

Chapter 4. Balance Sheet of Bank of Albania

4.1. BALANCE SHEET

	Notes	2000 Lek (mln)	1999 Lek (mln)
ASSETS			
Foreign assets			
Gold	3	970	954
Deposits with the International Monetary Fund	4	21,808	21,559
Deposits with foreign banks	5	57,094	41,382
Securities	6	19,712	13,791
Other foreign assets	7	196	431
Total foreign assets		99,780	78,117
Domestic assets			
Other gold and precious metals	3	69	61
Transit credits	8	6,549	6,686
Loans to the Government	9	9,429	32,258
Investments in securities	10	72,117	40,938
Other domestic assets	11	2,408	2,277
Total domestic assets		90,572	82,220
Total Assets		190,352	160,337
LIABILITIES			
Foreign liabilities			
Due to the International Monetary Fund	12	22,883	21,434
Due to non-resident financial institutions	13	7,894	8,118
Other foreign liabilities		31	19
Total foreign liabilities		30,808	29,571
Domestic liabilities			
Currency in circulation	14	101,409	82,946
Due to domestic banks	15	32,571	27,137
Due to the Government	16	3,935	3,559
Other domestic liabilities	17	110	67
Total domestic liabilities		138,025	113,709
CAPITAL AND RESERVES			
Capital		750	750
Legal reserve		3,750	3,750
Revaluation reserve		5,281	2,917
Other reserves		7,426	7,407
Retained earnings		4,312	2,233
Total capital and reserves		21,519	17,057
Total liabilities and capital and reserves		190,352	160,337

The accompanying notes are an integral part of these financial statements.

4.2. STATEMENT OF PROFIT AND LOSS

	Notes	2000 Lek (mln)	1999 Lek (mln)
Operations with non-residents			
Interest and commission income		3,699	2,584
Interest and commission expense		196	197
		<u>3,503</u>	<u>2,387</u>
Interest and commission from operations with non-residents, net			
Operations with residents			
Interest and commission income	18	7,570	14,902
Interest and commission expense		305	162
		<u>7,265</u>	<u>14,740</u>
Interest and commission from operations with residents, net			
Other operating income, net	19	77	18
		<u>10,845</u>	<u>17,145</u>
Net operating income			
Other non-operating expenses			
Staff costs	20	180	142
Depreciation		90	66
Amortisation of printing and minting costs		59	244
General and administrative expenses		59	48
Other expense		62	50
		<u>450</u>	<u>550</u>
Total other non-operating expenses			
		<u>10,395</u>	<u>16,595</u>
NET PROFIT			

The accompanying notes are an integral part of these financial statements.

4.3. STATEMENT OF CAPITAL AND RESERVES

In Lek (mln)	Capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Total
As at december 31, 1998 (Unaudited)	750	3,750	6,906	7,223	2,233	20,862
Net profit	-	-	-	-	16,595	16,595
Foreign currency and gold revaluation	-	-	(3,989)	-	-	(3,989)
Profit distribution	-	-	-	184	(16,595)	(16,411)
As at december 31, 1999	750	3,750	2,917	7,407	2,233	17,057
Net profit	-	-	-	-	10,395	10,395
Foreign currency and gold revaluation	-	-	1,036	-	-	1,036
Domestic treasury bills revaluation	-	-	191	-	-	191
US treasury bills revaluation	-	-	17	-	-	17
Tangible fixed asset revaluation	-	-	1,143	-	-	1,143
Release of tangible fixed asset revaluation surplus	-	-	(23)	-	23	-
Profit distribution	-	-	-	19	(8,339)	(8,320)
As at December 31, 2000	750	3,750	5,281	7,426	4,312	21,519

The accompanying notes are an integral part of these financial statements.

4.4. NOTES TO THE FINANCIAL STATEMENTS

4.4.1. GENERAL INFORMATION.

The Bank of Albania (the “Bank”) is the central bank of the Republic of Albania and was established according to the “Law on the Bank of Albania” in 1992. Under the terms of its charter the Bank’s main responsibilities are:

- * establish and maintain price stability;
- * supporting the development of a foreign exchange regime;
- * management of money in circulation;
- * management of interest rates;
- * prognosis and analysis of economic and social development indicators within the Republic of Albania;
- * supervision of commercial bank activities including issue of licenses to all banks;
- * operating within the Republic of Albania and issuing of permissions for undertaking international banking activities.

