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The Prospectus has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR A SOLICITATION OF AN OFFER TO BUY SECURITIES IN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER JURISDICTION WHERE THE OFFER, SALE OR SOLICITATION IS NOT PERMITTED. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities, you must be a person who is outside of the United States. The Prospectus is being sent at your request and by accepting the e-mail and/or accessing the Prospectus, you shall be deemed to have represented to us that: (i) you understand and agree to the terms set out herein; (ii) you and any customers you represent are outside the United States; (iii) that the e-mail address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is not located in the United States for the purposes of Regulation S under the Securities Act; (iv) you consent to delivery of the Prospectus by electronic transmission; (v) you will not transmit the Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with our consent; and (vi) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities.

The Prospectus is being distributed only to and directed only at: (i) persons who are outside the United Kingdom; or (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); or (iii) high net worth entities and other persons falling within Article 49(2)(a) to (d) of the Order; or (iv) those persons to whom it may otherwise lawfully be distributed in accordance with the Order (all such persons together being referred to as "**relevant persons**"). The Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither of Deutsche Bank AG, London Branch or J.P. Morgan Securities plc (together, the "**Joint Lead Managers**") nor any person who controls either of them or any of their respective directors, officers, employees or agents, the Republic of Albania or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

THE REPUBLIC OF ALBANIA
€450,000,000 5.75% Notes due 2020
Issue Price: 99.472%

The issue price of the €450,000,000 5.75% Notes due 2020 (the "**Notes**") of the Republic of Albania (the "**Issuer**", the "**Republic**" or "**Albania**") is 99.472% of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 12 November 2020 (the "**Maturity Date**"). The Notes will bear interest from, and including, 12 November 2015 (the "**Issue Date**") at the rate of 5.75% *per annum*, payable annually in arrear on 12 November in each year, commencing on 12 November 2016. Payments on the Notes will be made in Euros without deduction for, or on account of, taxes imposed or levied by Albania to the extent described under "*Terms and Conditions of the Notes—8. Taxation*".

This Prospectus has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Directive. "**Prospectus Directive**" means Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU). Such approval only relates to Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any member state of the European Economic Area. The Central Bank of Ireland only approves this prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange PLC (the "**Irish Stock Exchange**") for the Notes to be admitted to the Official List (the "**Official List**") and to trading on its main securities market (the "**Market**"). This Prospectus constitutes a prospectus for the purposes of the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") (which implement the Prospectus Directive in Ireland). Reference in this prospectus to being "**listed**" (and all date references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC.

The Notes are expected to be assigned a rating of B1 by Moody's Investors Service Limited ("**Moody's**") and B by Standard and Poor's Credit Market Services Europe Limited ("**S&P**"). Each of Moody's and S&P is established in the EU and registered under Regulation (EC) № 1060/2009 on credit rating agencies (the "**CRA Regulation**"). Any change in the rating of the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

An investment in the Notes involves certain risks. See "*Risk Factors*" beginning on page 6 of this Prospectus.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be offered and sold in registered form and in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will initially be represented by a global certificate (the "**Global Certificate**"), in registered form without interest coupons attached, which will be registered in the name of a nominee of, and delivered to, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or around the Issue Date. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, definitive certificates will not be issued for beneficial interests in the Global Certificate. See "*The Global Certificate*".

Joint Lead Managers

DEUTSCHE BANK **J.P. MORGAN**

This Prospectus is dated 10 November 2015.

This Prospectus comprises a prospectus for the purposes of Article 5 of the Prospectus Directive. The Republic accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Republic (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Neither of the Joint Lead Managers nor any of their respective affiliates has authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither of the Joint Lead Managers nor any of their directors, affiliates, advisers and agents has made any independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by either of the Joint Lead Managers or their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a representation or warranty, whether to the past or the future, by either of the Joint Lead Managers or their respective directors, affiliates, advisers or agents in any respect.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Prospectus. Any other representation or information should not be relied upon as having been authorised by the Republic or the Joint Lead Managers. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Republic and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Republic since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Republic and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of this Prospectus and other offering material relating to the Notes. See "*Subscription and Sale*".

This Prospectus has been prepared by the Republic for use in connection with the offer and sale of the Notes and the admission of the Notes to the Official List and to trading on the Market. The Republic and the Joint Lead Managers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason.

Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the jurisdiction(s) of which they are resident for tax purposes and the tax laws of Albania of acquiring, holding and disposing of the Notes and receiving payments of principal, interest and/or other amounts under the Notes.

STABILISATION

In connection with the issue of the Notes, Deutsche Bank AG, London Branch (the "**Stabilisation Manager**") (or any person acting on behalf of the Stabilisation Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a higher level than that which might otherwise prevail. There is no assurance, however, that the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) will undertake such stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

In this Prospectus, unless otherwise specified, references to "**Euro**", "**EUR**" or "**€**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; references to "**U.S.$**", "**USD**" and "**U.S. Dollars**" are to United States Dollars and references to "**ALL**", "**Lek**" or "**leke**" are to the currency of Albania.

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Prospectus constitute forward-looking statements. Statements that are not historical facts, including statements about the Republic's beliefs and expectations, are forward-looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date that they are made and the Republic undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. The Republic cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to: (i) plans with respect to implementation of economic policy and the pace of economic and legal reforms; (ii) expectations about EU accession; (iii) expectations about the behaviour of the domestic, Eurozone and global economies; (iv) the outlook for inflation, budget deficit, exchange rates, interest rates, foreign investment, trade and fiscal accounts; and (v) estimates of external debt repayment and debt service.

Statistical data appearing in this Prospectus has been extracted or compiled from the records, statistics and other official public sources of information in Albania, and has not been independently checked or verified. The Republic has accurately reproduced such information, and as far as the Republic is aware and able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading. In recent years there have been significant steps taken in Albania to improve the accuracy and reliability of official statistics and to conform statistical methodology to international standards. However, in a transition economy in which there is a substantial amount of unofficial or unreported grey market economic activity, such as the Albanian economy, such statistical data may not accurately reflect current or historic levels of, and trends in, economic activity. In addition, all percentages presented in this Prospectus represent approximate figures.

EXCHANGE RATES

The following tables set forth, for the periods indicated, the period end, average, high and low official mid-point rates published by the Bank of Albania, expressed in ALL per EUR and ALL per USD:

Albanian Lek per Euro

	High	**Low**	**Average**[1]	**Year End**
		(Lek Per Euro)		
Year				
2010	139.73	134.86	137.77	138.77
2011	142.84	136.31	140.34	138.93
2012	140.40	136.80	139.01	139.59
2013	141.57	139.24	140.27	140.20
2014	140.76	138.94	139.97	140.14
For the month of				
January 2015	140.29	139.69	140.04	139.72
February 2015	140.56	139.73	140.23	140.36
March 2015	140.52	140.26	140.41	140.34
April 2015	140.53	139.96	140.26	140.53
May 2015	141.03	140.43	140.82	140.98
June 2015	141.13	140.29	140.82	140.29
July 2015	140.27	139.44	139.85	139.59
August 2015	139.74	139.43	139.59	139.73

Note:

(1) The average of the noon-buying rate on each business day during the relevant period.

Albanian Lek per U.S. Dollar

	High	Low	Average(1)	Year End
		(Lek Per U.S. Dollar)		
Year				
2010	114.33	95.21	104.07	104.00
2011	107.54	95.79	100.84	107.54
2012	113.37	104.12	108.23	105.85
2013	109.76	101.55	105.69	101.86
2014	115.23	100.54	105.48	115.23
For the month of				
January 2015	124.48	117.22	120.73	123.35
February 2015	124.96	122.23	123.46	124.96
March 2015	133.35	125.16	129.66	130.63
April 2015	132.74	125.61	129.97	125.61
May 2015	129.24	123.55	126.19	128.48
June 2015	129.12	123.61	125.61	125.57
July 2015	128.93	125.49	126.99	127.49
August 2015	128.39	121.21	125.39	124.63

Note:

(1) The average of the noon-buying rate on each business day during the relevant period.

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OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

The following is an overview of certain information contained in this Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Prospective investors should also carefully consider the information set out in the section entitled "Risk Factors" in this Prospectus prior to making an investment decision. See "Overview of the Republic of Albania", "The Albanian Economy", "Balance of Payments and Foreign Trade", "Public Debt", "Monetary and Financial System" and "Public Finances" for a more detailed description of the Issuer.

*Capitalised terms not otherwise defined in this overview have the same meaning as in the terms and conditions of the Notes (the "**Conditions**"). See "Terms and Conditions of the Notes" for a more detailed description of the Notes.*

Issuer	The Republic of Albania (acting through its Minister of Finance).
Joint Lead Managers.............................	Deutsche Bank AG, London Branch and J.P. Morgan Securities plc.
Issue Price...	99.472% of the principal amount of the Notes.
Notes Offered	€450,000,000 5.75% Notes due 2020.
Issue Date	12 November 2015.
Maturity Date.......................................	12 November 2020.
Interest on the Notes.............................	5.75% *per annum.*
Interest Payment Dates	The Notes bear interest on their outstanding principal amount from and including 12 November 2015 at the rate of 5.75% *per annum*, payable annually in arrear on 12 November in each year (each an "**Interest Payment Date**"). The first payment (representing a full year's interest) shall be made on 12 November 2016 (the "**First Interest Payment Date**"). See "*Terms and Conditions of the Notes—5. Interest*".
Yield	As at the Issue Date and on the basis of the issue price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes, as calculated on the pricing date, the yield to maturity of the Notes is 5.875% *per annum*.
Status...	The Notes will constitute direct, general, unconditional and (subject to the provisions of the Negative Pledge) unsecured obligations of the Issuer, which will rank *pari passu,* without preference among themselves, with all other unsecured External Indebtedness of the Issuer, from time-to-time outstanding, *provided, further,* that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa. See "*Terms and Conditions of the Notes—3. Status*".
Redemption	Unless previously redeemed or purchased and cancelled, the Issuer will redeem the Notes at their principal amount on the Maturity Date. See "*Terms and Conditions of the Notes—7. Redemption and Purchase*".

Negative Pledge	The Conditions will provide that, so long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any Security Interest, other than a Permitted Security Interest, over any of its property or assets to secure Public External Indebtedness of the Issuer or any guarantee of the Issuer in respect of Public External Indebtedness, unless (i) the Notes are secured equally and rateably with such Public External Indebtedness or (ii) the Notes have the benefit of such other security, guarantee, indemnity or other arrangement as shall be substantially equivalent. See "*Terms and Conditions of the Notes—4. Negative Pledge*".
Events of Default	The Conditions will permit the acceleration of the Notes following the occurrence of certain events of default. Holders of not less than 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and repayable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest on the date the Issuer receives such written notice of the declaration. If the Issuer receives notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to such declaration of acceleration is or are cured following any such declaration and that such holders wish the declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any relevant Noteholder in relation thereto. See "*Terms and Conditions of the Notes—10. Events of Default*".
Denominations......................................	The Notes will be offered and sold, and may only be transferred, in minimum principal amounts of €100,000 and integral multiples of €1,000 in excess thereof.
Form of Notes.......................................	The Notes will be in registered form, without interest coupons. The Notes will initially be represented by the Global Certificate, in registered form without interest coupons attached, which will be registered in the name of a nominee of a common depositary for Euroclear and Clearstream, Luxembourg. Except in limited circumstances, definitive certificates for the Notes will not be issued to investors in exchange for beneficial interests in the Global Certificate. See "*The Global Certificate*".

Taxation and Additional Amounts........	All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Albania or any political subdivision or any authority thereof or therein having power to tax (collectively, "**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, subject to certain exceptions set out in "*Terms and Conditions of the Notes—8. Taxation*".
Meetings of Noteholders........................	The Conditions contain provisions for calling meetings of Noteholders and, in certain circumstances, holders of other debt securities of the Issuer, to consider matters affecting their interests generally. These provisions permit defined majorities (which may, in certain circumstances, be formed of holders of debt securities of the Issuer other than the Notes) to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions also contain provisions for the appointment of a Noteholders' representative committee. See "*Terms and Conditions of the Notes—13. Meetings of Noteholders; Written Resolutions*" and "*Terms and Conditions of the Notes—15. Noteholders' Committee*".
Modification and Amendment	The Conditions contain a provision permitting the Notes, the Conditions, the Agency Agreement and the Deed of Covenant to be amended without the consent of the Noteholders to correct a manifest error or to make any modification, which is of a formal, minor or technical nature or which is not materially prejudicial to the interests of the Noteholders. See "*Terms and Conditions of the Notes—13.8. Manifest error, etc.*".
Use of Proceeds.....................................	The net proceeds of the issue of the Notes will be used by the Issuer to refinance existing indebtedness, which may include external or domestic indebtedness. See "*Use of Proceeds*".
Ratings..	The Notes are expected to be assigned a rating of B1 by Moody's and B by S&P. Each of Moody's and S&P is established in the EU and registered under the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating organisation.
Listing and Admission to Trading	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on its main securities market.
Governing Law.....................................	The Notes, the Agency Agreement and the Deed of Covenant (each as defined in the Conditions), and any non-contractual obligations arising out of or in connection with the Notes, the Agency Agreement and the Deed of Covenant, will be governed by, and construed in accordance with, English law.
Fiscal Agent, Principal Paying Agent and Transfer Agent..............................	Deutsche Bank AG, London Branch.
Registrar, Paying and Transfer Agent..	Deutsche Bank Luxembourg S.A.

Security Codes.......................................	ISIN:	XS1300502041
	Common Code:	130050204

RISK FACTORS

Investment in the Notes involves a high degree of risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Prospectus, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on the Issuer's ability to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Most of these factors are contingencies, which may or may not occur, and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Additional risks and uncertainties not currently known to the Issuer or that the Issuer currently deems to be immaterial may also materially affect the Issuer's economy and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Prospectus have the same meanings in this section.

Risks Relating to Albania

An investment in a developing country, such as Albania, is subject to substantially greater risks than an investment in a more developed country.

An investment in a developing country, such as Albania, is subject to substantially greater risks than an investment in a country with a relatively more developed economy and relatively more developed political and legal systems. These greater risks include economic instability caused by factors such as a narrow export base, reliance on imports of energy and key inputs, fiscal and current account deficits, reliance on foreign direct investment ("**FDI**"), high unemployment and frequent and significant potential changes in the political, economic, social, legal and regulatory environment, as well as the possibility that actions of current governments may be challenged by future governments. Although significant progress has been made in reforming Albania's economy and political and legal systems since the end of Communist rule in 1992, Albania's economy remains characterised by certain attributes, such as concentration in a number of key industries, reliance on imports and FDI, trade and current account deficits and high unemployment, any or all of which may adversely impact Albania's economic stability. In addition, Albania's legal infrastructure and regulatory framework are still developing. Consequently, an investment in Albania carries risks that are not typically associated with investing in more mature markets. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, such investment is appropriate for them. Generally, investments in developing countries, such as Albania, are only suitable for sophisticated investors who can fully appreciate, and bear, the significance of the risks involved.

Investment in the Notes could also be adversely affected by negative economic or financial developments in other countries, particularly neighbouring countries (including Greece). Adverse economic developments in one or more of the countries that comprise Albania's major trading partners (many of which are in the EU, including Greece and Italy), or questions about their ability to repay sovereign debt or the stability of their banking systems, could adversely affect the Albanian economy and Albania's ability to repay principal and make payments of interest on the Notes. In addition, concerns about credit risk (including that of sovereigns) and the large sovereign debts and/or fiscal deficits of several European countries (including Portugal, Italy, Ireland, Cyprus, Greece and Spain) have from time to time in recent years caused significant disruptions in international capital markets.

In particular, in June 2015, following the failure to agree support measures with Greece's creditors, the European Central Bank announced that emergency funding would not be extended to Greek banks, noting significant deposit outflows. In response, the Greek Government imposed capital controls and temporarily closed banks in Greece (which remained closed until 20 July 2015). This also led to a number of countries, including Serbia and Macedonia, introducing targeted capital controls to stem outflows to Greece. On 1 July 2015, Greece defaulted on a €1.6 billion loan repayment to the International Monetary Fund (the "**IMF**"); at the same time, the Greek government proposed further bailout proposals to its creditors. On 5 July 2015, Greek voters rejected proposals of Eurozone creditors for a bailout, voting 61.3% against the proposals in a referendum. Following an emergency summit in Brussels, revised bailout proposals were proposed by Eurozone leaders on 12 July 2015. The Greek government voted to begin talks on these proposals on 17 July 2015, and the EU then granted a €7 billion bridging loan to Greece. The Greek parliament passed a number of reform measures as conditions to the bailout proposals in late July 2015 and, on 14 August 2015, Greece secured a €85 billion three-year bailout. The first tranche of funds under the bailout was disbursed on 20 August 2015 ahead of a scheduled repayment due to the European Central Bank, which was then made on time.

While the economic situation in Greece appears to be less volatile, the circumstances and ramifications surrounding the Greek bailout remain unpredictable. In particular, following conclusion of the bailout talks, Greek Prime Minister, Alexis Tsipras, called extraordinary parliamentary elections for 20 September 2015. The Syriza party, led by Mr. Tsipras, won more than 35% of seats in the election. Mr. Tsipras was sworn in as Prime Minister on 21 September 2015 and a coalition government of Syriza and the Independent Greeks party, partners in the previous coalition government, was subsequently formed.

