b>Total</b>	<b>128,980</b>	<b>90,273</b>

The interest rates for current accounts are as follows:

In %	EUR	USD	GBP	AUD	JPY	CNY	CNH
31 Dec 2023	0.00 – 3.99	0.00 – 5.30	4.50 – 5.10	0.00 – 3.95	(0.35) – 0.00	0.00 – 0.10	0.00 – 0.10
31 Dec 2022	0.00 – 2.00	0.00 – 4.30	2.25 – 3.32	0.20 – 2.85	(0.35) – 0.00	0.70 – 1.20	0.30 – 1.80

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

In %	EUR	USD	CNH
31 December 2023	3.90 – 4.02	5.30	2.79 – 3.33
31 December 2022	-	4.30	-

## 10. MONETARY GOLD

	31 December 2023	31 December 2022
Deposits	-	18,900
Current Account	21,039	-
<b>Total</b>	<b>21,039</b>	<b>18,900</b>

The monetary gold is placed in current accounts (2022: deposits) with foreign banks. The increase of ALL 2,139 million compared to the previous year is a result of buying of the monetary gold (ALL 2,267 million) during the year as well as revaluation of monetary gold with market price at the reporting date (revaluation loss ALL 128 million), which 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 2023	31 December 2022
Quotas with IMF	17,593	19,879
Special Drawing Rights ("SDR") held	23,450	27,818
<b>Total assets</b>	<b>41,043</b>	<b>47,697</b>

Due to the IMF	31 December 2023	31 December 2022
SDR allocations	22,682	25,639
IMF securities account	12,465	14,083
IMF account No. 1	1,851	2,091
IMF account No. 2	1	1
Accrued interest	157	118
<b>Total liabilities</b>	<b>37,156</b>	<b>41,932</b>



Quotas with the IMF of ALL 17,593 million or SDR 139 million (2022: ALL 19,879 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', as amended.

The SDR holdings of ALL 23,450 million or SDR 186 million (2022: ALL 27,818 million or SDR 195 million) represent deposits with the IMF.

During 2020, in response to the two events, the earthquake that hit the country and the Covid – 19 pandemic situation, the Government of Albania requested and obtained an emergency financing from the IMF in the amount of SDR 139 million, corresponding to the purchase of 100% of Albania's quota under the Rapid Financing Instrument (RFI). The SDR holdings bear interest, which is determined on a weekly basis. The interest rate at 31 December 2023 is 4.103% p.a. (2022: 2.916% p.a.).

SDR Allocations of ALL 22,682 million or SDR 180 million (2022: ALL 25,639 million or SDR 180 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 IMF pays remuneration to members with remunerated reserve tranche positions, at 4.103% p.a. (2022: 2.916% 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. In August 2021, the IMF decided to have a SDR allocation to all Fund members to help build reserve buffers, smooth adjustments, and mitigate the risks of economic stagnation in global growth. The allocation of SDRs was distributed in proportion to members' paid Fund quota shares. To Albania, were allocated an amount of SDR 133 million or ALL 19,640 million. Based on the concept of SDR allocation the member has a high degree of flexibility of using it. If the member decides to use these (Bank of Albania or the Ministry of Finance), will bear the cost of using it (normally interest rate and not principal).

### ***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 and in the year 2020 in one payment, as part of RFI facility due to the Covid-19 pandemic situation. 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 and July 2023. As at 31 December 2023, the facility amounted to ALL 26,679 million (2022: ALL 42,143 million).

## 12. LOANS TO BANKS

	31 December 2023	31 December 2022
Reverse repurchase agreements	44,755	51,088
<b>Total</b>	<b>44,755</b>	<b>51,088</b>

At 31 December 2023 and 2022, reverse repurchase agreements between the Bank and local commercial banks have original maturities from one week to three months (2022: from one week to three months). No overnight loans to Banks as at 31 December 2023 and 2022.

## 13. TRADING ASSETS

Trading assets	31 December 2023	31 December 2022
Non-derivatives:		
Bonds of foreign agencies	2,959	3,127
Bonds of foreign governments and multilateral institutions	10,082	11,184
Derivatives:		
Interest rate future contracts	-	-
Foreign exchange forwards	-	2
<b>Total</b>	<b>13,041</b>	<b>14,313</b>

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 the Bank of Albania' (Reserves and Advisory Management Program) signed between the 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 as at 31 December 2023 and 31 December 2022 are as follows:

In %	31 December 2023	31 December 2022
USD	0.125 – 5.375	0.125 – 4.750



## 14. INVESTMENT SECURITIES

	31 December 2023	31 December 2022
Investment securities measured at FVOCI	486,787	485,221
<b>Total</b>	<b>486,787</b>	<b>485,221</b>
Expected Credit Losses (ECL)	(43)	(47)