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

4.4.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The financial statements have been prepared in accordance with the Law “On Accounting”. International Accounting Standards (“IAS”) have been used only where they are appropriate and applicable to the activities of a national central bank. Consequently, a cash flow statement as required under IAS 1 has not been prepared as the liquidity and cash position of the Bank are not of primary concern to the users of these financial statements. Also the revaluation methodology adopted for the revaluation of the head office building as detailed in Note 11 was not according to the revaluation requirements set out in IAS 16 on property, plant and equipment to the extent that the revaluation was not conducted by independent professional qualified appraisers, the future cash flows were not discounted and the entire category of buildings were not revalued.

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

4.4.3. BASIS OF PREPARATION.

The financial statements presented include the accounts of the Bank prepared on the historical cost basis of accounting modified to include the revaluation of foreign currency, gold and the head office building.

The accompanying financial statements are presented in the national currency of the Republic of Albania, the Albanian Leke (“LEK”).

The Bank controls the operations of the Printing House, a business entity engaged in the printing of Government high security material and the minting of five and ten LEK coins. The financial operations of the Printing House have not been consolidated with those of the Bank as the ability of the Printing House to distribute its earnings to the Bank has yet to be determined. The financial position of the Printing House as at December 31, 2000 is set out in Note 21 to these financial statements.

Interest and commissions

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

Commission income is credited to income when received.

Commission expense is debited to expense when paid.

Foreign currency translation

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

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

The applicable official Bank rates (LEK to the foreign currency unit) for the principal currencies as at December 31 were as follows:

	2000	1999
United States dollar ("USD")	142.64	135.12
German mark ("DEM")	67.78	69.43
Italian lira ("ITL")	0.07	0.07
European currency unit ("Euro")	132.57	135.80
British pound ("GBP")	212.23	218.22
Swiss franc ("SFR")	87.15	84.66
Greek drachma ("GRD")	0.3895	0.498
Special drawing rights ("SDR")	185.76	185.25

Investments

Domestic treasury bills to cover the State budget are stated at cost plus amortised discount. United States treasury bills and domestic short-term treasury bills are stated at market value.

Repurchase agreements

Securities purchased under repurchase agreements are accounted for as collateralised loans.

Fixed assets

The fixed assets are stated at historical cost less accumulated depreciation except the head office building which was revalued as at March 29, 2000 (see Note 11 to these financial statements).

If the fair value of a fixed asset is lower than its carrying amount, due to circumstances not considered to be temporary, the fixed asset is written down to its fair value.

Gains and losses on disposal of fixed assets are recognized in the profit and loss account in the year of disposal..

Depreciation is provided on all fixed assets based on the historic cost. The annual charge for depreciation is computed using the straight-line method using rates specified for each depreciable asset based on estimated useful lives. The estimated useful lives applied are:

building - head office	50 years
buildings - at branches	33 years
vehicles	5 years
furniture, fixtures and equipment	10 years
computer hardware	3 years

During 1999 the estimated useful life of all buildings was 33 years. After revaluation of the head office building (see Note 11), the remaining useful life of this building was evaluated at 50 years. The effect on the profit and loss account for the year ended December 31, 2000 of this change in accounting estimate was a reduction in the depreciation expense for the year ended December 31, 2000 of LEK 11 million.

Printing and minting costs

The costs of printing banknotes and minting coins are capitalised as intangible fixed assets and amortised over two years and ten years, respectively.

Taxation and profit allocation

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

Legal reserve

In accordance with Albanian banking legislation, the Bank has established a legal reserve into which 25% of the net profit for the year is transferred until the reserve amounts to 500% of the capital.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Managed assets

At as December 31, 2000, the Bank held as custodian short-term treasury bills issued by the Ministry of Finance and gold and other precious metals on behalf of the Government. As the Bank acts as custodian for these assets it does not bear any credit risk related to them.

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

1. GOLD AND PRECIOUS METALS

As at December 31, 2000, the value of gold reserves of international standard owned by the Bank was LEK 970 million (1999 – LEK 954 million), being 16,923.778 troy ounces of gold valued at LEK 658 million (1999 - 16,302.056 troy ounces valued at LEK 640 million) placed in gold time deposits abroad, and 8,007.88 troy ounces of gold valued at LEK 312 million (1999 – 8,007.88 troy ounces valued at LEK 314 million) in a domestic vault.