The Greek financial crisis is not expected to have a significant negative effect on Albania's economy in the second half of 2015; however, any deteriorating conditions, continuing or additional volatility in Greece's economy or major changes to the political situation in Greece could adversely affect the Albanian economy directly, as well as the key trading partner markets for Albania's goods and services and global financial markets. In particular, there is a significant presence of Greek-owned banking subsidiaries in the Albanian banking system, which accounted for 14.4% of total assets and 14.6% of total deposits in the Albanian banking sector as at 30 June 2015. While the impact of the Greek financial crisis to date has had a limited effect on the Albanian banking system (see "*Monetary and Financial System—The Albanian Banking Sector*"), future developments adversely affecting Greek banks may cause additional volatility in Albania, including further local withdrawals from subsidiaries of Greek banks as a result of the actual or perceived weakness of such subsidiaries.

Regional and international economic disruptions have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or the departure of one or more countries from the EU and/or Euro zone, could cause severe stress in the financial system generally and could adversely affect the global financial markets, which could in turn adversely affect the value of investments in Albania, including the Notes.

Investors' reactions to events occurring in one emerging market or region sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by such investors. If such a "contagion" effect occurs, Albania could be adversely affected by negative economic, security or financial developments in other emerging market countries or regions. Albania has been adversely affected by "contagion" effects in the past, including global events, such as the Eurozone crisis and the global financial crisis. No assurance can be given that it will not be affected by similar events in the future. Albania is also subject to risks relating to increased global terrorism, including the actions of the so-called "Islamic State". According to press reports, a number of Albanian nationals, as well as nationals from other Balkan states, have reportedly joined the Islamic State and other terrorist organisations. If these nationals reside in or were to return to Albania, they may pose a threat to the security of the country

In addition, due to the on-going conflicts in Syria, European countries have witnessed an influx of refugees in 2015. According to statistics published by the U.N. High Commissioner for Refugees (the "**UNHCR**") more than 188,000 asylum applications have been made by migrants arriving in Europe in the first seven months of 2015, as compared to 172,584 in the whole of 2014. Refugees arriving in Europe have continued to increase in August and September. While this influx of refugees has not had a significant impact on Albania to date, there can be no assurance that the number of persons seeking asylum in Albania will not increase in the future. Any such increase could cause economic, political and social strains.

Albania may not succeed in implementing its proposed economic, financial and other reforms and policies, which may adversely affect the Albanian economy and Albania's ability to repay principal and make payments of interest on the Notes.

Since the overthrow of the Communist government in 1992, Albania has undergone substantial political transformation from a centrally planned state with a Communist government to an independent sovereign democracy. In parallel with this transformation, Albania has been pursuing a programme of economic structural reforms with the objective of establishing a market-based economy through the privatisation of state enterprises and deregulation and diversification of the economy. While Albania has made substantial progress in developing a functioning market-based economy, establishing economic and institutional infrastructure to a Western European standard requires further investment over a number of years, and the timing of the completion of such infrastructure is uncertain.

The implementation of needed reforms, including programmes to support further economic growth, development and diversification, depends on significant and sustained political commitment and social consensus in favour of the reforms. Notwithstanding the substantial progress in recent years and stated Government policies of implementing further reforms and supporting diversification of the economy, there can be no assurance that the economic and financial initiatives, reforms and policies described in this Prospectus will continue or will be pursued or commenced, will not be reversed or will achieve their intended aims in a timely manner or at all. In addition, from time to time, Albania has experienced political tensions, resulting in parliamentary boycotts by opposition parties of the Assembly, as well as other challenges to the political process and difficulties in reaching consensus. Failure of the Government of Albania (the "**Government**") to implement proposed economic, financial and other reforms and policies, or a change in the political or social consensus relating to these reforms and policies, may adversely affect the growth and development of the Albanian economy and, as a result, have a material adverse effect on Albania's capacity to repay principal and make payments of interest on the Notes.

Albania's economy is vulnerable to external shocks and fluctuations in global and regional economic conditions, which could have an adverse effect on Albania's economic growth and its ability to service its public debt.

Albania's economy is small and, thus, largely dependent on external trade, particularly imports. In addition, Albania has historically had a current account deficit, reflecting a large trade deficit resulting from its dependence on imported goods, largely financed by private transfers (principally remittances from expatriate workers, particularly in Greece and Italy). Albania's export base remains small, narrow and undiversified, due mainly to a lack of price competitiveness and poor infrastructure.

The rate of future economic growth is, accordingly, dependent on effecting changes in the structure of Albania's economy and maintaining Albania's attractiveness to foreign investors and institutions. Albania is largely reliant on FDI flows in order to finance investment and to drive changes in its economic structure. Albania's ability to attract FDI is based not only on international perceptions of the overall status of structural reforms and economic conditions in Albania, but also perceptions of broader regional stability and economic prospects, as well as global macroeconomic conditions more generally. Accordingly, Albania's economy is vulnerable to deterioration in global economic conditions and external shocks, particularly those affecting economic trends in the EU and its other major trading partners. Such conditions have included the global financial and economic crisis that started in 2008 and the subsequent sovereign debt crisis and the accompanying impact on economic conditions in Albania's major trading partners and sources of inbound FDI, which led to a decline in growth in Albania's gross domestic product ("**GDP**"), as well as, most recently, concerns over the condition of the Greek economy, as well as other Southern European economies and European economic conditions more generally, which have adversely impacted, and are likely to continue to adversely impact, the willingness of investors to invest in the region as a whole, including in Albania, particularly in the event that Greece or any of Albania's other main trading partners were to leave the EU. In particular, a significant decline in the economic growth of Albania's trading partners, including Greece and other EU member states, could have an adverse effect on demand for exports from Albania and Albania's balance of trade and, as a result, adversely affect Albania's economic growth. See also "*—An investment in a developing country, such as Albania, is subject to substantially greater risks than an investment in a more developed country*". These economic factors could have a material adverse effect on Albania's ability to repay principal and make payments of interest on the Notes.

Albania has and expects to continue to have a high level of public debt in order to finance its budget deficit, and Albania may not be able to service its public debt and, as a result, may not be able to repay principal and make payments of interest on the Notes.

Albania faces fiscal risks. The Government has had a budget deficit in each of the last five years and it does not plan to have a balanced budget for the foreseeable future. Fiscal risks also arise from Albania's pension system, which is financed on a pay-as-you-go basis whereby state benefits are paid out of contributions from the current workforce.

Over the past five years, public debt, as a percentage of GDP, has increased from 57.7% as at 31 December 2010 to 59.4% as at 31 December 2011, 62.0% as at 31 December 2012, 64.8% as at 31 December 2013 and 69.2% as at 31 December 2014, although public debt has decreased to 68.1% as at 30 June 2015. While the Government aims to reduce the ratio of public debt to GDP to below 60% by 2020, there can be no assurance that this target will be met. In 2015, the Government expects the budget deficit to be 3.9% of GDP and the public debt to GDP ratio to be 71.6% of GDP. Relatively high levels of indebtedness through continued borrowing could negatively impact Albania's credit rating and could have a material adverse effect on the Albanian economy and, as a result, on Albania's capacity to repay principal and make payments of interest on the Notes.

In addition, any deterioration in financing conditions as a result of market, economic or political factors, which may be outside Albania's control, may adversely affect Albania's ability to implement its economic strategy and reforms and jeopardise Albania's ability to repay or refinance its existing debt and to repay principal and make payments of interest on the Notes.

A deterioration in the level of support by its multilateral and bilateral creditors could have a material adverse effect on Albania.

As at 30 June 2015, multilateral and bilateral debt accounted for 62.2% and 37.8% of Albania's external debt, respectively. Albania expects to rely on multilateral and bilateral support to provide a significant portion of its public and external financing requirements in the coming years. Changes in the level of support by Albania's multilateral and bilateral creditors or changes in the terms on which such creditors provide financial assistance to Albania or fund new or existing projects could have a significant adverse effect on the financial position of Albania.

In recent years, Albania has also entered into loans that have been granted on a concessional basis or that benefit from guarantees issued by the World Bank and other institutions. For example, in 2014, the Government entered into an arrangement with the IMF under the Extended-Fund Facility ("**EFF**") for Albania in support of the Government's reform programme. In addition, in June 2015, the Government entered into a loan with Deutsche Bank, which benefits from a policy based guarantee ("**PBG**") from the World Bank. This loan was ratified by Parliament, also known as the Assembly (the "**Assembly**"), and disbursed in July 2015. See "*Public Debt—Relationships with Multilateral Financial Institutions*". Access to such concessional rate or guaranteed funding reduces Albania's borrowing costs as the interest rates in respect of such funding are generally low. There can be no assurance, however, that funding at such costs will be available in the future. In particular, multinational agencies often require implementation of economic and social policies and achievement of certain policy targets, which Albania may be unwilling or unable to satisfy. If Albania is unable to obtain such funding in the future or otherwise borrow at an acceptable cost, it could have a material adverse effect on the Albanian economy and, as a result, on Albania's capacity to repay principal and make payments of interest on the Notes.

The high level of foreign ownership in the Albanian banking system makes it vulnerable to disruption as a result of internal or external factors.

As at 31 December 2014, foreign-controlled banks accounted for 87.1% of total assets in the Albanian banking system. The banking sector is comprised of 16 banks, of which two are jointly foreign and domestically owned, while the rest are wholly foreign-owned (including a significant local presence by Greek-owned banks). While the local Albanian subsidiaries are at present largely self-financing, in the event of increased levels of non-performing loans ("**NPLs**") or deteriorating economic conditions in Albania, foreign parent banks may decline to provide financing to their subsidiaries in Albania or may be rendered unable to provide such financing as a result of adverse economic developments or regulatory requirements in their home jurisdictions. Foreign-owned banks may also reduce their loan portfolios or other business activities in a manner which adversely affects Albania as a result of events unrelated to Albania, including as a result of economic turbulence in the Eurozone and sovereign debt markets or the jurisdictions of their parent banks and the resulting impact of these and other factors on the financial condition of the banking group more generally. Such occurrences may result in a reduction in the level or scope of the activities of these banks in Albania or a failure to meet capital ratios or other regulatory requirements, among other developments. Any or all of these occurrences may negatively affect the Albanian economy and have an adverse effect on Albania's capacity to repay principal and make payments of interest on the Notes.

In July 2015, as a result of the Greek financial crisis, Greek-owned banking subsidiaries in Albania experienced a withdrawal in deposits, although a significant portion of such withdrawals comprised transfers to other banks in Albania and the banking sector overall experienced only a 0.3% decrease in total banking deposits as at 31 July 2015, as compared to 30 June 2015. Beginning in August 2015, the rate of deposit withdrawals from Greek-owned banking subsidiaries appears to be slowing, partially as money supply conditions in Greece have eased, apparently allowing for improved remittances to Albania. Future developments adversely affecting Greek banks, however, may cause additional volatility in Albania, including further local withdrawals from local subsidiaries of Greek banks as a result of the actual or perceived weakness of such subsidiaries. The occurrence of any such events would have an adverse effect on Albania's banking system and Albania's economy. See "*Monetary and Financial System—The Albanian Banking Sector*".

The Albanian banking sector is characterised by a high level of NPLs, as well as significant lending in foreign currency.

The Albanian banking sector has in recent years been significantly impacted by global and regional economic conditions, resulting in lower credit growth and significant increases in NPL levels. Reductions in credit growth have reflected both decisions by parent banking groups to de-leverage and reduce their exposures in Albania, as well as a slowdown in economic growth as a result of weaker domestic demand. NPLs reached a high of 23.5% of the banking sector loan portfolio in 2013, but although NPL levels have since started to decline, still remain high at 22.8% as at 31 December 2014. Provisions for credit risk, which covered 52.7% of NPLs, or 7.4% of total loans, as at 31 December 2010, have increased to 67.1% of NPLs and 15.4% of total loans as at 31 December 2014. Further asset quality deterioration could cause banks not to be in compliance with their regulatory requirements, including capital adequacy requirements, whereas actual or expected asset quality deterioration could also cause banks to reduce their lending activities or result in a loss of depositor confidence in the Albanian banking sector.

In addition, the majority of loans by banks in Albania are in foreign currency, primarily Euro, amounting to 56.7% (including 50.3% in Euro) of total loans as at 30 June 2015. This high level of foreign currency lending increases banking sector risks and requires high capital and reserves in order to protect against unfavourable exchange rate movements and the credit risks of un-hedged loan portfolios. In addition, as a result, a depreciation of the Lek against the relevant lending currencies could have a material and adverse effect on the credit quality of the loan portfolio of the Albanian banking sector.

Any of the foregoing may have an adverse effect on the growth of the Albanian economy, which, in turn, may adversely affect Albania's ability to repay principal and make payments of interest on the Notes.

Albania may be adversely affected by fluctuations in the value of the Lek against the Euro and other major currencies.

The Lek is subject to a free-floating exchange rate regime, whereby the value of the Lek against foreign currencies is freely determined in the market. The ability of the Government and the Bank of Albania to control volatility of the Lek depends on a number of political and economic factors, including the ability to control inflation, the availability of foreign currency reserves and FDI inflows, which are outside of the control of the Government or the Bank of Albania. Albania is also a net importer of goods.

Any significant depreciation of the Lek against the Euro, the U.S. Dollar or other major currencies would increase the costs of imports and Albania's debt service and could have an effect on Albania's ability to repay its debt denominated in currencies other than the Lek, including amounts due in respect of the Notes. In addition, a significant depreciation of the Lek against the Euro, the U.S. Dollar or other foreign currencies may result in reduced revenues and outflows of capital from the Lek, each of which could have a material adverse effect on the Albanian economy, which, in turn, may adversely affect Albania's ability to repay principal and make payments of interest on the Notes.

Albania may not become a member of the EU in the near to medium term or at all.

Albania is in the process of applying for full membership of the EU. Since becoming a candidate for EU accession in June 2014, Albania has implemented a number of electoral, judicial, administrative and economic reforms to align its laws and government practices with those of the EU, to meet the preconditions for commencement of accession negotiations and otherwise to satisfy the criteria set forth by the European Council in Copenhagen 1993. Such reforms and other actions to meet accession criteria require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the EU; and the ability to take on the obligations of membership, including adherence to the aims of the political, economic and monetary union.

While Albania is in the process of implementing the necessary structural and other reforms to commence accession negotiations, there can be no assurance that Albania will be able to achieve the required conditions to enter into negotiations and, thereafter, accede to the EU in any given time period or at all. Accession is not expected in the short- to medium-term. In particular, all key decisions in respect of Albania's potential accession to the EU will require a positive unanimous decision of all EU Member States. Any increase in anti-enlargement sentiment in the EU or any prospective changes in EU laws related to the UK or other countries' desire to reform EU laws may also cause delays in Albania's accession process. Delays in the EU accession process due to Albania's inability to meet harmonisation criteria or a change in EU entry criteria, or the opposition of or disputes with EU member states, may adversely impact Albania's economic development and, accordingly, its ability to repay principal and make payments of interest on the Notes.

Corruption, money laundering and organised crime may hinder the growth of the Albanian economy, delay or foreclose EU accession or otherwise adversely affect Albania.

The EU, independent analysts and multinational institutions, such as the IMF, have identified corruption, money laundering and organised crime as concerns in Albania. In the 2014 Transparency International Corruption Perceptions Index, Albania ranked 110th out of 175 countries and territories under review (with the country ranked 1st considered the least corrupt). By comparison, Kosovo is also ranked 110th, Montenegro is ranked 76th, Macedonia is ranked 64th and Greece is ranked 69th. Allegations or evidence of corruption, money laundering or organised crime involving the Government or members thereof, regardless of whether such allegations prove to be true, may create tensions between political parties, including parties not only comprising the opposition, but also within the governing coalition, otherwise destabilise the governing coalition or result in early elections. Allegations of corruption are exacerbated by Albania's developing tax collection infrastructure. In addition, corruption, money laundering or organised crime in Albania may have a negative impact on Albania's economy and its reputation abroad, especially on its ability to attract foreign investment, and may adversely impact progress towards EU accession. A combination of all or some of these factors may lead to negative effects on economic and social conditions in Albania, which may, in turn, lead to a further deterioration in public finances and a material adverse effect on the ability of Albania to fund payments on its debt obligations, including the Notes.

Albania's legal system is not fully developed and presents greater risks and uncertainties than a more developed legal system.

Albania has taken, and continues to take, steps aimed at developing its legal system, working to ensure comparability to the legal systems of EU and other more mature countries. New laws have been introduced and revisions have been made with respect to, amongst others, company, property, securities, labour, environmental and taxation laws in order to harmonise these with EU laws. In addition, the independence of the judicial system and its immunity from economic and political interference in Albania remain subject to ongoing reform. Accordingly, Albania's legal system remains in transition and is subject to greater risks and uncertainties than a more mature legal system. Such risks include: (i) potential inconsistencies between and among the Albanian constitution (the "**Constitution**") and various laws; governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in laws and regulations that are ambiguously worded or lack specificity and raise difficulties when implemented or interpreted; (iii) difficulties in predicting the outcome of judicial application of Albanian legislation; and (iv) political or other factors resulting in inconsistent judicial determinations and interpretations.

