

BANK OF ALBANIA

NOTES TO THE FINANCIAL STATEMENTS

AS AT JUNE 2008

(all amounts are expressed in million LEK, unless otherwise stated).

1. GENERAL INFORMATION

The Bank of Albania (“the Bank”) is the Central Bank of the Republic of Albania, carrying out its activity according to the Law No. 8269 dated 23.12.1997 “On the Bank of Albania”. For the implementation of this law the Bank’s main responsibilities are:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of financial statements

The financial statements are compiled in accordance with the Albanian Law “On Accounting and Financial Statements” and in accordance with accounting policies adopted by in the Accounting Manual of the Bank of Albania, approved by the Council of Minister of the Republic of Albania with the Decision No. 50, dated 26.01.2001. This accounting policy is broadly in line with the International Financial Reporting Standards (IFRS) approved by the International Accounting Standards Board (IASB). IFRS are used in the preparation of the accompanying financial statements to the extent they do not contradict to the Law “On the Bank of Albania”.

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

The financial statements presented include the accounts of the Bank, prepared on the historical cost basis of accounting combined with elements of other methods, which are based on the market value, modified to include the revaluation of securities portfolio, foreign currency and gold, the head office building, and other financial assets and liabilities.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation of financial statements (continued)

The Bank controls the operations of the Printing House, a business entity engaged in the printing of Government high security material and publications of Bank of Albania. The Supervisory Council of the Bank of Albania at the meeting dated April 1, 2003 decided that the Printing House should be under the supervision of Bank of Albania as a separated part of the organizational structure of Bank of Albania. The Council of Minister upon the Decision Nr. 598, dated September 5, 2007 decided the termination of the economic and financial activity of the Printing House on March 31, 2008. This decision was amended by the Decisions No. 862, dated June 18, 2008 to enter into force on September 30, 2008.

The Bank has not consolidated the financial operations of the Printing House due to its unclear status related to the ownership with the Government of Albania. This year, due to the closure of its activity at the end of March 2008, there is not made any consolidation of the financial statements.

(b) Deviation from International Financial Reporting Standards

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

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

Reporting and accounting of Pension Fund is not still prepared in accordance with IAS 19 and IAS 26. Obligation due to Pension Fund is expressed as net value, but the calculation of this obligation is not in compliance with specifics of accounting standards to the extent that no actuarial estimation is performed. The Regulation approved during the year 2007 stipulates the function of this fund as a defined contribution fund, by disclosing the accounting treatment of the pension fund in compliance with the above mentioned standards.

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

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

- IFRS 7 “Financial Instruments: Disclosures”.

The bank has not presented all disclosures related with the policies and procedures for managing, measuring and monitoring the risks that the bank faces and other disclosure as required by IFRS 7 “Financial Instruments: Disclosures”.

BANK OF ALBANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT JULY 2008****(all amounts are expressed in million LEK, unless otherwise stated).****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(c) Interest and commission recognition**

Interest income and expense are recognized in the income statement on an accrual basis. Interest income and expense include the interest earned on coupons, as well as the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on a straight line basis

Fee and commission income and expenses arise on financial services provided by the Bank and are recognized when the corresponding service is provided. Other operating income/expense includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading and available for sale assets.

(d) Foreign currency translation

Transactions in foreign currencies are translated in LEK and recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences initially are recognized in profit or loss in the period in which they arise, and after that transferred in "Revaluation reserves" in capital, according to the Law No. 8269, dated December 23, 1997 "On the Bank of Albania".

The applicable official Bank rate (LEK to the foreign currency unit) for the principal currencies as at July 31 and June 30, 2008 were as below:

	July 31, 2008	June 30, 2008
United States dollar (USD)	78.01	77.17
European Union currency unit (EUR)	121.80	122.05
British pound (GBP)	154.66	153.93
Special Drawing rights (SDR)	126.41	125.78
Japanese yen (JPY)	0.7214	0.7333
Gold ("XAU")	1onz =71,145.12	1onz =71,980.32

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(all amounts are expressed in million LEK, unless otherwise stated).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets

All the financial assets are initially measured at fair value of the consideration given plus, transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets are classified as follows:

Loans originated by Bank

Loans are financial assets with fixed or determinable payments that are not quoted in an active market and created by the Bank providing money to a debtor. Loans comprise loans to employees.