Gold is valued at the London fixing rate on the balance sheet date. Differences resulting from the revaluation of gold are recorded in the revaluation reserve. As at December 31, 2000, the price for one troy ounce of gold was USD 272.65 (1999 - USD 290.85).

Gold and other precious metals also includes platinum and silver in a domestic vault, valued at the London fixing rate on the balance sheet date, totaling LEK 35 million as at December 31, 2000 (1999 – LEK 24 million) and LEK 34 million of non-international standard gold (1999 – LEK 37 million).

2. DEPOSITS WITH THE INTERNATIONAL MONETARY FUND

Deposits with the International Monetary Fund ("IMF") are comprised of :

	2000 Lek (mln)	1999 Lek (mln)
International Monetary Fund	10,972	11,173
Special Drawing Rights ("SDR")	10,836	10,386
Total	21,808	21,559

Deposits with the IMF resulted from the membership of the Republic of Albania in the IMF, which is secured by a promissory note issued by the Government. SDR within the reserve tranche approximate the Republic of Albania's membership quota paid to the IMF in SDR and LEK which represent the counterpart of loans which were granted to the Republic of Albania as disclosed in Note 12.

3. DEPOSITS WITH FOREIGN BANKS

Deposits with foreign banks are comprised of :

	2000 Lek (mln)	1999 Lek (mln)
Current accounts	10,776	9,688
Short-term deposits	46,318	31,694
Total	57,094	41,382

Deposits with foreign banks are denominated mainly in EURO, USD and DEM which equate to the following foreign currency balances:

	2000 (in million)	1999 (in million)
EURO	183	103
USD	137	112
DEM	118	113

4. SECURITIES

Securities are comprised of:

	2000 Lek (mln)	1999 Lek (mln)
United States treasury bills	19,064	13,158
Other investments	648	633
Total	19,712	13,791

The United States treasury bills mature on various dates between March and December 2001 and the income earned is derived from the difference between the nominal value on maturity and the discounted purchase value, which is amortised to income over the life of the treasury bill.

Other investments include participation in the European Bank for Reconstruction and Development, the World Bank and its associated organisations and the Arab Development Bank.

5. OTHER FOREIGN ASSETS

As at December 31, 2000, other foreign assets are comprised of cash on hand in foreign currency of LEK 14 million (1999 - LEK 206 million) and accrued interest on deposits with foreign banks of LEK 182 million (1999 - LEK 225 million).

6. TRANSIT CREDITS

Transit credits, by industrial sector, are comprised of:

	2000 Lek (mln)	1999 Lek (mln)
Agriculture	1,405	1,437
Industry	4,144	4,245
Services and other	1,000	1,004
Total	6,549	6,686

Transit credits represent interest-free credit facilities, which were provided to credit institutions for further distribution to ultimate borrowers to support state development programmes (See Note 13). All loans are guaranteed by the Government.

7. LOANS TO THE GOVERNMENT

Of the total loans to the Government as at December 31, 1999, LEK 22,829 million bore interest at an average rate of 5.5% and LEK 9,429 million was interest free. During 2000, the interest bearing loans were converted into treasury bills owned by the Bank. The balance as at December 31, 2000 of LEK 9,429 million remain interest free.

8. INVESTMENTS IN DOMESTIC SECURITIES

Investments in domestic securities are comprised of:

	2000 Lek (mln)	1999 Lek (mln)
Treasury bills to cover the State budget	6,006	24,592
Short-term treasury bills	62,782	13,240
Securities for cooperatives	1,958	1,958
Security for the capitalisation of the National Commercial Bank ("NCB")	1,290	1,148
Treasury bills under repurchase agreements	81	-
Total	72,117	40,938

Treasury bills to cover the State budget as at December 31, 2000 relate to a short-term treasury bill maturing on January 11, 2001 at an interest rate of 11.28%. Those treasury bills to cover the State Budget as at December 31, 1999 related to loans given to the Government from 1994 to 1999 which were converted into short-term treasury bills. The interest rate is set for 6 months based on the discount rate for short-term treasury bills which as at December 31, 1999 varied from 15.4% to 19.5 %. The maturity for these bills was 6 months which is normally renewed.

Short-term treasury bills as at December 31, 2000 relate mainly to treasury bills, with maturities ranging between January and June 2001, bearing interest at rates ranging from 7.8% to 12.5%.

Securities for cooperatives relate to a loan to State agriculture cooperatives prior to 1992. The Government has issued securities in the amount of the loan. These securities bear interest at a rate of 1.5%.