As Albania is a civil law jurisdiction, judicial decisions under Albanian law generally have no precedential effect and the courts are generally not bound by earlier court decisions taken under the same or similar circumstances. This may result in an inconsistent application of Albanian legislation to resolve the same or similar disputes. In some circumstances, therefore, it may not be possible to obtain swift enforcement of a judgment in Albania or to predict the outcome of legal proceedings. These and other factors may adversely impact economic conditions and the environment for investment in Albania, including the willingness of foreign and other investors to invest in Albania or to provide financing for projects and companies in Albania. Such effects could have an adverse effect on economic conditions and growth in Albania and, accordingly, on the ability of Albania to repay principal and make payments of interest on the Notes.

Official economic data may not be accurate and could be revised.

A range of government ministries, including the Ministry of Finance and the Ministry of Agriculture, as well as Bank of Albania and the National Statistical Office of Albania ("**INSTAT**"), have prepared statistical data which appears in this Prospectus. Certain of these statistics may be more limited in scope, less accurate, reliable or consistent in terms of basis of compilation between various ministries and institutions and published less frequently than is the case for comparable statistics prepared by other countries (particularly existing members of the EU). Consequently, prospective investors in the Notes should be aware that figures relating to Albania's GDP and many other figures cited in this Prospectus may be subject to some degree of uncertainty. Furthermore, these limitations of statistical information make adequate monitoring of key fiscal and economic indicators more difficult than for other countries.

In addition, standards of accuracy of statistical data may vary from ministry to ministry or authority to authority or from period to period due to the application of different methodologies. In this Prospectus, data is presented, as applicable, as having been provided by the relevant ministry or authority to which the data is attributed, and no attempt has been made to reconcile such data to data compiled by other ministries or by other organisations, such as the IMF or the World Bank. Since 2011, Albania has produced data in accordance with the IMF's Special Data Dissemination Standard. The existence of a sizeable unofficial or "grey market" economy in Albania may also affect the accuracy and reliability of Albania's statistical information. The statistical information presented herein is based on the latest official information currently available from the stated source. The development of statistical information relating to Albania is, however, an on-going process, as revised figures are produced on a continuous basis. Figures presented may be subject to rounding. Prospective investors should also be aware that none of the statistical information in this Prospectus has been independently verified.

Albania has a variable climate and may be subject to energy, food and water security risks.

Albania has a variable climate and both drought and flooding can effect Albania. Unpredictable rainfall may impact Albania's primary sector activities, most notably in the agricultural sector (which accounts for 47.4% of employment), as well as its hydropower activities (which accounts for 97.0% of electricity generation). Annual rainfall variations may more broadly affect GDP, prices and the balance of trade. Droughts and other adverse climatic events, particularly if sustained over a long period, have affected and may in the future have a material adverse effect on the Albanian economy and, accordingly, on the ability of Albania to repay principal and make payments of interest on the Notes.

A significant portion of the Albanian economy is not recorded.

A significant portion of the Albanian economy is comprised of an unofficial or "grey market", or shadow, economy. This informal economy is not recorded and is only partially taxed, resulting in a lack of revenue for the Government, ineffective regulation and monitoring of the overall economy, unreliability of statistical information (including the understatement of GDP and the contribution to GDP of various sectors) and an inability to monitor or otherwise regulate this portion of the economy. In addition, due to its nature, the size of the informal economy is difficult to measure and any estimates are subject to inherent uncertainty. Although the Government is attempting to address the informal economy, there can be no assurance that such reforms will adequately address the issues and bring the full economy into the formal sector, which could, in turn, have a material adverse effect on the Albanian economy and, accordingly, on the ability of Albania to repay principal and make payments of interest on the Notes.

Risks Related to the Notes

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The terms of the Notes may be modified or waived without the consent of all the holders of the Notes.

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and for the passing of written resolutions of Noteholders without the need for a meeting. Such provisions are commonly referred to as "collective action clauses". These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority.

In the future, the Issuer may issue debt securities which contain collective action clauses in the same form as the collective action clauses in the conditions of the Notes. If this occurs, the Notes could be capable of aggregation with any such future debt securities, meaning that a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of all the relevant aggregated series of debt securities, including the Notes.

Any modification or actions relating to any Reserved Matter (as defined in the Conditions), including in respect of payments and other important terms, may be made (a) to the Notes with the consent of the holders of 75% of the aggregate principal amount of the outstanding Notes, and (b) to multiple series of debt securities which may be issued by the Issuer (including the Notes) with the consent of both (i) the holders of at least two thirds of the aggregate principle amount of all outstanding debt securities being aggregated and (ii) the holders of at least 50% in aggregate principal amount of the outstanding debt securities of each series being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Conditions), any such modification or action relating to any Reserved Matter may be made to multiple series of the Issuer's debt securities (including the Notes) with the consent of 75% of the aggregate principal amount of the outstanding debt securities of all affected series, without requiring a particular percentage of the holders of any individual affected debt securities to vote in favour of or approve any proposed modification or action. Any modification or action proposed by the Issuer may, as the option of the Issuer, be made in respect of certain series of the Issuer's debt securities only and, for the avoidance of doubt, the collective action provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is therefore a risk that the conditions of the Notes may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of or signing a written resolution in respect of an amendment, modification or waiver may be holders of different series of debt securities and, as such, the majority of Noteholders would not necessarily have voted in favour of or signed a written resolution in respect of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple series of debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation.

The Conditions also contain a provision permitting the Notes and the Conditions to be amended without the consent of the Noteholders to correct a manifest error, or where the modification is of a formal, minor or technical nature or is not materially prejudicial to the interests of the Noteholders.

Any such amendment, modification or waiver in relation to the Notes may adversely affect their trading price.

The Conditions contain customary Events of Default.

The Conditions contain a provision which, if an Event of Default occurs, allows the holders of at least 25% in aggregate principal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Issuer, whereupon the Notes shall become immediately due and payable, at their principal amount with accrued interest, without further action or formality.

The Conditions also contain a provision permitting the holders of at least 50% in aggregate principal amount of the outstanding Notes to notify the Issuer to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Issuer shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

The Notes have minimum denominations, which may affect an investor's ability to receive definitive certificates.

The Notes have denominations consisting of a minimum denomination of €100,000 plus one or more higher integral multiples of €1,000, and it is possible that Notes may be traded in amounts in excess of €100,000 that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of €100,000 such that its holding amounts to such a specified denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive certificate in respect of such holding (should definitive certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least €100,000.

Credit ratings may not reflect all risks.

The Notes are expected to be assigned a rating of B1 by Moody's and B by S&P. These ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A credit rating is generally dependent on a number of factors, including public debt levels, past and projected future budget deficits and other considerations. Any adverse change in the credit ratings of the Notes, or of the Republic, could adversely affect the trading price of the Notes.

The Conditions are based on current provisions of English law.

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of the Notes.

A secondary market for the Notes may not develop.

The Notes are new securities, which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. Although application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of the Notes.

Investors in the Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg.

The Notes will initially be represented by the Global Certificate, which will be registered in the name of a nominee of, and delivered to, a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Certificate, investors will not be entitled to receive individual certificates in respect of the Notes.

Euroclear and Clearstream, Luxembourg and their respective participants will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

There are risks relating to exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Notes in Euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euros. These include the risk that exchange rates may significantly change (including changes due to the devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Euros would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected or no interest or principal.

Details of payments may be provided to tax authorities under the EU Savings Directive.

Under Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments. The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the Council of the European Union adopted a Council Directive (the "**Amending Directive**") amending and broadening the scope of the requirements described above. The Amending Directive requires Member States to apply these new requirements from 1 January 2017 and if they were to take effect the changes would expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. They would also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

Investors may experience difficulty in enforcing foreign judgments in Albania.

Payments under the Notes are dependent upon the Issuer making payments to investors in the manner contemplated under the Notes. If the Issuer fails to do so, it may be necessary for an investor to bring an action against the Issuer to enforce its obligations and/or to claim damages, as appropriate, which may be costly and time-consuming.

The Conditions, the Notes and the Agency Agreement are governed by English law. The Republic will irrevocably submit to, and accept the jurisdiction of, the International Chamber of Commerce (the "**ICC**"), with respect to any suit, action or proceeding arising out of or based on the Notes. In addition, if the conditions set out in Condition 18.3 of the Conditions (and/or the corresponding provisions of the Agency Agreement) are met, the courts of England shall have exclusive jurisdiction to settle any disputes. Recognition of a foreign court decision and a foreign arbitral award in Albania shall be subject to the criteria set out in article 394 of the Albanian Code of Civil Procedure, pursuant to which a foreign court decision will not be recognised if: (i) it was taken by a court acting *ultra vires*; (ii) it was taken in contravention of the principle of the equality of the parties; (iii) it was taken in contravention of the principle of the rights of a party to be heard; (iv) it was taken in contravention to the public order of the Republic of Albania; (v) an Albanian court has already given a different decision on the same dispute between the same parties; or (vi) an Albanian court has already accepted hearing the same dispute between the same parties prior to the foreign court decision taking a *res judicata* force.

The courts of the Republic of Albania will recognise as valid, and will enforce an arbitral award granted under the Rules of Arbitration of the ICC without re-examination of the merits of the case in accordance with and subject to the provisions of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Albanian law is, however, not clear as regards to the enforceability of foreign court decisions in Albania and the choice of jurisdiction of foreign courts in cases where the Republic is a party. Therefore, the choice of jurisdiction of foreign courts (including English courts) may be held to be invalid by an Albanian court and the submission of the Republic to the exclusive jurisdiction of the English courts might adversely affect the recognition of the judgment by the Albanian courts and it may not be possible to enforce foreign court judgments, including English court judgments, against the Republic without a re-examination of the merits.

The Assembly has enacted Law № 67/2015 of 2 July 2015 "On the Eurobond that will be issued by the Minister of Finance, approval of exemptions from taxes and fees and of the provisions for waiver of immunity in the agreements that will be signed by the Minister of Finance". Pursuant to Article 1 of this law, the Republic has waived its sovereign immunity in respect of the Notes, subject to certain exceptions. In particular, the waiver of the sovereign immunity under this law is subject to the exception that a court decision may not be enforced against present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, present or future "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 or otherwise used by a diplomat or diplomatic mission of Albania or any agency or instrumentality thereof or any immovable property which falls under provisions of paragraph 1 to 3 of article 3 of Albanian Law № 8743, dated 22 February 2001 "On the state immovable properties". In addition, public domain properties of the Republic of Albania (as defined under Albanian law) are immune from enforcement.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Notes:

The €450,000,000 5.75% Notes due 2020 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of the Republic of Albania (the "**Issuer**"), acting through its Minister of Finance, are issued subject to and with the benefit of an Agency Agreement dated 12 November 2015 (such agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") made between the Issuer, Deutsche Bank Luxembourg S.A. as registrar (the "**Registrar**"), Deutsche Bank AG, London Branch as fiscal agent and transfer agent (the "**Fiscal Agent**" and, together with Deutsche Bank Luxembourg S.A., the "**Transfer Agents**") and the other initial paying agent named in the Agency Agreement (together with the Fiscal Agent, the "**Paying Agents**", and collectively with the Fiscal Agent, the Registrar, the Transfer Agents and any other Paying Agents appointed in respect of the Notes from time to time, the "**Agents**"). The holders of the Notes are entitled to the benefit of a Deed of Covenant (the "**Deed of Covenant**") dated 12 November 2015 and made by the Issuer. The original of the Deed of Covenant is held by the Fiscal Agent on behalf of the Noteholders (as defined below) at its specified office.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions contained in the Agency Agreement. Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours by the Noteholders at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. References in these Conditions to the Fiscal Agent, the Registrar, the Transfer Agents, the Paying Agents and the Agents shall include any successor appointed under the Agency Agreement.

*The owners shown in the records of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") of book entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them.*

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are issued in registered form in amounts of €100,000 and integral multiples of €1,000 in excess thereof (referred to as the "**principal amount**" of a Note). A note certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number, which will be recorded on the relevant Certificate and in the Register (as defined below), which the Issuer will procure to be kept by the Registrar.

The Notes are not issuable in bearer form.

1.2 Title

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. Title to the Notes passes only by registration in the Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions "**Noteholder**" and (in relation to a Note) "**holder**" means the person in whose name a Note is registered in the Register.

For a description of the procedures for transferring title to book entry interests in the Notes, see the Agency Agreement and Condition 2.

2. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

2.1 Transfers

A Note may, subject to Condition 2.4, be transferred in whole or in part by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the other Agents.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon the transfer of Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which commercial banks and foreign exchange markets are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described in "The Global Certificate —Exchange for Certificates", owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

2.3 Formalities Free of Charge

Registration of a transfer of Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon payment by the Noteholder (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges, which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on (and including) the due date for any payment of principal or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

3. STATUS

The Notes constitute direct, general, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured External Indebtedness (as defined below) of the Issuer, from time-to-time outstanding, *provided, further*, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.

"**External Indebtedness**" means any obligations (other than the Notes) for borrowed monies that are denominated or payable in a currency or by reference to a currency other than the lawful currency of the Issuer, *provided that*, if at any time the lawful currency of the Issuer is the Euro, then any indebtedness denominated or payable, or at the option of the holder thereof payable, in Euro, shall be included in the definition of "External Indebtedness".

4. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any Security Interest (as defined below), other than a Permitted Security Interest (as defined below), over any of its property or assets to secure Public External Indebtedness of the Issuer or any guarantee of the Issuer in respect of Public External Indebtedness, unless (i) the Notes are secured equally and rateably with such Public External Indebtedness or (ii) the Notes have the benefit of such other security, guarantee, indemnity or other arrangement as shall be substantially equivalent.

In these Conditions:

"**Permitted Security Interest**" means:

(a) any Security Interest upon property (or any revenues therefrom) to secure Public External Indebtedness incurred for the purpose of financing the acquisition or construction of such property;

(b) any Security Interest existing on any property (or any revenues therefrom) at the time of its acquisition;

(c) any Security Interest securing Public External Indebtedness incurred for the purpose of Project Financing provided that (i) the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Indebtedness and (ii) the property over which such Security Interest is granted consists solely of such assets and revenues;

(d) any Security Interest existing on the original date of issue of the Notes; and

(e) the renewal or extension of any Security Interest described in subparagraphs (a) to (d) above, provided that the principal amount of the original financing secured thereby is not increased.

"**Project Financing**" means any arrangement for the provision of funds which are to be used solely to finance a project for the acquisition, construction, development or exploitation of any property.

"**Public External Indebtedness**" means any External Indebtedness, which is evidenced or represented by bonds, notes or other securities which are for the time being or are capable of being or intended to be quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market.

"**Security Interest**" means a lien, pledge, mortgage, security interest, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest.

5. INTEREST

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest on their outstanding principal amount from and including 12 November 2015 at the rate of 5.75% *per annum*, payable annually in arrear on 12 November in each year (each an "**Interest Payment Date**"). The first payment (representing a full year's interest) shall be made on 12 November 2016.

The period beginning on, and including, 12 November 2015 and ending on, but excluding, the first Interest Payment Date and each successive period beginning on, and including, an Interest Payment Date and ending on, but excluding, the next successive Interest Payment Date is called an "**Interest Period**".

5.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon surrender of the Certificate representing such Note, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue at the rate referred to in Condition 5.1 until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) the day which is seven days after notice has been given to the Noteholders that the Fiscal Agent or the Registrar has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment to the relevant Noteholders under these Conditions).

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period which is shorter than a full year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to, but excluding, the date on which it falls due, divided by (b) the actual number of days from and including the Accrual Date to, but excluding, the next following Interest Payment Date.

6. PAYMENTS

6.1 Payments in respect of Notes

Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by Euro cheque drawn on a bank that processes payments in Euro mailed by uninsured first class mail or (if posted to an address overseas) airmail to the registered address of the Noteholder if it does not have a registered account. Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the Register at the close of business on the date (the "**record date**") being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition, a Noteholder's "**registered account**" means the euro account maintained by or on behalf of it with a bank that processes payments in Euro, details of which appear on the Register at the close of business, in the case of principal and interest due otherwise than on an Interest Payment Date, on the second Business Day (as defined in Condition 6.4 below) before the due date for payment and, in the case of interest due on an Interest Payment Date, on the relevant record date, and a Noteholder's "**registered address**" means its address appearing on the Register at that time.

6.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

6.3 No Commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day preceding the due date for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition "**Business Day**" means a day (other than a Saturday or Sunday) on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET2) system is open and on which commercial banks and foreign exchange markets are open for general business in London and, in the case of surrender of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

6.5 Partial Payments

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount of principal or interest in fact paid.

6.6 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(a) there will at all times be a Fiscal Agent;

(b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (which may be the Fiscal Agent) having a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or such other relevant authority;

(c) there will at all times be a Paying Agent (which may be the Fiscal Agent) having a specified office in London;

(d) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(e) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes in specified offices shall be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

7. REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 12 November 2020.

7.2 No Other Redemption

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 7.1 above.

7.3 Purchases

The Issuer may at any time purchase Notes at any price in the open market or otherwise.

7.4 Cancellation

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer shall be cancelled and may not be reissued or resold.