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

	31 December 2023	31 December 2022
Treasury Bills of foreign governments and multi-lateral institutions	-	27,519
Certificate of Deposit	-	6,225
Bonds of foreign banks and other institutions	32,082	35,953
Bonds of foreign agencies	34,937	33,441
Bonds of foreign governments and multilateral institutions	351,129	308,019
Treasury Bills of the Albanian Government	68,639	74,064
<b>Total</b>	<b>486,787</b>	<b>485,221</b>

Expected Credit Losses (ECL) by type of issuer and security are presented below:

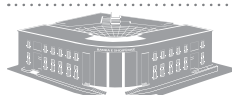
	31 December 2023	31 December 2022
Treasury Bills of foreign governments and multi-lateral institutions	-	(1)
Certificate of Deposit	-	(17)
Bonds of banks and other institutions	(17)	(7)
Bonds of foreign agencies	(5)	(5)
Bonds of foreign governments and multilateral institutions	(21)	(17)
Treasury Bills of the Albanian Government	-	-
<b>Total</b>	<b>(43)</b>	<b>(47)</b>

The annual yields for each currency at 31 December 2023 and 2022 are as follows:

In %	ALL	USD	GBP	AUD	CNH	EUR	JPY
31 December 2023	3.25 – 3.36	0.00 – 7.38	3.30 – 5.54	3.61 – 4.71	2.45 – 3.06	1.88 – 4.43	(0.21)
31 December 2022	2.75 – 5.46	3.86 – 6.09	2.41 – 4.47	3.30 – 4.40	1.67 – 2.81	1.83 – 3.93	

Investment securities in ALL at 31 December 2023, represent Albanian Government treasury bills with a maturity period up to 12 months (2022: up to 12 months).

On December 31, 2022 the Bank has registered a security issued by the Ministry of the Finance with a nominal value of ALL 6,020 million, because as of 31 December 2022, the Bank's total of paid up capital and liabilities of the bank exceeds the assets by All 3,433 million. This transaction is done based on Article 7 of the Law No. 8269, dated 23 December 1997 'On the Bank of Albania', as amended, requiring the Bank and the Ministry of Finance and Economy to transfer negotiable securities to the Bank whenever the assets of the Bank decrease below its liabilities and Paid-in Capital.



Based on the Decision of the Supervisory Council of the Bank of Albania No. 14 , dated 06 March 2024, under the conditions that on December 31, 2023 the Bank assets doesn't fall below the sum of paid-up capital and its liabilities (liabilities to third parties excluding its sovereign and the IMF), this security has been compensated by the profit of the financial year, pursuant to Article 10, point 1, of the Law "On the Bank of Albania", which stipulates that after passing the amount of 25 per percent of the net profit in the general reserve fund according to Article 9, the remaining from the net profit for the financial year will be used to compensate the securities that have been given to the Bank of Albania in accordance with Article 7 of this Law.



## 15. PROPERTY, EQUIPMENT, RIGHT-OF-USE AND INTANGIBLE ASSETS

	Land, buildings and installations	Furniture and equipment	Vehicles	Work in progress	Numismatic coins and objects	Total property and equipment	Total Right of Use	Computer Software	Work in progress	Total intangible assets	Total
<b>Cost or deemed cost</b>											
At 1 January 2022	9,416	2,868	291	1,492	10,532	24,599	100	819	-	819	25,518
Additions	3	133	-	565	-	701	-	18	-	18	719
Transfers	-	-	-	(18)	-	(18)	-	(139)	-	(139)	(157)
Disposal	-	(46)	-	-	-	(46)	(100)	-	-	-	(146)
<b>At 31 December 2022</b>	<b>9,419</b>	<b>2,955</b>	<b>291</b>	<b>2,039</b>	<b>10,532</b>	<b>25,236</b>	<b>-</b>	<b>698</b>	<b>5</b>	<b>698</b>	<b>25,934</b>
Additions	-	69	-	484	-	553	-	3	-	3	561
Transfers	2,497	-	-	(2,497)	-	-	-	-	-	-	-
Disposal	-	(40)	-	-	-	(40)	-	(1)	-	(1)	(41)
<b>At 31 December 2023</b>	<b>11,916</b>	<b>2,984</b>	<b>291</b>	<b>26</b>	<b>10,532</b>	<b>25,749</b>	<b>-</b>	<b>700</b>	<b>5</b>	<b>705</b>	<b>26,454</b>
<b>Accumulated depreciation/amortization</b>											
At 1 January 2022	1,015	2,378	266	-	-	3,659	100	728	-	728	4,487
Depreciation/amortization	145	158	9	-	-	312	-	44	-	44	356
Disposal	-	(46)	-	-	-	(46)	(100)	(139)	-	(139)	(285)
<b>At 31 December 2022</b>	<b>1,160</b>	<b>2,490</b>	<b>275</b>	<b>-</b>	<b>-</b>	<b>3,925</b>	<b>-</b>	<b>633</b>	<b>-</b>	<b>633</b>	<b>4,558</b>
Depreciation/amortization	151	169	9	-	-	329	-	34	-	34	363
Disposal	-	(40)	-	-	-	(40)	-	(1)	-	(1)	(41)
<b>At 31 December 2023</b>	<b>1,311</b>	<b>2,619</b>	<b>284</b>	<b>-</b>	<b>-</b>	<b>4,214</b>	<b>-</b>	<b>666</b>	<b>-</b>	<b>666</b>	<b>4,880</b>
<b>Carrying amounts</b>											
At 31 December 2022	8,259	465	16	2,039	10,532	21,311	-	65	-	65	21,376
At 31 December 2023	10,605	365	7	26	10,532	21,535	-	34	5	39	21,574