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

9. OTHER DOMESTIC ASSETS

Other domestic assets are comprised of :

	2000 Lek (mln)	1999 Lek (mln)
Accrued interest	-	1,027
Other debtors	46	352
Loans to employees	392	350
Tangible fixed assets, net (see below)	1,399	292
Inventory	16	13
Intangible assets, net (see below)	550	235
Other	5	8
Total	2,408	2,277

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

	Land, buildings and general constructions	Technical equipment	Transport vehicles	Office equipment & computers	Total property, plant and equipment
<u>Cost/Valuation</u>					
Balance at January 1, 1999	131	179	94	99	503
Revaluation	1,143	-	-	-	1,143
Additions	17	14	9	14	54
Disposals	(7)	-	-	-	(7)
Balance at December 31, '00	1,284	193	103	113	1,693
<u>Accumulated Depreciation</u>					
Balance at January 1, 1999	30	77	62	42	211
Charge for the year	34	29	12	15	90
Disposals	(7)	-	-	-	(7)
Balance at December 31, '00	57	106	74	57	294
<u>Net Book Value</u>					
Balance at December 31, '00	1,227	87	29	56	1,399
Balance at December 31, '99	101	102	32	57	292

According to Albanian law, the legal title on the Bank's buildings is unclear. The management are of the opinion that this issue will be resolved with the Ministry of Finance in the near future in favour of the Bank.

The head office building of the Bank, included within the category "Land, buildings and general constructions, was revalued during 2000 to LEK 1,413 million from a fully depreciated historic cost amount of LEK 7 million. The revaluation took place on March 29, 2000, effective January 1, 2000, and was conducted by an internal valuation committee. The basis of the valuation was non-discounted future cash flows based on the potential market rental value of the property over its estimated useful life of 50 years. No other buildings owned by the Bank were revalued. The revaluation surplus of LEK 1,143 million was credited to the revaluation reserve.

Net intangible assets is comprised as below:

	2000 Lek (mln)	1999 Lek (mln)
Computer programs and others	10	8
Banknotes printed and coins minted	1,874	1,501
Accumulated amortisation	(1,334)	(1,274)
Total	550	235

10. DUE TO THE INTERNATIONAL MONETARY FUND

Due to the International Monetary Fund is comprised of:

	2000 Lek (mln)	1999 Lek (mln)
Enhanced Structural Adjustment Facility ("ESAF")	12,533	10,882
IMF securities account	8,525	8,727
IMF account in LEK	1,825	1,825
Total	22,883	21,434

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

- * The initial ESAF facility was drawn down in 1993 and is repayable over 10 years which commenced in 1999. The outstanding balance as at December 31, 2000 is SDR 23,013,000 (1999 – SDR 28,519,000) and the facility bears interest at 0.5%, payable semi-annually.
- * An additional loan under this facility (Known as Poverty Reduction and Growth Facility) was drawn down in 1999 and 2000. The outstanding balance as at December 31, 2000 was SDR 35,630,000 (1999 – 21,348,000). This is also a ten year facility repayable by 2009 in 10 semi-annual installments commencing in 2004. Interest is payable, after the grace period, at 0.5% semi-annually.
- * The Emergency Post Conflict Assistance for Albania loan: An SDR 8,825,000 loan granted in 1997 repayable in 8 installments over 5 years after a 3 year grace period. The interest payable is at market rates which as at December 31, 2000 were 5.6%.

11. DUE TO NON-RESIDENT FINANCIAL INSTITUTIONS

Due to non-resident financial institutions is comprised of :

	2000 Lek (mln)	1999 Lek (mln)
Transit credits (Note 8)	6,552	6,689
Loan from the Bank of Greece	1,169	1,237
Due to the World Bank	173	192
Total	7,894	8,118

Transit credits were provided by Kreditanstalt fur Wiederaufbau totaling LEK 5,891 million (1999 - LEK 6,032 million) and the European Investment Bank totaling LEK 661 million (1999 - LEK 657 million). Interest is paid by the recipients of these transit credits (domestic banks and companies) directly to the providers of the finance. The loan from the Bank of Greece (Hellenic Republic borrowing) was granted for the purpose of funding the balance of payments of the Republic of Albania. The interest rate is set as 4% per annum, payable semi-annually. The loan matures in 2018.

12. CURRENCY IN CIRCULATION

The exclusive rights of national currency issue are vested with the Bank. This item comprises valid domestic banknotes and coins in circulation issued by the Bank.