8. TAXATION

8.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied collected, withheld or assessed by or on behalf of the Republic of Albania or any political subdivision or any authority thereof or therein having power to tax (collectively "**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) held by or on behalf of a holder who is liable to such Taxes in respect of such Note by reason of his having some connection with the Republic of Albania other than the mere holding of the Note; or

(b) if such Note is surrendered for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the holder would have been entitled to such additional amounts on surrender of such Note for payment on the last day of such period of 30 days, assuming that day to have been a Business Day (as defined in Condition 6.4); or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) in respect of which the Certificate is surrendered by or on behalf of a holder who would have been able to avoid such withholding or deduction by surrendering the relevant Certificate to another Paying Agent in a Member State of the European Union.

8.2 Interpretation

In these Conditions "**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12.

8.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

9. PRESCRIPTION

Claims in respect of principal and interest will become prescribed and become void unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 8.

10. EVENTS OF DEFAULT

10.1 Declaration of Acceleration

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) *Non-payment*: any amount of principal is not paid on the due date for payment thereof or any amount of interest on the Notes is not paid within 15 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer does not perform or comply with any one or more of its other obligations under the Notes, which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after notice of such default has been given to the Issuer at the specified office of the Fiscal Agent by any Noteholder; or

(c) *Cross-acceleration of the Issuer*:

(i) the holders of any Public External Indebtedness of the Issuer accelerate such Public External Indebtedness or declare such Public External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled required payment), prior to the originally stated maturity thereof; or

(ii) the Issuer fails to pay in full any principal of, or interest on, any Public External Indebtedness when due (after expiration of any originally applicable grace period) or any Guarantee of any Public External Indebtedness given by the Issuer shall not be honoured when due and called upon (after the expiration of any originally applicable grace period);

provided that the aggregate amount of the relevant Public External Indebtedness or Guarantee in respect of which one or more of the events mentioned above in this Condition 10.1(c) shall have occurred equals or exceeds €20,000,000 or its equivalent in other currencies; or

(d) *Moratorium*: the Issuer shall suspend payment of, or admit its inability to pay, its Public External Indebtedness or any part thereof or declare a general moratorium on or in respect of its Public External Indebtedness or any part thereof, or anything analogous to the foregoing shall occur; or

(e) *Unlawfulness or Invalidity*: the validity of the Notes is contested by the Issuer or the Issuer shall deny any of its obligations under the Notes or it is or becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes or any of such obligations shall be or become unenforceable or invalid; or

(f) *International Monetary Fund*: the Issuer ceases to be a member of the International Monetary Fund or shall cease to be eligible to use the general resources of the International Monetary Fund; or

(g) *Consents etc.*: any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer to perform its obligations under the Notes, the Agency Agreement or the Deed of Covenant or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified in a manner which adversely affects any right or claim of any of the Noteholders in respect of any payment due pursuant to these Conditions,

then the holders of at least 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

In these Conditions, "**Guarantee**" means any guarantee of or indemnity in respect of indebtedness or other like obligation.

10.2 Withdrawal of Declaration of Acceleration

If the Issuer receives notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

11. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity and/or security as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. NOTICES

12.1 Notices to the Noteholders

All notices to the Noteholders will be valid if mailed to them by first class mail or (if posted to an address overseas) by airmail to the holders (or the first of any joint named holders) at their respective addresses in the Register. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

12.2 Notices to the Issuer

All notices to the Issuer will be valid if sent to the Issuer at the Ministry of Finance of the Republic of Albania, Tirana or such other address as may be notified by the Issuer to the Noteholders in accordance with Condition 12.1.

13. MEETINGS OF NOTEHOLDERS; WRITTEN RESOLUTIONS

13.1 Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions

(a) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the Agency Agreement. The Issuer will determine the time and place of the meeting. The Issuer will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(b) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10% in principal amount of the outstanding Notes (as defined in the Agency Agreement and described in Condition 13.9 below) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(c) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.

(d) The notice convening any meeting will specify, *inter alia*;

(i) the date, time and location of the meeting;

(ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(iii) the modification record date for the meeting, which shall be no more than five business days before the date of the meeting;

(iv) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;

(v) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;

(vi) whether Condition 13.2 or Condition 13.3 or Condition 13.4 shall apply and, if relevant, in relation to which other series of debt securities it applies;

(vii) if the proposed modification or action relates to two or more series of debt securities issued by the Issuer and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(viii) such information that is required to be provided by the Issuer in accordance with Condition 13.6;

(ix) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 13.7; and

(x) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(e) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 13.1(d) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(f) A "**modification record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(g) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(h) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(i) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

(j) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 13 and Condition 14 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

13.2 Modification of this Series of Notes only

(a) Any modification of any provision of, or any action in respect of, the Notes, the Agency Agreement and/or the Deed of Covenant may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(b) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 13.1 by a majority of:

  (i) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or

  (ii) in the case of a matter other than a Reserved Matter, more than 50% of the aggregate principal amount of the outstanding Notes.

(c) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

  (i) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or

  (ii) in the case of a matter other than a Reserved Matter more than 50% of the aggregate principal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

(d) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

13.3 Multiple Series Aggregation – Single limb voting

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.

(b) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 13.1, as supplemented if necessary, which is passed by a majority of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(c) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.

(d) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be, and on all couponholders (where applicable) of each other affected series of Debt Securities Capable of Aggregation.

(e) The "**Uniformly Applicable**" condition will be satisfied if:

(i) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(ii) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).

(f) It is understood that a proposal under paragraph 13.3(a) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

(g) Any modification or action proposed under Condition 13.3(a) may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.3 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

13.4 Multiple Series Aggregation – Two limb voting

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(b) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 13.1, as supplemented if necessary, which is passed by a majority of:

(i) at least two thirds of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(c) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(i) at least two thirds of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(d) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be, and on all couponholders (where applicable) of each other affected series of Debt Securities Capable of Aggregation.

(e) Any modification or action proposed under Condition 13.4(a) may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.4 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

13.5 Reserved Matters

In these Conditions, "**Reserved Matter**" means any proposal:

(a) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(b) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(c) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(d) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";

(e) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";

(f) to change the definition of "Uniformly Applicable";

(g) to change the definition of "outstanding" or to modify the provisions of Condition 13.9;

(h) to change the legal ranking of the Notes;

(i) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 10.1;

(j) to change the law governing the Notes, the courts or arbitral tribunals to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 18;

(k) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;

(l) to modify the provisions of this Condition 13.5;

(m) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security; or

(n) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:

    (i) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or

    (ii) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

13.6 Information

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 13.2, Condition 13.3 or Condition 13.4, the Issuer shall publish in accordance with Condition 14, and provide the Fiscal Agent with the following information:

(a) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;

(b) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(c) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(d) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 13.1(d)(vii).

13.7 Claims Valuation

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 13.3 and 13.4, the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the par value of the Notes and such affected series of debt securities will be calculated. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

13.8 Manifest error, etc.

The Notes, these Conditions and the provisions of the Agency Agreement and the Deed of Covenant may be amended by the Issuer without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

13.9 Notes controlled by the Issuer

For the purposes of: (i) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution; (ii) this Condition 13; and (iii) Condition 10, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

(a) "**public sector instrumentality**" means the Bank of Albania, the Albanian Ministry of Finance, any other department, ministry or agency of the government of the Republic of Albania or any corporation, trust, financial institution or other entity owned or controlled by the government of the Republic of Albania or any of the foregoing; and

(b) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 14.4, which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

13.10 Publication

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 14.7.

13.11 Exchange and Conversion

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

14. AGGREGATION AGENT; AGGREGATION PROCEDURES

14.1 Appointment

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes, and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

14.2 Extraordinary Resolutions

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

14.3 Written Resolutions

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

14.4 Certificate

For the purposes of Condition 14.2 and 14.3, the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 13.2, Condition 13.3 or Condition 13.4, as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

(a) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the modification record date; and

(b) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 13.9 on the modification record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

14.5 Notification

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 14 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

14.6 Binding nature of determinations; no liability

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 14 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

14.7 Manner of publication

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 10, Condition 13, this Condition 14 and Condition 15:

(a) on the website of the Albanian Ministry of Finance;

(b) through the systems of Clearstream Banking, *société anonyme* and Euroclear Bank SA/NV and/or any other international or domestic clearing system(s) through which the Notes are for the time being cleared;

(c) in such other places and in such other manner as may be required by applicable law or regulation; and

(d) in such other places and in such other manner as may be customary.

15. NOTEHOLDERS' COMMITTEE

15.1 Appointment

(a) Holders of at least 25% of the aggregate principal amount of the outstanding debt securities of all series of affected debt securities (taken in aggregate) may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), appoint any person or persons as a committee to represent the interests of such holders (as well as the interests of any holders of outstanding debt securities who wish to be represented by such a committee) if any of the following events has occurred:

   (i) an Event of Default under Condition 10;

   (ii) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 10 become an Event of Default;

(iii) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a rescheduling or restructuring of the Notes or any other affected series of debt securities (whether by amendment, exchange offer or otherwise); or

(iv) with the agreement of the Issuer, at a time when the Issuer has reasonably reached the conclusion that its debt may no longer be sustainable whilst the Notes or any other affected series of debt securities are outstanding.

(b) Upon receipt of a written notice that a committee has been appointed in accordance with Condition 15.1(a), and a certificate delivered pursuant to Condition 15.4, the Issuer shall give notice of the appointment of such a committee to:

(i) all Noteholders in accordance with Condition 12; and

(ii) the holders of each affected series of debt securities in accordance with the terms and conditions of such affected series of debt securities,

as soon as practicable after such written notice and such certificate are delivered to the Issuer.

15.2 Powers

Such committee in its discretion may, among other things:

(a) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders;

(b) adopt such rules as it considers appropriate regarding its proceedings;

(c) enter into discussions with the Issuer and/or other creditors of the Issuer; and

(d) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer.

Except to the extent provided in this Condition 15.2, such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise.

15.3 Engagement with the committee and provision of information

(a) The Issuer shall:

(i) subject to Condition 15.3(b), engage with the committee in good faith;

(ii) provide the committee with information equivalent to that required under Condition 13.6 and related proposals, if any, in each case as the same become available, subject to any applicable information disclosure policies, rules and regulations; and

(iii) pay any reasonable fees and expenses of any such committee (including without limitation, the reasonable and documented fees and expenses of the committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.

(b) If more than one committee has been appointed by holders of affected series of debt securities in accordance with the provisions of this Condition 15 and/or equivalent provisions set out in the terms and conditions of any affected series of debt securities, the Issuer shall not be obliged to engage with such committees separately. Such committees may appoint a single steering group (to be comprised of representatives from such committees), whereupon the Issuer shall engage with such steering group.

15.4 Certification

Upon the appointment of a committee, the person or persons constituting such a committee (the "**Members**") will provide a certificate to the Issuer and to the Fiscal Agent signed by the authorised representatives of the Members, and the Issuer and the Fiscal Agent may rely upon the terms of such certificate.

The certificate shall certify:

(a) that the committee has been appointed;

(b) the identity of the initial Members; and

(c) that such appointment complies with the terms and conditions of the relevant bond documentation.

Promptly after any change in the identity of the Members, a new certificate, which each of the Issuer and the Fiscal Agent may rely on conclusively, will be delivered to the Issuer and the Fiscal Agent identifying the new Members. Each of the Issuer and the Fiscal Agent will assume that the membership of the committee has not changed unless and until it has received a new certificate.

The provisions of this Condition 15.4 shall apply, *mutatis mutandis*, to any steering group appointed in accordance with Condition 15.3(b).

In appointing a person or persons as a committee to represent the interests of the Noteholders, the Noteholders may instruct a representative or representatives of the committee to form a separate committee or to join a steering group with any person or persons appointed for similar purposes by other affected series of debt securities.

16. CURRENCY INDEMNITY

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

18. GOVERNING LAW, ARBITRATION AND SUBMISSION TO JURISDICTION

18.1 Governing Law

The Notes, the Agency Agreement and the Deed of Covenant, and any non-contractual obligations arising out of or in connection with the Notes, the Agency Agreement and the Deed of Covenant, are governed by, and will be construed in accordance with, English law.

18.2 Arbitration

Subject to Condition 18.3, any dispute arising out of or in connection with the Notes (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligation arising out of or in connection with the Notes) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the Rules of Arbitration of the International Chamber of Commerce (the "**Rules**"), which Rules are deemed to be incorporated by reference into this Condition.

(a) The arbitral tribunal shall consist of three arbitrators, each of whom shall be disinterested in the Dispute, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions.

(b) The claimant(s), irrespective of number, shall nominate jointly one arbitrator and the respondent(s), irrespective of number, shall nominate jointly the second arbitrator, in accordance with the Rules, for confirmation by the ICC Court. If a party or parties fail(s) to nominate an arbitrator, the appointment shall be made by the ICC Court. The third arbitrator, who shall serve as president of the arbitral tribunal, shall be nominated, for confirmation by the ICC Court, by agreement of the two party-nominated arbitrators within 15 days of the nomination of the second arbitrator, or, in default of such agreement, shall be appointed by the ICC Court as soon as possible.

(c) The seat and place of arbitration shall be Paris, France.

(d) The language of the arbitration shall be English.

18.3 Jurisdiction

(a) At any time before any Noteholder has nominated an arbitrator to resolve any Dispute(s) pursuant to Condition 18.2, that Noteholder or any other Noteholder, at its sole option, may elect by notice in writing to the Issuer that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction, as more particularly described in Condition 18.3(b)(iii). Following any such election, no arbitral tribunal shall have jurisdiction in respect of any Dispute(s).

(b) In the event that any Noteholder issues a notice pursuant to Condition 18.3(a), the following provisions shall apply:

(i) subject to Condition 18.3(b)(iii), the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Issuer and any Noteholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts;

(ii) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(iii) this Condition 18.3(b) is for the benefit of the Noteholders only. As a result, and notwithstanding Condition 18.3(b)(i), to the extent allowed by law, each Noteholder may, in respect of any Dispute or Disputes, take (A) proceedings relating to a Dispute ("**Proceedings**") in any other court with jurisdiction; and (B) concurrent Proceedings in any number of jurisdictions.

18.4 Appointment of Process Agent

The Issuer irrevocably appoints the *Chargés d'Affaires ad Interim* of the Republic of Albania to the Court of St. James's currently residing at the Embassy of the Republic of Albania, at 33 St. George's Drive, London SW1V 4DG, United Kingdom as its agent for service of process in England and agrees that, in the event of the *Chargés d'Affaires ad Interim* of the Republic of Albania being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing in this Condition shall affect the right to serve process in any other manner permitted by law.

18.5 Waiver of Immunity

The Issuer irrevocably and unconditionally with respect to any Dispute: (a) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction; (b) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute; and (c) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final judgment, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute, provided, however, that the Issuer does not waive any immunity in respect of: (i) present or future "premises of the mission" as defined in Vienna Convention on Diplomatic Relations signed in 1961, present or future "consular premises" as defined in Vienna Convention on Consular Relations signed in 1963 or otherwise used by a diplomat or diplomatic mission of Albania or any agency or instrumentality thereof; or (ii) any immovable property which falls under provisions of paragraph 1 to 3 of article 3 of Albanian Law № 8743, dated 22 February 2001 "On the state immovable properties".

18.6 Other Documents

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the ICC and the English courts and appointed an agent in England for service of process in terms substantially similar to those set out above. In addition, the Issuer has, in such documents, waived any rights to sovereign immunity and other similar defences which it may have, in terms substantially similar to those set out above.

19. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

THE GLOBAL CERTIFICATE

The Global Certificate contains the following provisions, which apply to the Notes whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 7 below.

1. FORM OF THE NOTES

The Notes will be represented on issue by the Global Certificate, in registered form without interest coupons attached, which will be registered in the name of a nominee of, and delivered to, a common depositary for Euroclear and Clearstream, Luxembourg.

Beneficial interests in the Global Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. Transfers of book-entry interests in the Global Certificate will be effected through the records of Euroclear and/or Clearstream, Luxembourg, and their respective direct and indirect participants, in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg, and their respective direct and indirect participants.

Except in the limited circumstances described below, owners of beneficial interests in the Global Certificate will not be entitled to receive physical delivery of individual Certificates.

2. ACCOUNTHOLDERS

For so long as any of the Notes are represented by the Global Certificate, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "**Noteholders**" and references to "**holding of Notes**" and to "**holder of Notes**" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Republic, solely in the nominee for Euroclear and Clearstream, Luxembourg (the "**Nominee**") in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Nominee.

3. CANCELLATION

Cancellation of any Note following its redemption or purchase by the Republic will be effected by reduction in the aggregate principal amount of the Notes in the Register and by the annotation of the appropriate schedule to the Global Certificate.

4. PAYMENTS

Payments of principal and interest in respect of Notes represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of the Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Global Certificate will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Accountholders in accordance with the rules and procedures or Euroclear or Clearstream, Luxembourg, as applicable.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

All payments in respect of Notes represented by the Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

5. NOTICES

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to entitled Accountholders in substitution for notification as required by Condition 12 (*Notices*) except that, so long as the Notes are listed on any stock exchange, notices shall also be published in accordance with the rules of such exchange. Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to Euroclear and Clearstream, Luxembourg as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by the Global Certificate, notices to be given by such Noteholder may be given by such Noteholder through Euroclear or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent, Euroclear and/or Clearstream, Luxembourg may approve for this purpose.