At subsequent reporting dates they are carried at amortized cost, less any impairment loss recognized to reflect irrecoverable amounts.

Held-to-maturity

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

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

Available for sale investments

Available for sale investments are recognized on a settlement date basis and, after initial recognition, are reflected in the financial statements at fair value. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

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(all amounts are expressed in million LEK, unless otherwise stated).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets (continued)

Financial assets at fair value through profit or loss

This category comprises financial assets classified as held for trading and that the Bank maintains for short term profits. Those are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value. Any realized loss/profit in the fair value is directly recorded in the income statement

Fair values

For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same.

Impairment and uncollectability of financial assets

Financial assets, other than those “Held for trade”, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, as follows:

- For loans originated by Bank – the recoverable amount of originated loans is calculated based on the year-end evaluations of loans, including the accrued interest. In determining the recoverable amounts of loans to employees, management considers the particular factors, including the review of repayment history of the debt by its former employees. The provision for impairment losses on loans is reported in the income statement as a charge and is deducted from the relevant asset category on the balance sheet. When it is determined that a loan cannot be recovered, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off;
- For financial assets held to maturity – the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the statement of profit and loss; and
- For financial assets available for sale –when a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss even though the financial asset is owned by the Bank again.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Repurchase agreements and reverse repurchasing agreements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are generally treated as collateralised financing transactions and are carried at the amounts of cash advanced or received, plus accrued interest.

Repurchase agreements are recorded in the balance sheet item "Due to domestic Banks". Based on the Bank's regulation on repurchase agreements, the Bank is not required to put up any collateral for these securities.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense, over the life of each agreement using the interest rate approved by the Supervisory Council of the Bank of Albania.

(g) Fixed assets

The fixed assets are stated at historical cost less accumulated depreciation except the bank's building, which are stated at revaluated amount, which is calculated using the replacement cost method (see Note 10). Any revaluation increase arising on the revaluation of the head office building is credited in equity to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

Gains and losses on disposal (sell or out of use) of fixed assets are determined as the difference between net disposal proceeds and the carrying amount of the asset and are recognized as income or expense in the statement of income and expenditure in the year of disposal.

Depreciation is provided on all fixed assets based on the historic cost except for the headquarter building, which is stated at revaluated amount. The annual charge for depreciation is computed using the straight-line method, using rates specified for each depreciable asset based on estimated useful lives. The estimated useful lives applied during 2008 are the same as year 2007:

	2008
Building – Head office	40 years
Buildings – At branches	25 years
Vehicles	5–10 years
Furniture, fixtures and equipment	3–20 years
Computer software	2 years

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Printing and minting cost

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

(i) Taxation and profit allocation

The Bank is not subject to income tax based on the law “On Bank of Albania” and referring to it the Bank allocates all the realized profit to the State Budget after having fulfilled its entire requirement for reserve fund as required from the Supervisory Council of the Bank of Albania.

(j) Legal Reserve

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

(k) Grants

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

(l) Cash and Cash equivalents

For the purposes of cash flow statement, cash and cash equivalents is defined as cash in LEK and foreign currencies and foreign currency deposits with residual maturities of less than three months.

(m) Use of estimates

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

BANK OF ALBANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT JULY 2008****(all amounts are expressed in million LEK, unless otherwise stated).****3. GOLD AND PRECIOUS METALS**

As at July 31, 2008, the value of gold owned by the Bank placed in gold time deposits abroad was LEK 4,925 million (June 2008 - LEK 4,983 million), being 69,223.71 troy ounces of gold (June 2008 – 69,223.24 troy ounces).

Gold is valued at the London fixing rate on the balance sheet date. As at June 31, 2008, the price for one troy ounce of gold was USD 912 (June 2008 – USD 932.75).