## 16. OTHER ASSETS

	31 December 2023	31 December 2022
<b>Financial assets</b>		
Loans to employees, net	2,158	2,298
	<b>2,158</b>	<b>2,298</b>
<b>Non-financial –assets</b>		
Numismatics (banknotes and coins)	347	348
Deferred printing and minting costs	757	787
Inventory	21	22
Other	52	47
	<b>1,177</b>	<b>1,204</b>
<b>Total</b>	<b>3,335</b>	<b>3,502</b>

Loans to employees at 31 December 2023 are net of allowance for impairment of ALL 6 million (2022: ALL 6 million) (see Note 8(E)(vi)(b)).

## 17. CURRENCY IN CIRCULATION

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

The Bank has increased the operating capacities to guarantee the uninterrupted supply with coins and banknotes to economy. It has taken all the necessary decisions and has engaged all its structures to meet the market requests for cash, by simultaneously providing a sufficient stock with the purpose to counter the increasing needs of the economy. The following banknotes and coins were in circulation as at 31 December 2023 and 2022:

Nominal value ALL	31 December 2023		31 December 2022	
	Number in thousand	Total ALL (million)	Number in thousand	Total ALL (million)
Notes:				
100	3,396	340	3,399	340
200	16,538	3,308	15,920	3,184
500	19,456	9,727	20,176	10,088
1,000	27,216	27,216	31,261	31,261
2,000	35,943	71,887	38,813	77,626
5,000	49,803	249,013	48,890	244,450
10,000	3,960	39,600	2,774	27,740
Coins (1-100)		6,877		6,440
		<b>407,968</b>		<b>401,129</b>

## 18. DUE TO BANKS

	31 December 2023	31 December 2022
Reserve requirement and current accounts	206,731	189,602
Deposits	7,000	15,650
Reserve requirement – cash on custody	10,380	12,440
<b>Total</b>	<b>224,111</b>	<b>217,692</b>



In accordance with the Decision of the Supervisory Council No. 39, dated 25.06.2014, amended with Decision No. 11, dated 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 2023, the interest rate is 3.25% (2022: 100% of the base rate or 2.75%). Based on the Decision No. 11, dated 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 2023, the remuneration rate is 0% (2022: 0%).

As at 31 December 2023 the reserve requirement in USD is not remunerated (2022: 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

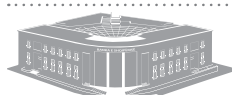
	31 December 2023	31 December 2022
Deposits from the Deposit Insurance Agency	1,872	1,974
Deposits from the pension fund	110	18
Deposits from individuals for participation in Treasury Bills auctions	15	15
<b>Total</b>	<b>1,997</b>	<b>2,007</b>

Deposits from the pension fund relate to the pension plan scheme, which is based on employees' contributions and employer's 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 PUBLIC INSTITUTIONS

	31 December 2023	31 December 2022
Profit to be distributed to the Government	-	-
Accounts and deposits of the Government	102,169	59,769
Due to state institutions	2,855	3,722
<b>Total</b>	<b>105,024</b>	<b>63,491</b>

Based on the agreement between the Bank and the Ministry of Finance and Economy, 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 (2022: 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 2023 is 1% (2022: 1%).