6. REGISTRATION OF TITLE

The Registrar will not register title to the Notes in a name other than that of the Nominee for a period of 15 calendar days preceding the due date for any payment of principal or interest in respect of the Notes.

7. EXCHANGE FOR CERTIFICATES

Exchange

The Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for individual certificates (the "**Certificates**") upon the occurrence of an Exchange Event.

For these purposes an "**Exchange Event**" means that:

(a) one or more circumstances described in Condition 10 (*Events of Default*) have occurred and are continuing; or

(b) if Euroclear and/or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces that it is permanently to cease business or does in fact do so and no successor or alternative clearing system is available,

provided that, in the case of any exchange pursuant to (b) above, the holder has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange.

In exchange for the Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate principal amount of duly executed Certificates in or substantially in the form set out in the Agency Agreement.

Delivery

In such circumstances, the Global Certificate shall be exchanged in full for Certificates and the Republic will, at the cost of the Republic (but against such indemnity and/or security as the Registrar or Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Registrar for completion and dispatch to the relevant Noteholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Republic and the Registrar may require to complete, execute and deliver such Certificates.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, which are expected to amount to approximately €447,624,000 (before deduction of commissions payable to the Joint Lead Managers and of the Issuer's other expenses of the offering of the Notes), will be used by the Issuer to refinance existing indebtedness, which may include external or domestic indebtedness.

THE REPUBLIC OF ALBANIA

Area and Population

Albania is located in the southwestern region of the Balkan Peninsula in southeastern Europe. Albania shares a border with Greece to the south and southeast, Macedonia to the east, Kosovo to the northeast, and Montenegro to the northwest. Western Albania lies along the Adriatic and Ionian Sea coastlines. The Adriatic Sea separates Albania from Italy via the Strait of Otranto. Albania covers an area of approximately 28,748 square kilometers. Its territory is predominantly mountainous, but is relatively flat along its coastline with the Adriatic Sea. Albania's primary seaport is Durres, through which 90.0% of Albania's maritime cargo is transported. The capital city of Albania is Tirana, which is located in the central area of the country.

As at 1 January 2015, the population of Albania was 2.9 million, of which 57.0% lived in urban areas (with 37.0% of the population resident in Tirana). As at January 2015, the ethnic composition of the population was predominantly ethnic Albanian (estimated to comprise 82.6% of the population), with ethnic Greeks making up the next largest group (0.9%). Albanian is the official language of Albania.

Albania is a self-proclaimed secular state which, pursuant to Article 10 of the Constitution, allows freedom of religion. According to statistics published by the United Nations Statistics Division in 2013, the predominant religions in Albania are Islam, including Sunni Islam and members of the Bektashi Order (estimated to comprise 56.7% of the population), Roman Catholic (10.0%) and Albanian Orthodox (6.7%).

Social and Demographic Development

The following table sets forth selected comparative statistical data for Albania and the other countries indicated:

Comparative Statistics(1)(2)

	Albania	**Kosovo**	**Montenegro**	**Greece**	**United Kingdom**	**United States**
Gross national income *per capita* (*U.S.$*)(3)	4,460	4,000	7,240	22,090	42,690	55,200
Average annual growth of GDP (*%*)	3	3	2	1	3	2
Life expectancy: male and female (*years*) (4)..........................	78	71	75	81	81	79
Under 5 mortality (*per 1,000 live births*)...	14	—	5	5	4	7
Poverty headcount ratio at national poverty lines (*% of population*)(5)...............................	14.3	29.7	11.3	—	—	—

Source: The World Bank, World Development Indicators

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Notes:

(1) World Bank figures may differ from figures published by other organisations, including INSTAT and other Government agencies.

(2) Figures are for 2014, except where indicated.

(3) Figures are calculated based on the World Bank atlas method. The atlas method represents the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output, plus net receipts of primary income (compensation of employees and property income) from abroad.

(4) Figures are for 2013.

(5) Survey year is 2012 for Albania, 2011 for Kosovo and 2012 for Montenegro.

History

Albanians descend from a non-Slavic, non-Turkish group of tribes known as Illyrians, who arrived in the Balkans around 2000 B.C. After falling under Roman authority in 165 B.C., Albania has had only brief periods of self-rule.

Following the split of the Roman Empire in 395 A.D., the Byzantine Empire established control over present-day Albania. In the 11th century, Byzantine Emperor Alexius I Comnenus made the first-recorded reference to a distinct area of land known as Albania and to its people.

The Ottoman Empire ruled Albania from 1385 to 1912. During this time, most of the population converted to the Islamic faith; others emigrated to Italy, Greece, Egypt and Turkey. Although its control was briefly disrupted by a revolt between 1443 and 1478, which was led by Albania's national hero Gjergj Kastriot Skenderbeu, the Ottomans' rule was generally dominant for centuries.

Albania declared its independence from the Ottoman Empire in 1912, but fell under Italian control in 1939. Communist partisans took over the country in 1944. Albania was ruled by Enver Hoxha as a totalitarian Communist regime from the end of World War II until Hoxha's death in 1985. During the period of Hoxha's rule, Albania first formed an alliance with the Soviet Union until 1960, and later with China until 1978. Between 1978 and the 1990s, the Communist regime applied the principles of self-reliance and isolationism, which included the prohibition of foreign loans and foreign investment.

In the early 1990s, Albania put an end to 46 years of isolationist Communist rule and established a multi-party democracy. The new government introduced certain liberalisation measures, including granting the freedom to travel abroad in 1990, and made efforts to improve ties with foreign countries. The former Communists remained in power following elections in March 1991, but a general strike and opposition movement led to the formation of a coalition cabinet that included non-Communists. In March 1992, Sali Berisha, leader of the right-wing Democratic Party of Albania (the "**DPA**"), was elected as the first non-Communist president of Albania since World War II. The defeat of the Communists caused economic collapse and social unrest, but the newly-elected Government introduced reforms, which marked the start of Albania's transition to a market economy.

In 1996 and 1997, the rise and collapse of several large financial pyramid schemes led to riots throughout Albania, and a United Nations military peacekeeping mission led by Italy was sent to stabilise the country. The Government and President Berisha resigned, and, following the 1997 legislative elections, the Albanian Socialist Party (the "**SPA**") came to power following the 1997 legislative elections. The SPA governed for eight years, during which several prime ministers were appointed: Bashkim Fino (from March 1997 to July 1997), Fatos Nano (from July 1997 to October 1998 and from July 2002 to September 2005), Pandeli Majko (from October 1998 to October 1999 and from February 2002 to July 2002) and Ilir Meta (from October 1999 to February 2002). Following the July 2005 elections, the DPA returned to power, with Sali Berisha again serving as Prime Minister until 2013.

In April 2009, Albania became a member of the North Atlantic Treaty Organization ("**NATO**"). See "*—International Relations—NATO*".

In the June 2009 election, the coalition known as the "Alliance for Change", led by Sali Berisha's DPA and two minor parties (the Republican Party and the Party for Justice, Integration and Unity), gained 70 seats in the 140-member Assembly. Among the coalition's 70 seats, 68 were occupied by the DPA. The SPA, led by Edi Rama, won 66 seats, while most of the small parties that had been represented in the Assembly in 2005-2009 did not win any seats in the 2009 Assembly. There was a prolonged political crisis following the legislative elections in June 2009, during which the SPA alleged voting irregularities in the election and boycotted the Assembly from September 2009 to May 2010. The SPA held a series of protests, where opposition supporters gathered to request a recount of the votes. The DPA responded to the SPA's protests by holding a mass rally to demonstrate its own public support in December 2009. In January 2010, the Parliamentary Assembly of the Council of Europe (the "**PACE**") adopted a resolution, which urged the SPA and the DPA to enter into a dialogue. The PACE also called on the Government to establish a parliamentary commission to investigate the allegations of electoral fraud. After several unsuccessful attempts to find a solution to this political crisis, the SPA returned to parliamentary proceedings in May 2010.

Tensions between the ruling party and the opposition increased over events in January 2011 when Dritan Prifti, Albania's former Minister of Economy, Trade, and Energy, released a video to television journalists implicating the leader of his party, the Socialist Movement for Integration ("**SMI**"), in a corruption scandal. The opposition called for protests against corruption and the political situation in the country. On 21 January 2011, thousands of people participated in a march in front of the Prime Minister's office, and Sali Berisha accused the opposition of organising a *coup d'état* with the cooperation of the President, General Prosecutor and State Secret Service. In November 2011, the DPA and the SPA agreed to jointly establish a joint parliamentary committee on electoral reform for the first time since the 2009 elections.

Further parliamentary elections were held in June 2013, following which the left-wing coalition "Alliance for a European Albania" led by Edi Rama's SPA came to power. The SPA announced that it aimed to undertake further reforms that would lead to EU integration. In June 2014, Albania was granted EU candidate status. See "*—International Relations—European Union*".

In July 2014, the main parliamentary opposition parties boycotted the Assembly after two governing socialists allegedly attacked a democrat colleague. As part of the boycott, the DPA demanded that all legislation of major significance should require more than a simple majority of votes to be passed in the Assembly. In December 2014, following the proposal of a resolution by the European Parliament, the DPA ended the boycott. The resolution, which was adopted by the Assembly unanimously by those present (126 members), aims to introduce democratic standards, including not allowing the majority to use its position simply to bypass opposition and debate. The resolution guarantees the respect and implementation of decisions of the Constitutional Court and commits to addressing the issue of persons with criminal records running for public office. The Government maintained its parliamentary majority throughout the boycott.

Government Structure and Recent Developments

Political System

Albania is a parliamentary republic based on the separation and balancing of legislative, executive and judicial powers.

Constitution

In 1925, after a period of political instability and rapid succession of governments, an Albanian Republic was declared under a constitution "based on the French model of the Third Republic". Three years later, in 1928, Albania was proclaimed a democratic and parliamentary kingdom. The legislative organ consisted of one chamber, while the executive power belonged to the King, as head of state, and the cabinet. When Albania fell under the control of Italy in 1939, the then-existing constitution was abolished and a new constitution was proclaimed. After the liberation of Albania from Nazi occupation, the communists established the Democratic Government of Albania. On 11 January 1946, the Constitution of the People's Republic of Albania was promulgated, to which amendments were adopted in 1950. It was later replaced by the Constitution of the People's Socialist Republic of Albania on 28 December 1976, which remained in effect until 5 September 1991, when a temporary basic law was passed to legalise a pluralist system and re-establish a capitalist economy in Albania. A Constitutional Commission worked in 1993 and 1994 to develop and propose a draft new constitution.

In 1996, the Government became unstable and collapsed between November 1996 and March 1997. The general elections of June 1997 resulted in a majority for the socialists, with Rexhep Meidani being elected as President and SPA Chairman, Fatos Nano, being elected as Prime Minister. The current Constitution was approved by the Assembly on 21 August 1998, and was ratified by referendum on 22 November 1998, with almost 90.0% of votes cast in favour.

The Constitution, which comprises 183 articles, is the highest law in Albania and establishes the basic institutions of a democratic state. The Constitution provides for three branches of government: the legislative branch, the executive branch and the judicial branch. The Constitution provides that the official language of Albania is Albanian. The Constitution also guarantees, *inter alia:* (i) freedom of expression; (ii) freedom of conscience and of religion; (iii) the right not to be subjected to torture or cruel, inhuman or degrading punishment or treatment; (iv) the presumption of innocence; (v) the rights of the accused; (vi) the right to vote; (vii) the right to healthcare; and (viii) the right to education.

Since its adoption in 1998, the Constitution has been amended on three occasions. On 13 January 2007, the term in office of elected local government representatives was extended from three to four years and the number of the membership of the Central Election Commission was increased from seven to nine members. In April 2008, Parliament adopted a package of constitutional amendments relating to the electoral system, the election of the President and the mandates of the Prosecutor General. Pursuant to these amendments, the Albanian electoral system changed from a mixed to a regional proportional system. In September 2012, a constitutional amendment, which was unanimously passed by the Assembly, limited the immunity of members of the Assembly.

Legislature

Legislative power is concentrated in the unicameral Assembly, which consists of 140 members, all of whom serve four-year terms. All 140 members are elected at the same time on the basis of a regional proportional system with zones corresponding to 12 counties. Although most legislation is passed by a simple majority of the Assembly, legislation regarding constitutional amendments and certain fundamental matters requires a three-fifths majority.

Executive

The President is the Head of State and serves as Commander-in-Chief of the Army, Chair of the National Security Council and head of the High Council of Justice. The President's duties include, among other matters, addressing the Assembly, granting pardons and citizenships, giving military decorations and titles of honour and appointing and withdrawing Albania's diplomatic representatives to other states and international organisations. Although the vast majority of executive powers are vested in the Government, the Constitution gives the President the authority to appoint and dismiss certain high-ranking civil servants in the executive and judicial branches (including, with the consent of the Assembly, the judges of the Supreme Court), authority which can have political implications. The President is elected by a majority of votes of the Assembly for a five-year term, with the right of re-election for one further five-year term. Bujar Nishani was elected as President of Albania by the Assembly in July 2012 and will be eligible for a one-time re-election in July 2017, the same year as the next general elections for the Assembly.

The executive branch of the Government is made up of the Council of Ministers, which is headed by the Prime Minister. The Council of Ministers comprises the Prime Minister, the Deputy Prime Minister and ministers of the Government (currently 19 ministers and 23 deputy ministers). The Council of Ministers exercises every state function that is not given to other organs of state power or to local government, and is responsible for defining the principal directions of Albania's general state policy, both domestic and foreign. Pursuant to Article 96 of the Constitution, the Prime Minister is appointed by the President on the proposal of the party or coalition of parties that has the majority of seats in the Assembly. The appointment is subsequently approved by a simple majority of all members of the Assembly. Members of the Council of Ministers are nominated by the Prime Minister, approved by a decree of the President and then finally approved by the Assembly.

In furtherance of women's rights, coordinators for gender issues have been appointed in all line ministries. Matters of gender equality are overseen by the National Council on Gender Equality.

Judiciary

Albania has a civil law system. The court structure consists of a Constitutional Court, a Supreme Court and multiple appeal and district courts.

The Constitutional Court is comprised of nine members, each appointed by the Assembly for one nine-year term. The Constitutional Court interprets the Constitution, determines the constitutionality of laws and resolves disagreements between local and federal authorities.

The Supreme Court is the highest court of appeal and consists of 17 members, who are appointed by the President, with the consent of the Assembly, for a nine-year term, without the right of re-appointment. Elections to the Supreme Court are conducted on a staggered basis.

The President chairs the High Council of Justice, which is responsible for appointing and dismissing other judges. The High Council of Justice is comprised of 15 members: the President, the Chairman of the High Court, the Minister of Justice, three members elected by the Assembly and nine judges of various levels elected by the National Judicial Conference.

The remaining courts are divided into three jurisdictions: criminal, civil and military. There are no jury trials under the Albanian justice system and judgments are rendered by judges.

The Assembly is in the process of assessing its options to reform the Albanian judiciary to increase its transparency, accountability and independence. An *ad hoc* parliamentary committee has been established to pursue this reform and a report analysing the current status of the judicial system was published in June 2015. The next stage of the reform process is the drafting of a reform strategy, which began in June 2015 and is expected to be completed by the end of 2015.

Current Government

The main political parties in Albania are the SPA, the DPA, the SMI, the Albanian Republican Party, the Justice and Integration Party, the Demo-Christian Party, the Union for Human Rights Party, the New Democracy Party, the Social Democratic Party and the Social Democracy Party.

The most recent elections for the Assembly were held in June 2013. Prior to the 2013 elections, two major coalitions were formed: the "Alliance for a European Albania" (a coalition of 37 opposition parties varying from the far-left to the far-right, led by Edi Rama, the then leader of the opposition and leader of the SPA) and the "Alliance for Employment, Prosperity and Integration" (a coalition of 25 centrists and centre-right parties, led by Sali Berisha, the then Prime Minister). In total, 66 parties ran in the 2013 parliamentary elections.

In the election, the Alliance for a European Albania, led by the SPA, won 83 out of the 140 seats in the Assembly (or 57.6%). The SPA won 65 of the 83 total seats won by the coalition.

The following table sets forth the results of the 2013 elections, as well as details of the key ministerial positions held by the coalition parties following the 2013 elections.

Results of the 2013 Assembly Elections(1)

	Number of Seats	Percentage
Socialist Party (SPA)(2)	65	46.43
Democratic Party (DPA)	50	35.71
Socialist Movement for Integration (SMI)(3)	16	11.43
Party for Justice, Integration and Unity (PDIU)	4	0.03
Republican Party	3	0.02
Christian Democratic Party	1	0.01
Unity for Human Rights Party	1	0.01
Total	**140**	**100.00**

Notes:

(1) The Assembly approved Edi Rama's Government on 15 September 2013. Mr Rama's cabinet includes 14 ministers from the SPA and five ministers from the SMI. Both of these parties are members of the left-wing coalition "Alliance for a European Albania".

(2) Representatives of the SPA hold the following positions in Government following the 2013 elections: Prime Minister, Deputy Prime Minister, Minister of Foreign Affairs, Minister of the Interior, Minister of Health, Minister of Defence, Minister of Finance, Minister of Economic Development, Minister of Education and Sport, Minister of Social Welfare and Youth, Minister of Energy and Industry, Minister of Urban Development, Minister of State for Public Administration and Innovation and Minister of State for Relations with the Assembly.