The following bank notes and coins were in circulation:

Nominal value LEK	December 31, 2000		December 31, 1999	
	Number in thousand	Value LEK (mln)	Number in thousand	Value LEK (mln)
1	20,999	21	21,016	21
3	6,479	19	6,489	20
5	6,323	32	6,373	32
10	7,615	76	7,684	77
50	-	-	749	38
100	19,495	1,949	17,831	1,783
200	26,924	5,385	27,706	5,541
500	68,713	34,356	64,048	32,024
1,000	48,181	48,181	40,298	40,298
5,000	2,023	10,113	476	2,380
Coins		1,277		732
Total		101,409		82,946

13. DUE TO DOMESTIC BANKS

Due to domestic banks is comprised of:

	2000 Lek (mln)	1999 Lek (mln)
Foreign currency		
Correspondent accounts of commercial banks	71	84
Compulsory reserves of commercial banks	6,609	5,684
	6,680	5,768
Domestic currency (LEK)		
Demand deposits	20,656	20,584
Treasury bills under repurchase agreements	5,235	785
	25,891	21,369
Total	32,571	27,137

The Bank commenced paying interest on the compulsory reserves of commercial banks in September 2000. The interest is calculated as follows:

- ✍ LEK balances: one third of the yield on 3 month domestic treasury bills (2.6% at December 31, 2000);
- ✍ USD balances: one third of the one month USD LIBOR rate (2.2% at December 31, 2000);
- ✍ EURO balances: one third of the one month EURO LIBOR rate (1.6% at December 31, 2000);
- ✍ GRD balances: one third of the one month ATHIBOR rate (1.6% at December 31, 2000).

The Bank does not pay interest on correspondent accounts and demand deposits.

Treasury bills under repurchase agreements matured on January 4, 2001 at interest rates ranging from 6.2% to 6.45%.

14. DUE TO THE GOVERNMENT

Due to the Government is comprised of:

	2000 Lek (mln)	1999 Lek (mln)
Deposits received on behalf of the Government	3,850	1,562
Undistributed profit appropriation	-	1,903
Other	85	94
Total	3,935	3,559

Deposits received on behalf of the Government represent funds received by the Bank from a loan granted to the Government by the International Organisation for Economic Development.

15. OTHER DOMESTIC LIABILITIES

Of the other domestic liabilities total of LEK 110 million, LEK 84 million relates to amounts due to the Printing House controlled by the Bank (see note 21).

16. INTEREST AND COMMISSION INCOME (RESIDENTS)

Interest and commission income is comprised of:

	2000 Lek (mln)	1999 Lek (mln)
Interest income from government loans	1,378	4,330
Interest income from securities	6,006	10,565
Other	186	7
Total	7,570	14,902

17. OTHER OPERATING INCOME, NET

Other operating income is comprised of:

	2000 Lek (mln)	1999 Lek (mln)
Net loss from sales of investments	(2)	(1)
Net profit from foreign currency and precious metals trading	1	3
Other	78	16
Total	77	18

18. STAFF COSTS

Staff costs consist of employees' salaries, social and other costs. Social costs represent mainly compulsory contributions to the Social Security Fund, State Employment Fund and others.

As at December 31, 2000, the Bank had 334 employees (1999 - 272 employees).

19. PRINTING HOUSE

As detailed in Note 2, the Bank controls the operations of the Printing House. The financial position of the Printing House as at December 31, 2000 is as follows:

	2000 Lek (mln)
ASSETS	
Tangible fixed assets	41
Inventory	62
Trade accounts receivable	1
Amount due from the Bank (see note 17)	84
Total assets	188
LIABILITIES	
Capital	52
Legal reserve	19
Investment reserves	24
Other reserves	6
Retained earnings	87
Total statutory funds and reserves	188

20. CONTINGENCIES AND COMMITMENTS

The Bank is involved in a number of lawsuits and legal proceedings arising in the ordinary course of business. Management is of the view that these proceedings will not have a material effect on the financial position or operating results of the Bank.

There were no significant other significant commitments or contingencies.

21. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with current year presentation.