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

	Note	31 December 2023	31 December 2022
<b>Net result for the period</b>		<b>(27,052)</b>	<b>(17,650)</b>
Transfer to reserves	22	36,147	14,571
<b>Profit/(Loss) of the year for distribution</b>		<b>9,095</b>	<b>(3,079)</b>
Distribution from other reserves	22	53	53
<b>Total to be distributed</b>		<b>9,148</b>	<b>-</b>
Total to be transferred for compensation of security (article 10 of the Law)	14	(6,257)	
<b>Total to be transferred to the Retained earnings/(Accumulated losses)</b>		<b>2,891</b>	<b>(3,026)</b>
<b>Total to be distributed to the Government</b>		<b>-</b>	<b>-</b>

## 21. OTHER LIABILITIES

	31 December 2023	31 December 2022
<b>Financial liabilities</b>		
Due to international financial institutions	523	603
Due to third parties	324	290
Accrued expenses	33	28
<b>Total financial liabilities</b>	<b>880</b>	<b>921</b>
<b>Non-financial liabilities</b>		
Provisions for claims and litigations	101	97
Grants	2	3
<b>Total non-financial liabilities</b>	<b>103</b>	<b>100</b>
<b>Total</b>	<b>983</b>	<b>1,021</b>

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').

## 22. RESERVES

	31 December 2023	31 December 2022
Paid-in Capital	2,500	2,500
Reserve for the Balance of Payments	7,209	7,209
Reserve of gold and precious metals	7,042	7,042
Reserve for capital deficit (Note 14 )	6,020	6,020
Legal reserve	12,500	12,500
Equity Adjustments on Transition to IFRS	5,450	5,450
<b>Net Realized Statutory Capital and realized Reserves</b>	<b>40,721</b>	<b>40,721</b>

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 for capital deficit represent a security issued by the Ministry of the Finance with a nominal value of ALL 6,020 million, because as of 31 December 2022, the Bank's total of paid up capital and liabilities of the bank exceeds the assets by All 3,433 million.



The reserve of gold and precious metals represents the reserve created based on the 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 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.

The Equity Adjustments on Transition to IFRS reserve of ALL 5,450 million (2022: ALL 5,450 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 and allocation of the transition reserve.

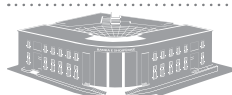
Net unrealized reserves represent exchange rate revaluations, fair value revaluation of securities and unrealized reserve for property revaluation, of amount ALL 2,135 (2021: ALL 2,188), created at the first time adoption of IFRS. For the year 2023, the amount of ALL 53 million is added to the year 2023 result and transferred to the "Losses carried forward (2022: the amount of ALL 53 million was added on reducing the accumulated losses)

	31 December 2023	31 December 2022
Exchange rate Revaluation Reserve Account	(56,713)	(20,566)
Fair value reserve (investment securities)	(2,396)	(13,922)
Revaluation Reserve for property and equipment	2,135	2,188
<b>Net Accumulated Revaluation Gains (Losses)</b>	<b>(56,974)</b>	<b>(32,300)</b>

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

	2023	2022
<b>Opening at 1 January</b>	<b>(20,566)</b>	<b>(5,995)</b>
Net foreign exchange losses, other than from trading assets and liabilities	(34,237)	(14,566)
Net foreign exchange losses from trading assets and liabilities	(1,783)	93
Net loss from changes in the fair value of monetary gold (Note 10)	(128)	(98)
<b>Closing at 31 December</b>	<b>(56,713)</b>	<b>(20,566)</b>

The decrease of ALL 36,148 million (2022: decrease ALL 14,571 million) in revaluation reserve is a result of the depreciation of the foreign currencies EUR, USD, GBP and the monetary gold versus the functional currency (see Note 8(E) (ii)).



*Negative revaluation reserve*

Given the negative balance of the revaluation reserve at 31 December 2023 and, pursuant to the requirements of clause "b", Article 64 of the Law 'On the Bank of Albania' (Note 7(N)) and a bilateral agreement with the Government of Albania, the latter shall issue debt securities upon request to cover the negative balance of the revaluation reserve after issuance of the external auditors' report on these financial statements.