(3) Representatives of the SMI hold the following positions in Government following the 2013 elections: Minister of European Integration, Minister of Transportation and Infrastructure, Minister of Agriculture, Rural Development and Water Management and Minister of Environment. An independent representative also holds the position of Minister of Cultural Affairs.

The Organisation for Security and Cooperation in Europe (the "**OSCE**") monitored the 2013 elections. Other than a shooting on Election Day, which resulted in the death of an SPA activist and the injury of a DPA candidate, international monitors noted an overall improvement in the conduct of Albania's elections. According to the OSCE, the 2013 parliamentary elections were characterised by "*competitiveness and genuine respect for fundamental freedoms*". Following the 2013 elections, however, the OSCE recommended that Albania strengthen the independence of its electoral administrative bodies.

The next parliamentary elections are scheduled for July 2017.

Local Government

Local government in Albania is organised in two levels, municipalities and districts. In July 2014, the Assembly passed Law № 115 of 31 July 2014 "On administrative division of local government units in the Republic of Albania" ("**Law 115**"), according to which the number of local government units will decrease to 61 from the 373 communes and municipalities previously in place, while the number of regional councils will remain at 12. These reforms were implemented following the local elections in June 2015 and are expected to generate significant savings to the Government.

Pursuant to reforms introduced by Law 115, local government units enjoy certain rights, including the right of governance, the right of property, the right to collect revenues and make expenditures and the right to conduct economic activities.

In addition, an inter-ministerial working group is preparing a new de-centralisation strategy, which aims to increase the number of functions and competencies of local governments, while addressing concerns over weak revenue collection, financial control, human resource management, corruption and transparency. The EU and bilateral donors are supporting the creation of larger and more efficient local government units.

The last local government elections took place on 21 June 2015. This election was the first to elect mayors and councils in each of the 61 newly-formed local government units. According to results announced by the Electoral Commission, the ruling coalition, led by the SPA, won a majority, representing 46 out of the 61 local government units. The OSCE monitored the local elections and its preliminary conclusions published on 22 June 2015, noted that "[*o*]*verall, election day was assessed positively, but many cases of group voting and some important procedural irregularities were observed.*"

International Relations

Albania is a member of multiple regional and international organisations and initiatives, including NATO, OSCE, the United Nations ("**UN**"), the Stability Pact for South Eastern Europe, the Adriatic Charter and the World Trade Organization ("**WTO**").

European Union

EU integration, leading to eventual membership, is the Government's overriding foreign policy priority. In June 2006, Albania and the EU signed a Stabilisation and Association Agreement, which provided guidance on required political and economic reforms and was the first step towards Albania's EU membership. In accordance with this Stabilisation and Association Agreement, Albania has been focusing on implementing essential rule of law reforms and addressing corruption and organised crime.

Albania filed its application for EU membership in April 2009. In October 2013, the EU Commission recommended that Albania be granted EU candidate status, subject to completion of certain key reform measures. The EU Commission's 2013-2014 Enlargement Strategy Paper identified five key priorities to be addressed prior to the launch of formal accession negotiations: (i) continued implementation of public administration reforms; (ii) further action to reinforce the independence, efficiency and accountability of judicial institutions; (iii) introduction of measures to fight corruption; (iv) introduction of measures to fight organised crime; and (v) reinforcement of human rights and anti-discrimination policies and implementation of property rights. In May 2014, the Government adopted a comprehensive roadmap to structure Albania's efforts in meeting these key priorities and, in July 2014, the Government adopted a National Plan for European Integration for the period 2014 to 2020. On 27 June 2014, Albania was granted EU candidate status. While Albania is in the process of implementing the necessary structural and other reforms to commence accession negotiations, there can be no assurance that Albania will be able to achieve the required conditions to enter into negotiations and, thereafter, accede to the EU in any given time period, or at all. Accession is not currently expected in the short- to medium-term. See *"Risk Factors—Risks Relating to Albania—Albania may not become a member of the EU in the near to medium term or at all"*.

Albania is working closely with the European Commission in connection with its reform projects and its preparation for the next stage of the EU integration process, which comprises the opening of formal accession negotiations. The opening of negotiations depends upon the implementation of the required reforms and requires the agreement of all EU Member States. Formal membership negotiations will also require the adoption of established EU laws and preparations to be in a position to apply and enforce EU law. In Albania, the National Council of European Integration has been established; demonstrating the all-party approach to EU integration, this Council is chaired by the parliamentary opposition. Members of the opposition are also invited to participate in high-level dialogue with all EU institutions.

Albania has benefited from EU support through a number of programmes, targeted both nationally and regionally, primarily in the areas of governance and institution building, rule of law, education, agriculture and rural development. From 1991 to 2014, Albania received an aggregate of approximately €1,512.2 million in EU grants and concessional loans (*i.e.*, loans at below market rates) in furtherance of various programmes. The EU has committed a further €40 million grant for balance of payments support between 2015 and 2018, which is to be disbursed in four equal instalments. The first instalment of this grant is expected to be disbursed by the end of 2015 or early in 2016.

Albania is party to the EC-Albania Readmission Agreement, which entered into force in 2006, and the Visa Facilitation Agreement, which entered into force in 2008. As a result of these two agreements, it has been easier for certain categories of Albanian citizens to travel to Schengen countries. On 29 September 2010, the European Commissioner for Civil Liberties, Justice and Home Affairs in the European Parliament adopted a resolution for visa liberalisation for Albania with 49 votes in favour and two abstentions. On 7 October 2010, the European Parliament approved the proposal to waive visa requirements for Albanian nationals and, at the end of 2010, Albanian citizens were granted visa-free travel to the Schengen Area.

Albania has also aligned its policy with the EU's common foreign and security policy when it has been invited to do so by the EU.

Within the EU, Albania has particularly strong relations with Greece (as a result of the proximity of Albania to Greece, the presence of a significant number of ethnic Greeks in Albania and ethnic Albanians in Greece and the significant presence of Greek banks in the Albanian financial sector) and with Italy (which is Albania's largest trading partner (See "*Balance of Payments and Foreign Trade*")). Cooperation with Italy is expected to increase as a result of the construction of the Trans Adriatic Pipeline ("**TAP**"). See "*The Albanian Economy—Principal sectors of the Economy—Energy—Energy Sector Reform*".

United States

The United States established diplomatic relations with Albania in 1922, although diplomatic relations were ended in 1939 due to Albania's occupation by Italy and Germany and then during Albania's communist regime. Diplomatic relations between the United States and Albania were re-established in 1991.

Albania and the United States have signed and ratified a number of agreements, including a treaty on the prevention of proliferation of weapons of mass destruction and the promotion of defence and military relations; the Adriatic Charter on Euro-Atlantic integration; and an agreement regarding the non-surrender of persons to the International Criminal Court.

In April 2015, Albania and the United States signed a Joint Declaration on Strategic Partnership, which focuses on partnership between the two countries on global issues, regional issues, political dialogue, security, strengthening the rule of law, economic development, energy security and educational and cultural changes.

U.S. government assistance has aimed to help Albania to strengthen its democratic institutions and the rule of law; promote sustainable, broad-based economic growth; and integrate the country into European and Euro-Atlantic structures. In 2013, financial assistance from the United States to Albania totalled U.S.$21.6 million. The United States Department of State estimates this financial assistance to have been U.S.$16.5 million in 2014.

Russia

Relations between Albania and the Russian Federation ("**Russia**") have declined since 2008, primarily due to Russia's policy regarding Kosovo. Since 2014, bilateral relations with Russia have deteriorated further in response to Russia's annexation of Crimea and the ongoing conflict in Ukraine. In this respect, Albania has officially aligned its foreign policy and economic sanctions regime with that of the EU.

NATO

Albania joined NATO in April 2009. In July 2010, as the first step in increasing its role in peacekeeping and security operations with NATO, Albania increased its commitment to operations in Afghanistan from approximately 250 soldiers to approximately 290 soldiers. As at 26 February 2015, Albania had 42 troops as part of the Resolute Support Mission (RSM) which was launched on 1 January 2015, immediately following the withdrawal of the International Security Assistance Force (ISAF) in Afghanistan.

Albania is expected to increase its participation in NATO as part of its closer integration with the alliance. In addition to its participation in Afghanistan, Albanian forces have worked alongside those of NATO nations in peacekeeping operations in Bosnia and Herzegovina. Albania also contributes military staff to Kosovo.

Albania held the presidency of the A5 US-Adriatic Charter Ministerial in 2014. Albania is committed to increasing operational capacity in order to enable further participation in this initiative.

Albania's foreign policy with respect to the conflict in Ukraine is in line with NATO's policies, and Albania contributes funds to the NATO trust fund for assisting Ukraine.

Albania also contributes to NATO's anti-terrorism operations through its participation in NATO's Partnership Action Plan on Terrorism. This includes sharing intelligence and analysis with NATO, enhancing national counter-terrorist capabilities and improving border security.

World Trade Organization

Albania has been a member of the WTO since September 2000. As a result of its membership of the WTO, Albania is required to continuously monitor the fulfilment of commitments arising from membership, as well as to develop and implement domestic legislation in accordance with the agreements and rules of the WTO. The Ministry of Economic Development, Tourism, Trade and Entrepreneurship, in co-ordination with the Ministry of Foreign Affairs, is responsible for monitoring Albania's compliance with WTO requirements, in close collaboration with the Permanent Mission of the Republic of Albania in Geneva.

United Nations

Albania has been a member of the UN since 14 December 1955. In particular, Albania is working with the UN Economic Commission for Europe in connection with a project to alleviate trade barriers, which is expected to be completed in 2016. In addition, in 2015, Albania was elected as the Coordinator of "Group D" of the UN Conference on Trade and Development ("**UNCTAD**"), which includes 24 countries from South-East Europe, thereby evidencing Albania's commitment to the framework of co-operation with UNCTAD.

Regional Relationships

Albania maintains positive relations with its neighbours. Since 18 February 2008, Albania has recognised the independence of and strengthened its relationship with Kosovo, which has, in the past, led to tensions with neighbouring countries, although these tensions have declined in recent years. Furthermore, Albania maintains generally positive relations with Montenegro, which gained its independence in 2006 after the dissolution of the former Yugoslav Republic. Albania has recently revitalised its relationship with Serbia following the visit of Albania's Prime Minister Edi Rama to Belgrade on 11 November 2014, the first visit since 1946. Tensions occasionally arise with Greece over the treatment of the Greek minority in Albania or the Albanian community in Greece, but relations with Greece are positive overall. Albania also maintains good relations with Bosnia and Herzegovina. Albania maintains diplomatic relations with Macedonia and supports its sovereignty, integrity and stability, although Albania has condemned the recent events in Kumanovo and maintains that both the rule of law and the rights of ethnic Albanians in Macedonia should be respected in line with the Ohrid Framework Agreement entered into on 13 August 2001.

Albanian, Macedonian and Italian law enforcement agencies are cooperating with increasing efficiency to crack down on the trafficking of arms, drugs, contraband and human beings across their borders. Albania has also arrested and prosecuted several ethnic Albanian extremists on charges of inciting inter-ethnic hatred in Macedonia and Kosovo.

In recent years, regional cooperation has increased. Albania participates in a number of regional political and economic forums and initiatives, including transition from the Stability Pact for South-Eastern Europe to a more regional framework with the South-East European Cooperation Process and the Regional Cooperation Council. In addition, Albania has joined the West Balkans 6 initiative, which provides political support for regional cooperation focusing on economic governance and connectivity. In August 2014, Albania participated in the High-Level Conference EU-Western Balkans, which reaffirmed the importance of the EU integration process as an impetus for reform in the region. It also aimed to increase regional cooperation and address political issues in the region through the implementation of regional projects aligned with those implemented in the EU. In this respect, a number of Government ministries, including the Ministry of Economic Development, Trade and Entrepreneurship and the Ministry of Transportation, have worked with their counterparts in other countries in the region in connection with a list of regional projects, which will require the support of both EU and international financial institutions.

THE ALBANIAN ECONOMY

Background

The Albanian economy has undergone a significant transformation since the fall of the Communist government in 1992. In common with other post-Communist countries in Eastern Europe, Albania's transition to a market-based economy in the 1990s was accompanied by economic dislocation due to the shock of the transition and the effect of implementing economic reforms. This transition remains ongoing, with a broad range of continuing reform initiatives, particularly those aimed at structural reforms and fiscal consolidation.

The democratically elected government that assumed office in April 1992 launched an economic reform programme that was intended to stop economic deterioration and begin Albania's transition towards a market economy. Key elements included price and exchange system liberalisation, fiscal consolidation and monetary restraint. These were complemented by a comprehensive package of structural reforms, including privatisation, enterprise and financial sector reforms, as well as the creation of a legal framework for a market economy and private sector activity. Led by the agricultural sector, real GDP grew and Albania's currency, the Lek, stabilised. Progress stalled in 1996, due to, *inter alia*, the collapse of large financial pyramid schemes and the instability that followed.

In recent years, the Albanian economy has improved, infrastructure has developed and substantial reforms, in areas such as tax collection, property laws, and business regulations, are continuing to take place. Between 1998 and 2008, Albania had real GDP growth of at least 5.0% each year, except in 2002, and, between 2009 and 2014, Albania had an average annual GDP growth rate of 2.5%.

Nevertheless, Albania remains one of the poorest countries in Europe. According to the INSTAT, annual *per capita* GDP was estimated to be ALL 471,273 (€3,360) in 2013 and ALL 485,816 (€3,473) in 2014, while gross national disposable income ("**GNDI**") per capita was estimated to be approximately ALL 505,222 (€3,602) in 2013 and ALL 517,108 (€3,697) in 2014. According to preliminary data compiled by the World Bank's Poverty Assessment Programme, 14.3% of the Albanian population lived below the poverty line (defined as the minimum level of income deemed adequate in a particularly country) in 2012, reflecting a deterioration from 12.4% in 2008. The official unemployment rate was 13.8% as at 31 December 2014, as compared to 13.0% as at 31 December 2013, according to statistics prepared by INSTAT. Employment in the private non-agricultural sector improved in 2014, while agriculture and state sector employment recorded a decline, although the agricultural sector has begun to show signs of recovery in 2015.

Albania's real GDP grew by 3.7% in 2010, 2.5% in 2011, 1.6% in 2012, 1.4% in 2013 and 2.1% in 2014. According to estimates prepared by the IMF, Albania's real GDP is forecasted to grow by 3.0% in 2015 and 4.0% in 2016. Albania has a large informal economy, which INSTAT and academic studies estimated to represent 34.7% of GDP in 2012 and 32.7% in 2013. See "*—Gross Domestic Product*" and "*—Informal Economy*".

The Albanian economy continues to operate below potential, as reflected in inflation being below the target level of the Bank of Albania, as a result of low inflationary pressures from the domestic economy, as well as from the external economy. In 2014, annual inflation averaged 1.6%, slightly lower than in 2013. In response to these developments, the Bank of Albania has generally maintained an expansionary monetary policy. The Bank of Albania is committed to achieving and maintaining annual inflation at a rate of 3.0%. See "*Monetary and Financial System—Monetary Policy*".

Economic Programme and Recent Reforms

The Government's macroeconomic policy framework and structural reform programme are based on the following fundamental principles:

- ***Continuing fiscal consolidation to lower debt-related vulnerabilities linked to macroeconomic instability and lower economic growth:*** Pursuant to this principle, the Government is committed to lowering the public debt to GDP ratio (including guarantees and local Government debt) to less than 60% by the end of 2020 from 68.1% as at 30 June 2015. The Government is also introducing a number of fiscal consolidation measures, as well as a wide-ranging energy sector reform programme.

- ***Implementing measures to encourage increased employment:*** For example, the Government has exempted certain agricultural imports from custom duties and increased subsidies to the textile sector. Employment in public administration is also expected to increase as a result of initiatives implemented under the Government's National Strategy on Employment and Skills 2014-2020, which aims to address issues of unemployment and skills mismatches.

- ***Encouraging investment through the creation of a business friendly environment:*** The Government intends to encourage further investment in Albania through the removal of bureaucratic processes and the creation of administrative and political bodies to support investment.

In furtherance of such principles, key reform measures introduced by the Government to date include:

- ***Introducing Fiscal Adjustment Measures:*** The Government has adopted a package of fiscal adjustment measures in the 2015 budget to, among other things, increase Government revenues. These measures include (i) increasing the excise tax on cigarettes from ALL 90 to ALL 110 (which is expected to generate revenues of approximately ALL 4 billion, including Value Added Tax ("**VAT**")); (ii) increasing the national tax (the circulation tax) on gasoline and diesel by ALL 10 per litre (which is expected to generate revenues of approximately ALL 6.7 billion, including VAT); and (iii) increasing withholding tax on interest, rent, dividends and capital gains from 10% to 15%, in line with the rate of personal income tax (which is expected to generate revenues of approximately ALL 5 billion).

- ***Improving the Tax System:*** In July 2014, the Government introduced a new VAT law, which became effective in January 2015. The new law eliminates the requirement for the compulsory audit of VAT refunds and establishes risk criteria as the basis for undertaking an audit. The reform of Albania's tax refund system, including the creation of a dedicated refund unit, is a key priority of the Government in 2015. The Government is updating its IT system at the treasury to improve its tax administration facilities. The Government has also announced the establishment of a working group to examine the introduction of a valuation-based property tax.