Gold and other precious metals included within domestic assets amounting LEK 2,393 million, include platinum and silver in a domestic vault, valued at the London fixing rate on the balance sheet date, totally amounting LEK 293 million as at July 31, 2008 (June 2008 – LEK 246 million) and LEK 2,100 million of non monetary gold (June 2008 – LEK 2,184 million).

4. DEPOSITS WITH THE INTERNATIONAL MONETARY FUND

	July 31, 2008	June 30, 2008
International Monetary Fund (IMF)	6,236	6,235
Special Drawing Rights (“SDR”)	842	894
Accrued interest	9	6
	<hr/>	<hr/>
Total	7,087	7,135

Deposits with the IMF resulted from the membership of the Republic of Albania in the IMF, according to Law nr.8269 dated December 23, 1997 “On the Bank of Albania”. These deposits have as counterparty accounts the loans granted by IMF to the Republic of Albania as disclosed in Note 11. The Special Drawing Rights (SDR) represents deposits placed in the International Monetary Fund. The SDR holdings bear interest, which is determined on weekly basis. The interest rate prevailing as at July 31, 2008 was 3.06 % (June 2008 – 2.99 %).

5. DEPOSITS WITH NON RESIDENT BANKS

	July 31, 2008	June 30, 2008
Current account	10,094	8,360
Short-term deposits	40,191	31,657
Accrued interest	104	99
	<hr/>	<hr/>
Total	50,389	40,116

Short-term deposits and current accounts with non-resident banks earn an interest at rates mostly based on the currency of the deposit or current account, and at rate varying from 0.52 % to 4.91% (June 2008 –0.55% to 5.67%l).

Deposits and current accounts with foreign banks are denominated in EUR, USD, GBP and JPY, which equate to the following currency balances:

	July 31, 2008	June 30, 2008
	<i>(in million)</i>	<i>(in million)</i>
EUR	250	188
USD	212	181
GBP	2	-
JPY	4,318	4,312

BANK OF ALBANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT JULY 2008****(all amounts are expressed in million LEK, unless otherwise stated).****6. SECURITIES INVESTMENTS (IN FOREIGN CURRENCY)****6.1. AVAIIABLE FOR SALE INVESTMENTS**

The portfolio of available for sale in foreign currency is disclosed using market value as follows:

	July 31, 2008	June 30, 2008
Foreign Governments treasury notes	69,475	74,713
Bank for International settlements: medium-term investments	28,308	27,886
Fixed Rate Investments (FIX BIS)	11,282	14,429
United States agencies notes	2,998	798
Total	112,063	117,826

Foreign investments portfolio classified as available for sale disclosed in nominal value and by currency are as follows:

	July 31, 2008	June 30, 2008
USD		
United States Government treasury notes	228	270
Bank for International Settlements: medium-term investments	100	97
United States agencies notes	38	10
Fixed rate investments (FIX BIS)	366	377
EUR		
French Government treasury notes	112	117
German Government treasury notes	244	258
Bank for International Settlements: medium-term investments	151	150
Fixed Rate Investments (FIX BIS)	45	70
Total	552	595
GBP		
United Kingdom Government treasury notes	44	45
Bank for International Settlements: medium-term investments	14	14
Total	58	59
JPY		
Fixed rate investments (FIX BIS)	8,000	8,000
Total	8,000	8,000

BANK OF ALBANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT JULY 2008****(all amounts are expressed in million LEK, unless otherwise stated).****6.2. HELD FOR TRADING INVESTMENTS**

Held for trading portfolio measured at market value in LEK is presented as follows:

	July 31, 2008	June 30, 2008
United States Government treasury notes	4,586	4,991
United States agencies notes	4,134	3,689
Total	8,720	8,680

United States Government treasury notes, denominated in USD, have coupon rates varying between 1.75% and 4.875%. Interest is paid semi-annually and maturities vary between November 2009 and June 2013.

United States agencies notes are denominated in USD with coupon rates varying between 2.25% and 5.875%. Interest is paid annually or semi-annually and maturities range between October 2008 and July 2011.