Movements in Fair Value Reserve (investment securities) are reflected as below:

	31 December 2023	31 December 2022
<b>Balance at 1 January</b>	<b>(13,922)</b>	<b>(355)</b>
Change in Fair Value of Securities	11,526	(13,567)
<b>Balance at 31 December</b>	<b>(2,396)</b>	<b>(13,922)</b>

### 23. NET INTEREST INCOME

	2023	2022
<b>Interest income calculated using the effective interest method</b>		
Investment securities	11,147	3,243
Loans to banks	1,416	565
Deposits and current accounts with banks	2,064	268
Accounts with the IMF	1,067	415
Negative remuneration for reserve requirement	-	46
Negative remuneration for excess reserve requirement	-	274
Other	22	13
Negative remuneration for settlement account in AIPS EUR	-	33
<b>Total interest income</b>	<b>15,716</b>	<b>4,857</b>
<b>Interest expense</b>		
Reserve requirements	961	375
Due to the International Monetary Fund	898	321
Due to the Albanian Government	77	10
Deposits from third parties	222	99
Negative interest from deposits and current accounts with Banks	8	454
<b>Total interest expense</b>	<b>2,166</b>	<b>1,259</b>
<b>Net interest income</b>	<b>13,550</b>	<b>3,598</b>

Interest income from investment securities includes ALL 2,758 million (2022: ALL 1,307 million) of income from treasury bills issued by the Albanian Government and ALL 8,389 million (2022: ALL 1,936 million) of income from security lending and foreign reserve investment securities after accounting for the amortization of premium/discount.

Negative interest from deposits and current accounts with banks of ALL 8 million (2022: ALL 454 million) represents charges arising from negative yielding deposits and accounts placed with foreign banks.



## 24. NET TRADING INCOME

	2023	2022
Interest income from trading assets	196	145
Gain on sales from the trading assets	28	12
Loss on sales from the trading assets	(133)	(372)
Unrealized fair value changes	508	(335)
Net profit from forward and future contracts	283	585
<b>Total</b>	<b>882</b>	<b>35</b>

## 25. NET INCOME FROM SALES OF FINANCIAL ASSETS AT FVOCI

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

	2023	2022
Gain on sale of FVOCI debt investment securities	278	274
(Loss) on sale of FVOCI debt investment securities	(3,050)	(4,439)
<b>Net other income</b>	<b>(2,772)</b>	<b>(4,165)</b>

## 26. EMPLOYEE BENEFIT EXPENSES

	2023	2022
Employee salaries and compensations	1,354	1,254
Contributions for health and social insurances	141	124
Contribution for pension fund (see Note 19)	144	129
<b>Total</b>	<b>1,639</b>	<b>1,507</b>

As at 31 December 2023, the Bank had 609 employees (2022: 609 employees).

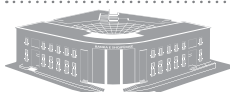
## 27. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2023	2022
Repair and maintenance expenses	193	205
Amortization of currency printing and minting costs	249	248
Information expenses	116	114
Fees for third-party services	119	133
Other staff expenses	61	46
Transportation fees	32	25
Publication and membership expenses	15	13
Other expenses	41	11
<b>Total</b>	<b>826</b>	<b>795</b>

## 28. CONTINGENCIES AND COMMITMENTS

### (i) Reverse repurchase agreements

Reverse repurchase agreements, as at 31 December 2023, represented collateralized loans (see Note 12). The nominal value of the securities used as collateral as at 31 December 2023, was ALL 49,800 million (2022: ALL 62,000 million).



**(ii) Capital commitments**

As at 31 December 2023, the Bank has entered into capital commitments of ALL 0 million (2022: ALL 135 million) for the reconstruction of one of its buildings.

**(iii) 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 2023 is ALL 3,059 million (2022: ALL 3,164 million). At 31 December 2023, unused credit commitments for employees amount to ALL 92 million (2022: ALL 98 million).

**(iv) 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 defence 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 has 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 2023, the Bank acts as custodian for short-term treasury bills with maturities from 3 to 12 months, with total nominal value of ALL 222 billion (2022: ALL 242 billion) and for long-term securities with maturities varying between 2 and 15 years, with nominal value of ALL 518 billion (2022: ALL 478 billion). 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 the Bank of Albania include the directors and members of the Supervisory Council. As at 31 December 2023 and 2022, balances with related parties comprised:



	2023	2022
<b>Loans to directors</b>		
Directors	116	123
<b>Total</b>	<b>116</b>	<b>123</b>

Loans to directors follow the terms and conditions applied to all employees of the Bank based on the policy and regulations in force. The mortgage loans are collateralized.

	2023	2022
<b>Administrative expenses</b>		
<i>Directors and Supervisory Council members:</i>		
Telephone expenses	5	5
Salaries and bonuses	169	154
Per diems	3	3
<i>Directors:</i>		
Fuel compensation	3	3
Contribution to pension plan scheme	16	14
<b>Total of administrative expenses for related parties</b>	<b>196</b>	<b>179</b>

Balances with/(due to) the Albanian Government and public 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 other significant events after the reporting date that may require adjustment or disclosure in the financial statements.