- ***Reforming the Energy Sector:*** The Government has announced that it intends to introduce structural reforms in the energy sector, which are aimed at reducing the need for public guarantees. Planned reforms include restructuring the institutional relationship between the three power companies responsible for generation, transmission and distribution, through the introduction of a new power sector law. In addition, tariff adjustments were introduced in January 2015 and a campaign was launched in October 2014 to enforce criminal penalties for electricity theft and a disconnect service for the non payment of bills. The Albanian criminal code has also been revised to impose custodial sentences for power theft and electricity infrastructure damage. See "*—Energy—Energy Sector Reform and Social Insurance*".

- ***Reforming the Pensions System:*** Pension reform measures, which were approved by the Assembly in 2014, became effective in January 2015. These measures include (i) aligning the minimum contributory wage with the official minimum wage; (ii) increasing the contributory period and retirement age; and (iii) removing the benefit ceiling. Under the new law, pension benefits are also indexed to inflation. See "*—Pensions*".

- ***Reforming the Disability Benefits System:*** The Government has issued and published a decree to reduce disability benefits in certain cases where they have been deemed to be too generous. The Government is also working with the World Bank on a medium-term project to reform disability benefits in order to strengthen controls and reduce fraud.

- ***Increasing Investment:*** The Government's strategy to boost growth and employment is focused on increasing investment, through improvements to the business climate and attraction of FDI. Measures taken to date include (i) the establishment of the National Economic Council as an advisory body to the Government, which includes representatives from the business community, key ministries and multilateral partners, as an advisory body to the Government; (ii) reforms undertaken by the inter-ministerial working group created to implement "*Doing Business"* reforms in areas such as paying taxes, starting a business, access to electricity and registering a property, which has resulted in Albania rising from 108th in 2014 to 68th in 2015 in the "*Doing Business"* league table, with further reforms planned in 2015; (iii) the testing of online business registration procedures and exploring the potential to merge the National Registration Centre and the National Licensing Centre; and (iv) the creation of an investment council to address concerns raised by the business community in Albania. The Government has also announced its intention to encourage public private partnerships ("**PPPs**"). See "*Balance of Payments and Foreign Trade—Foreign Direct Investment*".

- ***Reforming Local Government:*** In July 2014, the Assembly passed Law 115, which reduced the number of local government units. This reduction is expected to generate significant budget savings. See "*The Republic of Albania—Government Structure and Recent Development—Local Government*".

Gross Domestic Product

The following table sets forth details of Albania's GDP for the years indicated.

Gross Domestic Product

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**[(1)]
GDP at current prices					
ALL millions	*1,239,645*	*1,300,624*	*1,335,488*	*1,364,782*	*1,413,932*
€ billions	*9.0*	*9.3*	*9.6*	*9.7*	*10.1*
Real GDP Growth *(%)*	3.7	2.5	1.6	1.4	2.1
GDP per capita					
ALL thousands	*426*	*448*	*461*	*471*	*486*
€	*3,097*	*3,189*	*3,315*	*3,360*	*3,473*

Source: INSTAT

Note:

(1) Estimated data.

Albania's real GDP grew by 3.7% in 2010, 2.5% in 2011, 1.6% in 2012, 1.4% in 2013 and 2.1% in 2014. According to estimates prepared by the IMF, Albania's real GDP is forecasted to grow by 3.0% in 2015 and 4.0% in 2016. The expected growth in GDP in 2015 and 2016 is expected to be primarily driven by domestic demand, in turn, as a result of the easing of monetary conditions, the correction of public and private sector balances and improved investor confidence.

Between 2010 and 2013, Albania's GDP grew in real terms by an average rate of 2.3% per year, primarily driven by growth in the services (until 2012) and industry sectors. Real GDP growth for 2014 is estimated to be 2.1%, primarily as a result of an increase in the contribution of the industry sector, while the construction sector is expected to have made a negative contribution to the real rate of growth in 2014. GDP per capita for 2014 was €3,473, an increase of €113, as compared to 2013. In 2014, growth was negatively impacted by a decline in the contribution of the transport sector to GDP, which was triggered by the bankruptcy of Belle Air, the Albanian airline, and a decline in the contribution of the energy production sector, due to dry weather in the first half of 2014. In the second quarter of 2014, there was a 0.2% decline in the added value to the economy, which contributed negatively to the overall rate of growth of added value for 2014. The decline in the second quarter was mainly as a result of high corresponding values recorded in 2013, due to certain one-off events in specific sectors of the economy, which were not repeated in 2014.

Albania's GDP in 2014 primarily consisted of services (which accounted for 43.1% of GDP, of which trade, hotels and restaurants represented 13.1%, transport represented 2.5%, post and communication represented 2.3% and other services represented 25.0%), agriculture (20.1%), construction (9.7%) and industry (14.1%), according to Ministry of Finance estimates prepared in January 2015. Approximately 47.7% of all workers in Albania are employed in the agricultural sector, although the construction and service industries have expanded in recent years. The tourism sector has benefited from visits by tourists from the Balkan region. See "*—Principal Sectors of the Economy—Services—Tourism*".

The following table sets forth details of the expenditure composition of Albania's GDP in both current prices and percentage terms for the years indicated.

Expenditure Composition of GDP

	For the year ended 31 December									
	2010		**2011**		**2012**		**2013**(1)		**2014**(2)	
	(ALL millions)	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*
Final Consumption	**1,102,298**	**88.9**	**1,156,695**	**88.9**	**1,181,940**	**88.5**	**1,194,295**	**87.5**	**1,249,866**	**88.4**
Household consumption expenditure	961,912	77.6	1,011,826	77.8	1,034,611	77.5	1,046,103	76.6	1,100,692	77.8
General Government consumption expenditure	138,312	11.2	142,733	11.0	145,154	10.9	145,970	10.7	146,903	10.4
NPI serving households(3)	2,075	0.2	2,136	0.2	2,175	0.2	2,222	0.2	2,271	0.2
Gross fixed capital formation	**352,412**	**28.4**	**381,944**	**29.4**	**345,031**	**25.8**	**357,106**	**26.2**	**367,719**	**26.0**
Public	78,467	6.3	79,632	6.1	68,300	5.1	74,820	5.5	71,754	5.1
Private	273,945	22.1	302,312	23.2	276,731	20.7	282,286	20.7	295,964	20.9
Net export	**(255,175)**	**(21)**	**(295,703)**	**(23)**	**(248,372)**	**(19)**	**(243,509)**	**(18)**	**(260,542)**	**(18)**
Exports of goods and services............	402,141	32.4	442,390	34.0	444,514	33.3	478,672	35.1	529,534	37.5
Imports of goods and services............	657,316	53.0	738,093	56.7	692,887	51.9	722,182	52.9	790,077	55.9
Changes in stocks......................	23,308	1.9	26,628	2.0	36,964	2.8	36,964	2.7	36,964	2.6
Statistical discrepancy	16,801	1.4	31,060	2.4	19,926	1.5	19,926	1.5	19,926	1.4
GDP	**1,239,645**	**100.0**	**1,300,624**	**100.0**	**1,335,488**	**100.0**	**1,364,782**	**100.0**	**1,413,932**	**100.0**

Source: INSTAT

Notes:

(1) Semi-final data.

(2) Estimated data.

(3) NPI serving households represents expenditure provided by non-profit making institutions to households as social transfers in kind.

Principal Sectors of the Economy

The following table sets forth the value added composition of GDP, by economic activity, in both current prices and percentage terms for the years indicated.

GDP by Economic Activity

	For the year ended 31 December									
	2010		**2011**		**2012**		**2013**(1)		**2014**(2)	
	(ALL millions)	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*
Agriculture, hunting and forestry	222,589	18.0	237,062	18.2	252,609	18.9	268,093	19.6	283,568	20.1
Industry	154,366	12.5	161,240	12.4	166,955	12.5	179,052	13.1	198,881	14.1
Extracting Industry	*33,279*	*2.7*	*49,150*	*3.8*	*65,181*	*4.9*	*72,037*	*5.3*	*89,069*	*6.3*
Manufacturing Industry	*121,087*	*9.8*	*112,090*	*8.6*	*101,773*	*7.6*	*107,015*	*7.8*	*109,812*	*7.8*
Construction	157,339	12.7	163,004	12.5	140,651	10.5	143,410	10.5	136,974	9.7
Total Services	543,191	43.8	569,815	43.8	597,162	44.7	597,982	43.8	608,981	43.1
Trade, Hotels and Restaurants.	159,361	12.9	165,102	12.7	175,184	13.1	179,386	13.1	185,901	13.1
Transport	38,469	3.1	46,023	3.5	43,987	3.3	40,486	3.0	36,001	2.5
Post and communication	35,180	2.8	33,245	2.6	34,693	2.6	32,035	2.3	32,999	2.3
Other services(3)	310,181	25.0	325,444	25.0	343,298	25.7	346,075	25.4	354,080	25.0
Gross value added at basic prices	1,077,485	86.9	1,131,121	87.0	1,157,377	86.7	1,188,536	87.1	1,228,405	86.9
Taxes on products	163,938	13.2	179,350	13.8	179,606	13.4	179,092	13.1	187,126	13.2
Subsidies on products	1,778	0.1	9,847	0.8	1,494	0.1	2,847	0.2	1,599	0.1
GDP at market prices	1,239,645	100.0	1,300,624	100.0	1,335,488	100.0	1,364,782	100.0	1,413,932	100.0

Source: INSTAT

Notes:

(1) Semi-final data.

(2) Estimated data.

(3) "Other Services" includes public administration, health and education.

Agriculture

Agriculture is a key sector in the Albanian economy, accounting for 20.1% of GDP in 2014, as compared to 19.6% in 2013. In 2014, the agricultural sector grew by 3.8%, as compared to 2013. Albania's principal agricultural products are livestock, field crops and fruits. 47.7% of all workers in Albania were employed in the agricultural sector in 2014.

Historically, Albania has had a significant trade deficit in agricultural products with the EU, which in the recent years has been decreasing. As part of the EU accession process, Albania is required to align its agricultural policies with the EU Common Agricultural Policy ("**CAP**"). CAP requirements place an emphasis on efficient management of natural resources and alignment measures are expected to increase the effectiveness of agricultural practices in Albania.

The Government's main policies for agriculture and rural development during the period 2014 to 2020 provide a framework for the development of a viable and competitive agricultural and food processing sector and balanced economic development in rural areas. These policies are expected to pave the way for integration of EU agricultural and agro-processing sector policies and serve as a basis for increasing standards of living in rural areas and, accordingly, reducing poverty. Policy initiatives implemented to date in this sector include investing in: (i) agricultural holdings assets; (ii) physical assets relating to the processing and marketing of agricultural and fishery products; (iii) farm diversification; and (iv) business development and technical assistance. A second package of reforms, which is expected to be introduced in the short-term, includes making investments in advisory services and preparing and implementing local development strategies (in particular, in respect of the climate and organic farming).

The following table sets forth certain information regarding Albania's agricultural sector for the years indicated.

Agricultural Production by Product

	As at 31 December				
	2010	**2011**	**2012**	**2013**	**2014**(1)
Agricultural production volume index of goods and services (*producer prices*)(2)	119.03	124.69	131.86	N/A(3)	N/A(3)
Total utilised agricultural area (*thousand hectares*)	1,201	696	696	696	696
Livestock (*thousand heads, end of year*)					
Cattle	*493*	*492*	*498*	*498*	*500*
Pigs	*164*	*163*	*159*	*152*	*172*
Sheep and goats	*2,581*	*2,517*	*2,619*	*2,723*	*2800*
Production and utilisation of milk on farms (*total whole milk, thousand tonnes*)	1,070	1,101	1,105	1,131	1,129
Crop production (*thousand tonnes, harvested production*)					
Cereals (including rice)	*694*	*701*	*697*	*702*	*700*
Wheat	*295*	*293*	*300*	*294*	*280*
Vegetables	*860*	*890*	*914*	*924*	*950*

Source: INSTAT (unless otherwise noted)

Notes:

(1) Data for 2014 has been provided by the Ministry of Agriculture.

(2) Producer Prices Previous Year equal 100.

(3) As at the date of this Prospectus, these figures are not available.

Industry

Albania's industrial sector comprises principally manufacturing and extraction. Industrial output increased by 2.4% in 2014, as compared to 2013.

Albania's manufacturing sub-sector includes primarily the manufacturing of food products, beverages and tobacco, textiles and textile products, electricity production, tanning and dressing of leather, luggage and handbags and wood and wood products. In 2014, the manufacturing sub-sector accounted for 7.8% of Albania's GDP, as compared to 7.6% in 2013.

The extraction sub-sector comprises mining and quarrying of energy producing materials, mining of metal ores and other mining and quarrying. Chromium, ferro-nickel, copper, coal, oil and gas are among the most important sub-soil minerals in Albania. In 2014, the extraction sub-sector accounted for 6.3% of Albania's GDP, as compared to 5.3% in 2013.

The Government has introduced a number of policies and initiatives in recent years to support the industrial sector, including the following:

- ***Supporting business innovation and competitiveness:*** The main objective of this initiative is to increase the innovation and technological capabilities of small and medium-sized enterprises ("**SMEs**"), in accordance with the recommendations of the EC under Sub Committee for Trade, Industry, Taxation and Customs 2014. The SME sector is a major contributor to Albania's economic growth and employment, accounting for 80% of GDP and over 70% of total employment in 2014. Support to SMEs will include providing access for SMEs and new start-ups to financing. Privatisations of certain companies in key sectors are also being considered. See "*—Privatisation*".

- ***The Fashion Package:*** This package is aimed at streamlining administrative procedures, mainly tax procedures, in the active processing (textile) industry. Proposals were based on input from key industry participants, including in respect of the process for obtaining VAT reimbursements, the shortening of tax administrative appealing processes and the increase of the list of machinery and equipment benefiting from VAT exemptions when imported for investment purposes. A key aim of the package is to increase employment in the sector. As a result of the implementation of such measures, exports grew by 26.1% in 2014, as compared to 2013. In addition, 5,000 new jobs have been created. Out of 46 proposed measures, 32 of them have been approved or are in the process of being implemented. The package represents a combination of legal and administrative measures coordinated with financial support, and is also expected to encourage advances in technology in the sector.

- ***SMEs Lending Scheme:*** In the context of the Italian-Albanian Programme, a lending scheme is being offered to SMEs. In the period from 1 February 2013 to 30 September 2014, fourteen projects initiated by Albanian SMEs were supported in the dairy and food products processing, olive oil production, production of security doors and accessories, production of prefabricated construction elements, furniture production and poultry meat production sectors. Total support for these projects was €3.2 million. In April 2011, a guarantee fund was also established pursuant to an agreement among the Ministry of Economy and eight private commercial banks. The guarantee fund, which is worth €2.5 million, aims to facilitate SME funding. The European Fund for Southeast Europe ("**EFSE**") is one of the largest creditors of the Albanian micro and small enterprises finance sector. EFSE has provided a loan of €20 million to the National Commercial Bank ("**BKT**") to support SME lending. As at 30 September 2014, BKT had approved €29.7 million in loans to 465 customers and had disbursed €26.3 million in loans to 408 customers.

- ***Strengthening the technological capacity of SMEs:*** The strengthening of the technological capabilities of SMEs is being carried out under the framework of the Strategic Program on the Development of Innovation and Technology of SMEs 2011-2016, which was approved by the Council of Ministers in 2007. Several financial instruments to support this programme are in place and are managed by the Albanian Investment Development Agency ("**AIDA**"), including: (i) a competitiveness fund for 2013-2015 (with an annual allocation of ALL 20 million),which provides grants of up to €1 million and covers up to 50% of a specified project; (ii) an innovation fund (with a total allocation of ALL 40 million for 2011-2015), which provides financial support for the hiring of auditors and subsidising international standard technological developments; (iii) a creative economy fund (with a total allocation of ALL 40 million for 2013-2015), which provides support for product development, marketing and qualification and capacity building in the craft sector; (iv) a female entrepreneurship fund, which aims to facilitate conditions and provide direct financial support to improve the business climate and operating conditions of female entrepreneurship, as well as to provide support for interest payments on business investment loans entered into by female entrepreneurs (up to 50% of the interest rate for four consecutive years and subject to a total amount of ALL 1.0 million); and (v) a start-up fund (with a total allocation of ALL 25 million for a four-year period) to provide grants for newly-created businesses (up to 70% of eligible costs, subject to a total amount of ALL 300,000 per business).

Construction

The construction sector has been one of the main drivers of Albania's economic growth over the past ten years, as the sector has benefited from high levels of public investment from 2005 through 2009, although such investment has declined in recent years as remittances have decreased. The construction sector accounted for 9.7% of GDP in 2014, as compared to 10.5% of GDP in 2013.

During 2014, construction activity contracted in the first half of the year, although levels rebounded in the second half of the year, reflecting an increase in the number of building permits issued and the effect of positive liquidity as a result of payments of arrears from the Government to construction companies in the infrastructure sector.

In 2014, construction activity mainly resulted from the increased construction of residential buildings and was also positively affected by the realisation of civil engineering infrastructure works.