Starting from July 25, 2006, this portfolio is administrated from International Bank for Reconstruction and Development (IBRD) as stated in the agreement "For the administration and technical assistance on investing the foreign reserve of Bank of Albania (Reserves and Advisory Management Program) signed between Bank of Albania and World Bank on September 23, 2005. This portfolio is recognized in balance sheet on a trade date basis.

7. OTHER FOREIGN ASSETS

	July 31, 2008	June 30, 2008
Quotas in international financial institutions		
International Bank for Reconstruction and Development subscriptions (IBRD)	352	352
International Development Agency subscriptions (IDA)	12	11
Multilateral Investment Guarantee Agency subscriptions (MIGA)	5	5
International Finance Corporation subscriptions (IFC)	57	57
European Bank for Reconstruction and Development subscriptions (EBRD)	46	45
Islamic Development Bank subscriptions (IDB)	18	18
Total Quotas	490	488
Cash on hand in foreign currency	6	6
Receivables from International Bank for Reconstruction and Development	463	138
Total of other assets in foreign currency	959	632

As at July 31, 2008, other foreign assets are comprised of subscriptions for participation of the Bank of Albania in International Institutions of LEK 490 million (June 2008 – LEK 488 million) and cash on hand in foreign currency of LEK 6 million (June 2008 - LEK 6 million).

BANK OF ALBANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT JULY 2008**

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Receivables from International Bank for Reconstruction and Development represent the amount of cash to be received from the sale of securities administrated from IBRD, during the period within the trading date and settlement date (refer to note 6.2).

8. LOANS DISBURSED TO THIRD PARTIES**8.1. TRANSIT CREDITS**

The total of LEK 81 million (June 2008 – LEK 82 million) represents credits for services for distribution to ultimate borrowers to support state development programs (See Note 12). This loan has not been secured by any collateral.

8.2 LOANS TO RESIDENT BANKS

Loans to resident banks as at July 31, 2008 represent reverse repurchase agreements signed between the Bank of Albania and second level banks in amount of LEK 3,728 million (June 2008- – LEK 7,712 million), with maturing terms of one week. On July 31, 2008 the interest rate of reverse repurchase agreement was 6.25% (June 2008 - equal).

9. AVAIBLE FOR SALE INVESTMENTS (IN DOEMSTIC CURRENCY)

	July 31, 2008	June 30, 2008
Short-term treasury bills of Albanian Government	<u>63,620</u>	<u>63,969</u>
Total	<u>63,620</u>	<u>63,969</u>

Short-term treasury bills as at July 31, 2008 relate to Government of Albania zero-coupon treasury bills, with short-term maturity, ranging between August –January 2009, with yield varying between 6.27% and 7.94% (June 2008 –6.25% to 7.94%).

10. OTHER DOMESTIC ASSETS

	July 31, 2008	June 30, 2008
Fixed assets, net	2,378	2,372
Intangible assets, net	86	91
Loans to employees	1,113	1,118
Debtors and others	617	621
Numismatic	39	39
Inventory	<u>30</u>	<u>31</u>
Total	<u>4,263</u>	<u>4,272</u>

On December 31, 2007 the Bank involved an independent appraiser in the process of the revaluation of the buildings of Bank of Albania, included in the category “Land, building and general constructions” based on the replacement cost.

The net book vale of the Bank’s buildings is LEK 1,916 million as at July 31, 2008 from LEK 1,920 million resulting in June 2008.

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Loans to employees include a provision for legal claims of LEK 10 million as at July 31, 2008. Loans to employees are collateralised by security such as mortgages, totalling approximately LEK 1,218 million (June 2008 – equal).

BANK OF ALBANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT JULY 2008****(all amounts are expressed in million LEK, unless otherwise stated).****10. OTHER DOMESTIC ASSETS (continued)**

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

	Land, buildings and general constructions	General equipment	Transport vehicles	Work in Progress	Total fixed assets
<u>Cost/Evaluation</u>					
Balance at June 30, 2008	1,942	808	241	192	3,183
Additions	-	5	12	-	17
Disposals	-	-	-	-	-
Balance at July 31, 2008	1,942	813	253	192	3,200
<u>Accumulated depreciation</u>					
Balance at June 30, 2008	22	612	177	-	811
Change for the period	4	6	1	-	11
Balance at July 31, 2008	26	618	178	-	822
<u>Net book value</u>					
Balance at July 31, 2008	1,916	195	75	192	2,378
Balance at June 30, 2008	1,920	196	64	192	2,372

BANK OF ALBANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT JULY 2008**

(all amounts are expressed in million LEK, unless otherwise stated).