4.5. INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of the Bank of Albania:

We have audited the accompanying balance sheets of the Bank of Albania (the "Bank") as of December 31, 2000 and 1999, and the related statements of profit and loss and capital and reserves for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

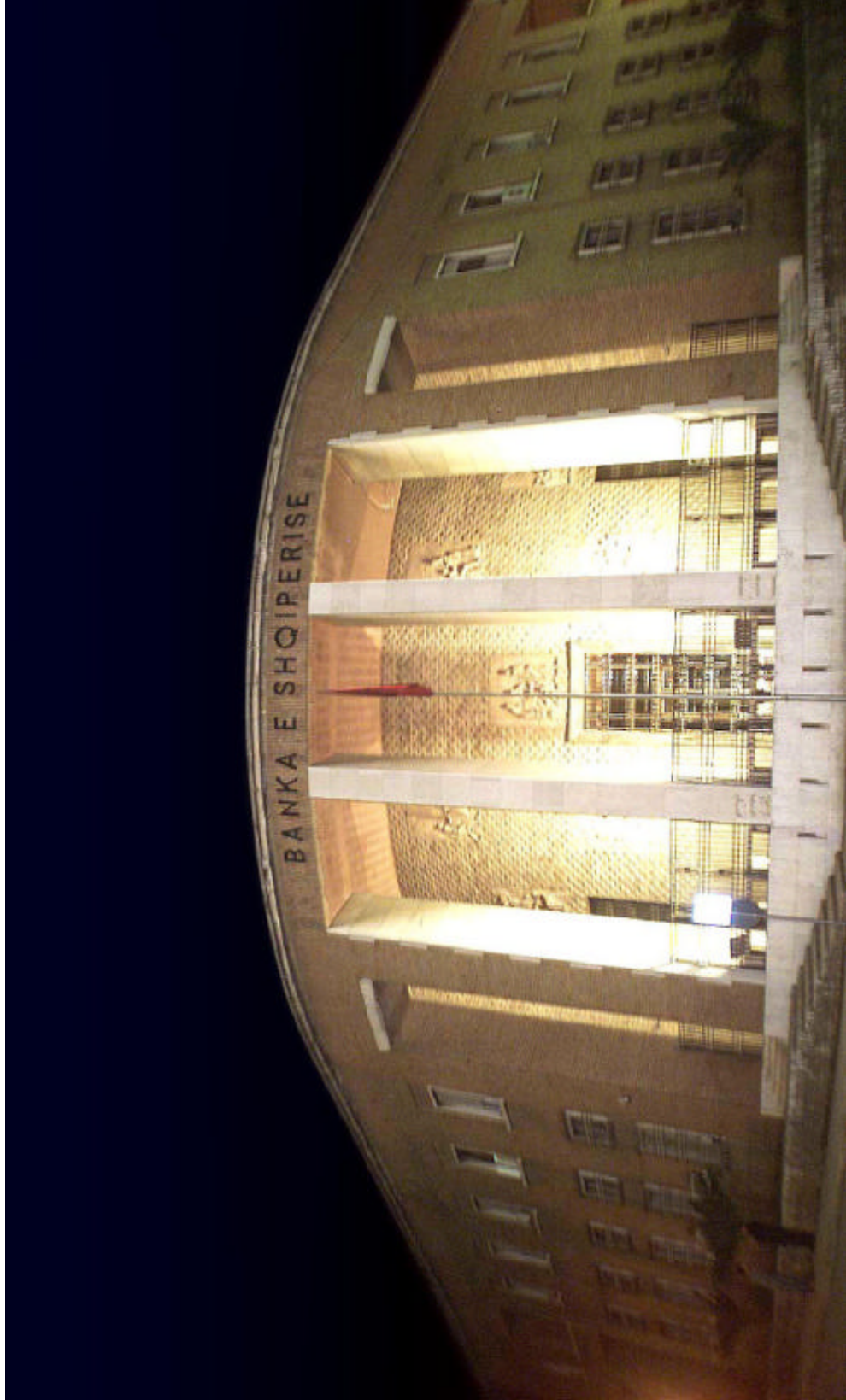
We did not audit the balance sheet as of December 31, 1998, since that date was prior to our appointment as auditors, adjustments to which could materially affect the determination of the statement of profit and loss for the year ended December 31, 1999; accordingly, we were unable to express, and did not express, an opinion on the statement of profit and loss and capital and reserves for the year ended December 31, 1999.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2000 and 1999 and the results of its operations and capital and reserves for the years then ended in accordance with International Accounting Standards modified for generally accepted accounting policies applicable to national central banks.

Deloitte & Touche, Sh.p.k

Tirana, Albania

March 5, 2001



Bank of Albania' s front view.