10. OTHER DOMESTIC ASSETS (continued)

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

	Computer software	Banknotes printed and coins minted	Total intangible assets
<u>Cost</u>			
Balance at June 30, 2008	361	2,453	2,814
Additions	-	-	-
Disposals	-	-	-
Balance at July 31, 2008	361	2,453	2,814
<u>Accumulated depreciation</u>			
Balance at June 30, 2008	343	2,380	2,723
Change for the year	1	4	5
Balance at July 31, 2008	344	2,384	2,728
<u>Net book value:</u>			
Balance at July 31, 2008	17	69	86
Balance at June 30, 2008	18	73	91

BANK OF ALBANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT JULY 2008****(all amounts are expressed in million LEK, unless otherwise stated).****11. DUE TO THE INTERNATIONAL MONETARY FUND**

	July 31, 2008	June 30, 2008
Poverty Reduction and Growth Facility (“PRGF”)	5,914	6,094
IMF securities account	4,871	4,715
IMF account in LEK	1,878	1,878
Accrued interest	11	5
	<u>12,674</u>	<u>12,692</u>
Total	12,674	12,692

PRGF borrowings related to the Republic of Albania’s IMF quota and were drawn down on behalf of the Government for macroeconomic reforms. These loans are compounded from the following component facilities:

The loan “Poverty Reduction and Growth Facility 2” is approved from the agreement dated May 13, 1998 totalling SDR 45,040,000 and was drawn down during the period 1999 to 2001. The outstanding balance as at July 31, 2008 was SDR 13,493,600 (June 2008 - SDR 15,156,900). This facility is repayable by 2011 in 10 semi-annual instalments commenced in 2004. Interest is payable, at 0.5% semi-annually:

The loan “Poverty Reduction and Growth Facility 3” is approved from the agreement dated June 21, 2002 totalling SDR 28,000,000 and the last disbursement was made on June 20, 2005. The balance as of July 31, 2008 is SDR 27,200,000 (June 2008 - equal) with an interest rate of 0.5% payable semi-annually. This facility is repayable after a grace period of five and a half years in 10 semi-annual equal instalments.

The loan “Poverty Reduction and Growth facility 4” and the loan “Extended Fund Facility” are approved upon the three- year agreement dated January 27, 2006, in an amount of SDR 17,045,000

The loan “Poverty Reduction and Growth facility 4” is approved in amount of SDR 6.087.500 (June 2008 – equal) with an interest rate of 0.5, paid semi-annually. This facility is repayable after a grace period of five and a half years in 10 semi-annual equal instalments.

The loan “Extended Fund Facility” (EFF) disbursed in five entrenchments amounting SDR 7,305,000 during the period 2006-2008. This facility is repayable after a grace period of four and a half years and will be repaid within 10 years. The interest on these loans is floating and payable each three months. As at July 31, 2008 the interest rate was 4.08%.

BANK OF ALBANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT JULY 2008****(all amounts are expressed in million LEK, unless otherwise stated).****12. DUE TO NON – RESIDENT FINANCIAL INSTITUTIONS**

	July 31, 2008	June 30, 2008
Transit credits (Note 8.1)	81	81
Loan from the Republic of Greece	1,072	1,075
Due to the World Bank	14	14
Accrued interest	6	5
	<u>1,173</u>	<u>1,175</u>
Total	<u>1,173</u>	<u>1,175</u>

Transit liabilities of LEK 81 million represents the outstanding loan received from the European Investment Bank and is compounded from EUR 0.7 million (Note 8.1). Interest is paid by the recipients of these transit credits (Banks and domestic companies) directly to the providers of the funds.

The loan from the Republic of Greece in amount of EUR 8.8 million was granted for the purpose of funding the balance of payments of the Republic of Albania. The interest rate is 1.17% per annum, payable semi-annually. The loan matures in 2018.

Due to the World Bank represents the accounts of the international organizations such as International Bank for Reconstruction and Development, International Development Agency, Multilateral Investment Guarantee Agency, International Finance Corporation in the Bank of Albania.

13. CURRENCY IN CIRCULATION

The exclusive rights of national currency issue are vested with the Bank. This item comprises valid domestic banknotes and coins in circulation issued by the Bank on July 31, 2008 amounting LEK 157,089 million.

14. DUE TO RESIDENT BANKS

	July 31, 2008	June 30, 2008
Foreign currency		
Compulsory reserve and accounts of commercial banks	<u>26,465</u>	<u>25,314</u>
	<u>26,465</u>	<u>25,314</u>
Domestic currency (LEK)		
Compulsory reserve and accounts with commercial banks	37,647	34,366
Repurchase agreements	-	-
Overnight deposits	<u>4,420</u>	<u>6,858</u>
	<u>42,067</u>	<u>41,224</u>
Accrued interests	<u>44</u>	<u>37</u>
Total	<u>68,576</u>	<u>66,575</u>

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Interest on compulsory reserves is calculated as follows:

- LEK balances: 70% of the yield on the repurchase agreements: 4.375 % as at July 31, 2008 (70% of the yield on the repurchase agreements: 4.375 % as at June 30, 2008);
- USD balances: 70% of the one-month USD LIBOR rate: 1.72 % as at July 31, 2008 (70% of the one-month USD LIBOR rate: 1.74 % as at June 30, 2008);
- EUR balances: 70% of the one-month EUR LIBOR rate: 3.14 % as at July 31, 2008 (70% of the one-month EUR LIBOR rate: 3.14% as at June 30, 2008).

Overnight deposits amounting LEK 6,858 million have an interest rate of 4.5% (June 2008 – equal).

15. DUE TO THE GOVERNMENT

	July 31, 2008	June 30, 2008
Deposits received on behalf of the Government	16,551	23,794
Other	31	18
Total	16,582	23,812

Deposits received on behalf of the Government in the amount of LEK 16,551 million, includes the main account of LEK 8,761 million, international donor funds deposited at the Bank for subsequent transfer to aid projects in Albania, of LEK 2,487 million and an amount of LEK 1,250 million representing a reserve fund account of the Government on behalf of the Social Insurance Institute, other funds designated for financing purposes amounting LEK 1,045 million and time deposits amounting LEK 3,000 million.

“Other” includes funds received by the Bank of LEK 18 million (June 2008 – equal) from a loan granted to the Government by the Islamic Arabian Bank of Development, and an amount of Lek 13 million is the tax on treasury bills interests.

16. OTHER DOMESTIC LIABILITIES

	July 31, 2008	June 30, 2008
Due to Printing House	221	222
Deposits of individuals from participation in Treasury Bills	342	473
Liabilities to pension fund, net	21	2
Due to non-banking financial institutions	246	-
Other	62	63
Total	892	760

Pension plan scheme consists of employees' contribution of 2% of gross salary and employer's contribution of 15% on the total payroll amount. On July 31, 2008 the amount of pension funds assets invested in treasury bills matured within 12 month, is LEK 314 million and the amount invested in treasury bills of maturity term from 5 to 7 years is LEK 197 million. Total amount of contributions paid from the Bank's employees till July, 2008 is LEK 39.8 million (June 2008-Lek 39.2 million) and the total amount of contributions paid from the Bank since the fund establishment till July 2008 is LEK 331 million (June 2008-LEK 326 million).

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“Other” includes accrued expenses of LEK 8 million mainly related to maintenance of AIPS and AECH systems. Also included here are the claims for several legal litigations raised in the normal course of business. A net provision of LEK 19 million has been recognized in relation to these claims as at July 2008 (June 2008-equal), tax on employees’ revenues amounting LEK 14 million, etc

17. REVALUATION RESERVE

The components of the revaluation reserve are as follows:

	July 31, 2008	June 30, 2008
Revaluation of foreign currency and gold balances	(27,777)	(27,913)
Reserve of security revaluation	(368)	(1,060)
Other revaluation	117	117
Total	(28,028)	(28,856)

During June 2008, the net profit arising from the revaluation of foreign currencies and due to the exchange rate fluctuations amounts LEK 136 million. The foreign currencies exchange rate had an increase during this month mainly USD underwent a light growth.

The revaluation of securities with the market value, during July 2008 encountered a positive fluctuation amounting LEK 692 million.

In accordance with the Law “On the Bank of Albania” article 64, point (a), the net gain / losses arising from the revaluation of assets and liabilities denominated in foreign currencies, is transferred to the equity on a revaluation reserve account “Revaluation of foreign currency balances”.

Pursuant to the above article, paragraph (b), during the year 2007 the Ministry of Finance issued securities by a total of LEK 23, 540 million, to cover the negative balance of the revaluation reserve arising from Bank’s activity till the end of year 2007. These securities are recorded as off-balance sheet items and have a renewable maturity of six month. The total amount of LEK 23, 540 million covers the loss for the period 2003 up to 2007.

18. OTHER RESERVES

The components of the other reserves are as follows:

	July 31, 2008	June 30, 2008
Special reserve for Balance of Payments	7,209	7,209
Reserve in gold and precious metals	7,042	7,042
Investment fund	300	300
Other	1,196	1,196
Total	15,747	15,747

The special reserve for the Balance of Payments relates to funds provided by the European Community as a financial assistance to support Albania on its transition towards the market economy. These grants

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have been transferred during the period 1992 – 1993 supporting the long-standing of the Balance of Payment and reserves balance and no movement have been incurred in this reserve since 1995.

Reserve in gold and precious metals represents the amount denominated in gold and precious metals of the Republic of Albania have being transferred to the ownership of the Bank of Albania on 27.02.08, amounting LEK 7,042 million.

Investment fund consists of a fund created with the decision of the Supervisory Council with the aim of purchasing a new building for the Bank of Albania.

“Other” includes reserves created from the allocation of profits for years 2002 - 2006 based on the Supervisory Council decisions on the respective following years.

19. INTEREST AND COMMISSION INCOME (NON-RESIDENTS)

	July 31, 2008	July 30, 2008
Interest income from securities	2,696	2,316
Interest income from time deposits	917	766
Interest from SDR deposits with IMF	19	17
Other	244	207
	<hr/>	<hr/>
Total	3,876	3,306

20. INTEREST AND COMMISSION EXPENSE (NON-RESIDENTS)

	July 31, 2008	June 30, 2008
Amortization of premium on securities	(275)	(236)
Interest expenses on loans of foreign institutions	(7)	(6)
Interest expenses on IMF accounts	(37)	(31)
Other	(17)	(13)
	<hr/>	<hr/>
Total	(336)	(286)

21. INTEREST AND COMMISSION INCOME (RESIDENTS)

	July 31, 2008	June 30, 2008
Interest income from securities	2,656	2,281
Interest income from repurchase and reverse repurchase agreements	74	51
Other	30	25
	<hr/>	<hr/>
Total	2,760	2,357

BANK OF ALBANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT JULY 2008****(all amounts are expressed in million LEK, unless otherwise stated).****22. INTERST AND COMMISSION EXPENSES (RESIDENTS)**

	July 31, 2008	July 30, 2008
Interest expenses on compulsory deposits	(1,300)	(1,109)
Interest expenses on REPO agreements	(103)	(103)
Interest expenses on Government deposits	(72)	(65)
Other	(120)	(85)
Total	(1,595)	(1,362)

23. OTHER OPERATING INCOME/ (EXPENSES), NET

	July 31, 2008	June 30, 2008
Net loss from the sale of available for sale investments	1,032	1,103
Net profit from the sale of held for trading investments	155	138
Grants depreciation	(117)	(108)
Other	11	10
Total	1,081	1,143

24. PERSONNEL EXPENSES

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

25. CASH AND CASH EQUIVALENTS

	July 31, 2008	June 30, 2008
Deposits with foreign banks (Note 5)	50,285	40,017
Gold and other precious metals (Note 3)	7,318	7,413
Domestic currency on hand	16,911	17,342
Foreign currency on hand (Note 7)	6	6
Total	74,520	64,778

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26. CONTINGENCIES AND COMMITMENTS

The Bank maintains certain accounts in foreign currencies related to agreements concluded between Government of Albania and foreign governments and financial organizations. As these accounts do not present either assets or liabilities of the Bank, they have not been included within the Bank's balance sheet.

On June, 2008 treasury bills issued from the Ministry of Finance for the purpose of covering the revaluation reserve created during the period 2003 - 2007 in amount of LEK 23,540 million have a renewable maturity of six months.

27. MANAGED ASSETS

As at July 31, 2008, the Bank held as custodian short-term treasury bills, at nominal value LEK 238 billion, and treasury bills with maturity 2 up to 7 years at nominal value LEK 142 billion. These are securities issued by the Albanian Government.

28. RISK MANAGEMENT

The foreign reserve is under the administration of the Bank of Albania and its investment are performed by the Monetary Operations Department, which is based on the regulation "On foreign reserve management policy", approved by the Supervisory Council. The reserve, in accordance with the liquidity needs, is invested in short-term securities and in fixed coupon instruments.

Liquidity risk

Policies to monitor and address liquidity risk are set by the Supervisory Council of the Bank. The Monetary Operations Department of the Bank monitors the liquidity risk on a continual basis by analyzing liquidity ratios, gaps and economic scenarios. The Bank manages its liquidity risk by investing in short term deposits with non-resident banks.

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

Credit risk

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

BANK OF ALBANIA

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AS AT JULY 2008

(all amounts are expressed in million LEK, unless otherwise stated).

Price risk

The key elements of price risk affecting the Bank are:

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

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

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

BANK OF ALBANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT JULY 2008****(all amounts are expressed in million LEK, unless otherwise stated).****29. NET CURRENCY POSITION**

	LEK	USD	EURO	GBP	Other	Total
Assets						
Gold and precious metals	-	-	-	-	4,925	4,925
Deposits with the International Monetary Fund	5,813	-	-	-	1,274	7,087
Deposits with non-resident banks	-	16,537	30,488	249	3,115	50,389
Available for sale investments	-	29,079	68,035	9,176	5,773	112,063
Held for trading investments	-	8,720	-	-	-	8,720
Other foreign assets	335	619	5	-	-	959
Gold and precious metals	2,393	-	-	-	-	2,393
Transit credits	-	-	81	-	-	81
Loans to banks	3,728	-	-	-	-	3,728
Available for sale investments	63,620	-	-	-	-	63,620
Other domestic assets	3,677	2	583	1	-	4,263
Total assets	79,566	54,957	99,192	9,426	15,087	258,228
Liabilities						
Due to the international Monetary Fund	6,750	-	-	-	5,924	12,674
Due to non-resident financial institutions	14	-	1,159	-	-	1,173
Other foreign liabilities	-	540	-	-	-	540
Currency in circulation	157,089	-	-	-	-	157,089
Due to resident banks	42,097	6,315	20,164	-	-	68,576
Due to Government	12,905	306	3,370	1	-	16,582
Other domestic assets	879	9	4	-	-	892
Total liabilities	219,734	7,170	24,697	1	5,924	257,526
Net currency position as at July 31, 2008	(140,168)	47,787	74,495	9,425	9,163	702
Net currency position as at June 30, 2008	(133,761)	46,040	68,615	9,255	9,239	(612)

BANK OF ALBANIA

NOTES TO THE FINANCIAL STATEMENTS

AS AT JULY 2008

(all amounts are expressed in million LEK, unless otherwise stated).

30. POST BALANCE SHEET EVENTS

Revaluation of land and buildings of the Printing House

Land and building of the Printing House have been revaluated resulting in a revaluation surplus in the amount of LEK 230 million. This will be recorded in the accounting records after the transfer of the ownership to Bank of Albania from the Government of Albania upon the closure of the Printing House activity.