Financial Intermediation

The contribution of the financial intermediation sector to the Albanian economy increased between 2010 and 2014, facilitated by an increasingly competitive banking sector. In 2014, broad money supply amounted to 84.5% of GDP, while banking sector credit amounted to 39.6% of GDP. The ratio of credit to GDP, however, remains low, as compared to other economies in the region.

Most lending in Albania is in foreign currency, comprising 58.3% of total loans as at 31 December 2014. At the same date, aggregate corporate lending was approximately 2.4 times more than the level of retail lending.

In the fourth quarter of 2008, the global financial crisis caused declines in deposit levels, which had an effect on the level of credit. These effects continued into 2014 as a result of relatively high levels of NPLs which accounted for 22.8% of total loans as at 31 December 2014. The Government and the Bank of Albania have introduced certain reforms to address the increase in NPLs. See "*Monetary and Financial System—The Albanian Banking Sector*".

In June 2015, the total stock of credit grew by 0.8%, as compared to the previous year. Credit in Lek grew by 6.6%, while credit in foreign currency decreased by 3.3%. The major contribution to this credit growth came from credit granted to the retail sector, which grew by 2.6% over the period.

The following table sets forth certain information on the banking sector, including with respect to credit granted to the private sector ("**CPS**") as at the dates indicated.

Credit to the Private Sector

	As at 31 December					As at 30 June
	2010	2011	2012	2013	2014	2015
			(%)			
CPS (total)/GDP	39.0	41.7	41.5	40.1	39.6	39.0
CPS (foreign currency)/GDP	26.3	27.2	25.4	24.0	23.1	22.1
CPS (domestic currency)/GDP	12.7	14.5	16.1	16.1	16.5	16.9
CPS (total)/deposits	61.5	61.9	59.6	57.7	57.3	56.9
M3/GDP[1]	79.1	82.3	84.1	84.2	84.5	84.6
Total deposits/GDP	63.3	67.3	69.7	69.6	69.1	68.6

Source: The Bank of Albania

Note:

(1) See "*Monetary and Financial Systems—Money Supply*".

As at 30 June 2015, CPS was 56.9% of total deposits, as compared to 57.3% as at 31 December 2014.

See "*Monetary Policy*".

Energy

Albania obtains 97.0% of its electricity from hydroelectric sources, which causes Albania's annual electricity production to fluctuate. Albania imported 43.1% of its total energy needs from various sources in 2014, including primarily hydropower sources, under long-term supply contracts. The energy sector accounted for 6.3% of GDP in 2014, as compared to 5.3% in 2013.

The following table sets forth certain details of Albania's energy sector for the years indicated.

Energy Production and Consumption

	For the year ended 31 December				
	2010	2011	2012	2013	2014
			(TOE thousands, except as indicated)[1]		
Primary production of all energy products	1,643	1,494	1,676	N/A[2]	N/A[2]
Crude Oil	*744*	*895*	*1,031*	*1,296*	*1,241*
Hard coal and lignite	*3.2*	*1.6*	*1.56*	*N/A*[2]	*N/A*[2]
Natural gas	*13*	*15*	*15*	*N/A*[2]	*N/A*[2]
Net imports of all energy products	1,306	1,456	1,277	N/A[2]	N/A[2]
Gross inland energy consumption	2,106	2,106	2,014	N/A[2]	N/A[2]
Electricity generation (*thousand GWh*)	7,674	4,036	4,725	6,959	4,726

Source: National Agency of Natural Resources

Notes:

(1) TOE means "tonne(s) of oil".

(2) As at the date of this Prospectus, data for 2013 and 2014 is unavailable.

In line with EU directives and the 20/20/20 Initiative of the EU and the Treaty of the Energy Committee, the main objectives of Albanian energy policy are to increase the security of electricity supply to all customers and to increase the diversification of energy sources for electricity production in the country. As at the date of this Prospectus, domestically-produced energy is generated only by hydropower, and, accordingly, diversification is achieved only through the import of electricity. The Government is constructing a number of thermal power plants, which are expected to be supplied with natural gas following completion of the TAP project, which is, in turn, expected to be completed in 2020. See "—*Energy Sector Reform*".

Energy sector reform

The Government has launched an ambitious energy sector reform project to increase production capacity and transmission capacity and distribution, by improving the legal framework and implementing changes to the Penal Code.

Key steps taken in furtherance of this strategy in 2014 include:

- Drafting a new energy sector law, which was adopted by the Assembly in April 2015 and came into effect in May 2015. The new law provides for further liberalisation of the energy sector in line with the EU Electricity Directive. Pursuant to this law, all medium voltage customers will be moved out of the regulated tariff structure by the end of 2017, beginning with 35-volt customers on 1 January 2016. By 2018, the share of de-regulated consumption is expected to increase from 13% to 40%. The new law also restructures the relationship among the three public power companies responsible for generation, transmission and distribution (KESH, OST and OSHEE).

- Amending the Penal Code to make electricity theft punishable by imprisonment. In connection with such amendments, a campaign was launched in October 2014 to enforce criminal penalties for electricity theft and to disconnect services for non-payment. Such measures are also being supported by investments in metering, grid infrastructure and upgrades to Albania's commercial billing and connection system.

- Adjusting tariffs, with the intention of moving tariffs to cost recovery over several steps, the first of which took effect in 2015. These tariff adjustments include (i) restructuring the retail tariff for households by eliminating the subsidised lower block (as a result, the tariff for 2012–2014 of ALL 7.7 per kWh for consumption of up to 300 kWh and ALL 13.5 per kWh for consumption above that threshold was replaced with a single tariff of ALL 9.5 per kWh); (ii) increase in tariffs for commercial users ranging from 10% to 39%; (iii) adjustments in the purchase price for electricity from independent power producers to reflect current import prices, based on a benchmark price from the Budapest Power Exchange. Following these tariff adjustments, which entered into effect on 1 January 2015, the Government intends to undertake a review of its current tariff methodology in cooperation with the World Bank, in order to make tariff adjustments more frequent and automatic.

- Initiation of the construction of a 400 kV interconnection line between Albania and Kosovo.

- Commencement of the construction of a 110 kV line in southern Albania.

Further key steps, which are intended to be taken in furtherance of this strategy from 2015 to 2017, include:

- Drafting and approving a National Energy Strategy, which is expected to be achieved with the assistance of a foreign grant.

- Completion of the construction of the 400 kV interconnection line between Albania and Kosovo, which is expected in 2016 and is being financed by a loan of €28.9 million from Kreditanstalt für Wiederaufbau Development Bank ("**KfW**").

- Completion of the 110 kV interconnection line in south Albania, which is expected in 2016 and is being financed by a loan of €37.75 million from KfW.

Three major infrastructure projects are also planned in the energy sector; the construction of a new hydropower plant on the Devoll River and the construction of the TAP and the Ionian Adriatic Pipeline (the "**IAP**").

The 278MW Devoll hydroelectric power plant is the first large-scale PPP investment project being undertaken in Albania and one of the largest hydropower investments in the Balkans region. The project includes the construction of three hydropower stations on the Devoll River and is expected to generate approximately 789 GWh of electricity annually, increasing Albanian electricity production by almost 20.0%. The investment cost for the two first plants is estimated at €535 million; the Norwegian company Statkraft has announced its intention to invest approximately €1 billion in the project. These plants are expected to be completed in 2016 and 2018, respectively.

The TAP will transport natural gas from the Turkish-Greek border through South Eastern Europe to its tie-in point in Southern Italy. The construction of the pipeline is planned to begin in 2016 and is expected to have a direct impact on the Albanian economy commencing in 2017, when activity from the project is expected to add €57 million to GDP and create 4,200 jobs. Construction of the TAP is expected to cost approximately €1 billion, to be invested by a Norwegian company. In total, over four years, construction is expected to indirectly generate €110 million of GDP and support 3,100 jobs per year. This activity will also raise revenue for the Government; the project's contribution to the treasury is expected to peak in 2017 at €15 million, with a further €17 million expected to be raised through indirect projects.

The IAP will transport natural gas between Albania, Montenegro, Bosnia and Herzegovina and Croatia and is expected to be connected to the TAP. The construction of the pipeline is expected to begin in 2015 and the length of IAP is expected to be 516 km with capacity to transport 5 billion cubic metres of natural gas per year. Construction of the IAP is expected to cost a total of approximately €615 million.

Each of the Devoll Hydropower Plant, the TAP and the IAP are expected to contribute to the stimulation of Albania's energy sector, as well as, in the case of the TAP and the IAP, the diversification of Albania's energy supply.

In total, 347 new hydropower plants are currently under construction or preparatory phases for construction, with an expected aggregate capacity of 1,500 MW, including large projects on the Osumi, Shale, Curraj and Fan rivers, each with expected installed capacities of more than 100 MW.

In line with its energy sector action plan, Albania is also pursuing initiatives to increase consumer awareness regarding correct uses of electricity and to simplify procedures for the issuing of construction permits for power generation facilities.

All such reform measures are intended to facilitate: (i) increased security of the supply of uninterrupted power to all customers; (ii) increased performance of the electricity sector; and (iii) increased competition in the market and benefit for the consumers.

Albania has deposits of petroleum and natural gas and known oil reserves of approximately 40 million tonnes, although as at the date of this Prospectus, Albania produces only 6,425 barrels of oil per day. Natural gas production of approximately 15 kilotonnes of oil equivalent annually is sufficient to meet consumer demands. The major oil fields in Albania include the Patos-Marinza heavy oil field (with approximately 5.4 billion barrels of oil) and the Kuçova heavy oil field (with approximately 297 million barrels of oil). The Shiprag-2 oil field is expected to commence production by the end of 2015 with an estimated production capacity of 500,000 tonnes per year and 500 million cubic metres per day.

Services

The services sector is the largest sector in the Albanian economy. It consists of the trade, hotels and restaurants sub-sector, the transport sub-sector, the post and communications sub-sector and other services. The services sector as a whole represented 43.1% of Albania's GDP in 2014, as compared to 43.8% in 2013. Helped by a positive tourist season, the trade, hotels and restaurants sub-sector increased by 5.0% in 2014, as compared to 2013.

Tourism

Tourism is one of the most important sub-sectors in Albania's services sector, contributing 5.9% directly to GDP in 2014, as compared to 5.7% in 2013, and creating 50,700 jobs in 2014, according to the World Travel and Tourism Council ("**WTTC**"). The projected budget for the tourism sector between 2015 and 2017 is ALL 340 billion, including ALL 114 billion for 2015.

Policy initiatives in the tourism sector are focused on making Albania an attractive and sustainable destination for tourists. The National Strategy for Development and Integration for 2014 to 2020 aims, in particular, to encourage the development of middle to high-end sustainable tourism through the following strategic goals: (i) establishing an international standard certification system; (ii) incentivising the development of (high-end) non-traditional tourism; (iii) focusing public infrastructure provision in areas of current and potentially high tourist demand; and (iv) creating a greater international awareness of Albania's natural environment, traditional heritage and hospitality.

The Government intends to create a database of updated information for businesses in the tourism sector (at a cost of ALL 7 billion from 2015 to 2017), with the aim of achieving growth in tourism investments and supply of tourist activities.

The Government is also developing tourist destinations and resources, offering types of natural tourism, cultural tourism and costal tourism. Such measures are expected to increase job creation, international arrivals, international tourism receipts and tourism investment. The Government has budgeted to spend an additional ALL 48 billion on such initiatives from 2015 to 2017. The majority of the remaining funds to be invested in tourism between 2015 and 2017 are expected to be spent on improving road infrastructure and the reconstruction of urban districts in tourist areas.

The following table sets forth certain details regarding the tourism sector for the periods indicated.

Tourism Activities

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
Total Arrivals (*thousands*)	2,418	2,932	3,514	3,256	3,673
Total Number of Tourist Nights (*thousands*)	610	801	591	394	459
Tourism Income (*U.S.$ millions*)	138	137	116	89	n/a

Sources: INSTAT and World Bank

Transport and Infrastructure

During 2014, the transport sub-sector decreased by 17.1% as compared to 2013, and the post and telecommunications sub-sector decreased by 2.2%, as compared to 2013. This decrease was primarily due to the insolvency of Belle Air aviation company. Transportation and infrastructure are, however, expected to contribute to economic growth in Albania over the next few years.

In the past, Albania's economic growth has been hampered by inadequate energy and transportation infrastructure. There are occasional electricity outages, which are maintenance related and not a result of insufficient supply. Advance notice is given to the public when maintenance related interruptions do take place. Progress has been made in improving the electricity services and decreasing the frequency and length of outages, in part as a result of investments made in recent years.

Although recent measures have been adopted to improve the transportation infrastructure, Albania has a limited railway system and only one international airport. As a result of Albania's mountainous terrain and poor road conditions, the transportation of goods by land is arduous and costly.

Roads

The Government is implementing a number of key projects and initiatives to improve Albania's road network and infrastructure, including the following key projects:

- ***Completion of the Tirana-Elbasan Road:*** This road will facilitate traffic to Greece and Macedonia and is expected to be completed by the end of 2015. The total cost of construction is approximately U.S.$300 million, of which U.S.$222.7 million is being funded by a loan from the Islamic Development Bank, U.S.$50 million by a loan from the Abu Dhabi Fund, U.S.$20.4 million from a loan from the OPEC Fund for International Development and U.S.$7 million from Government funds. Construction of the Tirana-Elbasan Road is expected to improve economic and social development in the regions of Central, South and South East Albania. Two segments of the road were completed in 2014 and are already open to traffic.

- ***Completion of the Arberi Road:*** The Aberi Road is intended to enhance economic and social development in the region of North East Albania and to improve the movement of traffic and reduce travel time, vehicle operating costs and the number of accidents. The Arberi Road comprises the construction of dual carriageways of a total length of 72 km. A portion of the road (21 km) has already been constructed (Bulqize-Peshkopi) and 16 km are under construction. Construction on the remaining 35 km (through the roughest terrain) has not yet started. The estimated total cost of the road is between U.S.$270 and U.S.$300 million and construction and maintenance of the road are expected to be conducted through a PPP, in respect of which the Government is in negotiations with a Chinese company. Construction of the road is expected to be completed in 2018.

- ***Adoption of a Road Safety Strategy:*** In February 2011, the Government adopted a road safety strategy and, in January 2014, the inter-ministerial Road Safety Committee approved a package of road safety measures, including a review of speed limits, additional road signage, improvement of "black spots", elimination of level crossings on the national network, launch of a public awareness programme and removal of certain measures for offenders. These measures aim to reduce road fatalities by 50% by 2020, as compared to 2009 levels. In 2014, road fatalities reduced by 20%, as compared to 2009 levels. Further improvements in road safety are expected to be realised through the allocation of additional funds to various initiatives, including through PPPs.

Railways

The total length of the main railway line in Albania is approximately 420 km, in addition to approximately 200 km of secondary lines. Development and reform programmes in the railway industry have been focusing on transposing European legislation, as a precondition for comprehensive institutional reform and the profiling and strengthening of the administrative capacity of the railway. The key priority in this sector is the finalisation of the National Strategy of Railways, which is a part of the Sectorial Strategy of Transport for 2015. Part of the National Strategy of Railways, which is expected to be finalised in 2015, part of which includes the establishment of "The Railway Code of the Republic of Albania". In the short-term, the Government plans to adopt a number of additional by-laws in order to implement the strategy. A comprehensive restructuring programme is also being undertaken using the EU model, directed at improving the overall efficiency of the railway by increasing traffic through aggressive marketing, restoring the condition of the railway and reducing the railway sector's deficit. Such restructuring is expected to take place by creating a holding company overseeing separate, process-based business units: cargo (for the transportation of goods); passenger (for the transportation of passengers); infrastructure (for the construction, maintenance and operation of infrastructure); and workshop (for the repair and maintenance of rolling stock). This restructuring programme is expected to be completed in 2017. As a result, transportation and infrastructure are expected to contribute to economic growth in Albania over the next few years.

Maritime Transport

Albania has a considerable coastline and, accordingly, Albania's ports, particularly the Durres port, constitute a significant economic resource, acting as a transport hub for the Adriatic region. In recent years, the Government has invested funds and developed a number of initiatives for port infrastructure construction, including:

- ***Durres Port Rehabilitation:*** The first phase of this rehabilitation project initially included construction of the passenger terminal and ferry sites, which was completed in 2013. As at the date of this Prospectus, the Durres port is operating at full capacity. The second phase of this project, which is expected to be completed in 2017, includes the rehabilitation of the two quays at the port. The estimated cost for this rehabilitation is €18 million, which will be funded by the European Investment Bank (the "**EIB**") and the European Bank for Reconstruction and Development (the "**EBRD**").

- ***Vlora Port Rehabilitation:*** This rehabilitation project includes the construction of two quays for civilian traffic (ferries of up to 120 m in length), an additional quay for cargo ships and a passenger terminal, as well as the reconstruction of port facilities. The estimated total cost of this project is €15.3 million, which is being financed by funds from *Cooperazione Italiana per lo Sviluppo*. The project is expected to be completed in 2016.

- ***Saranda Port Expansion:*** Construction of a quay for cruise ships at Saranda Port is in its final phase and is expected to be completed by the end of 2015. The project, which has a total cost of U.S.$4.2 million, is funded 70% by the World Bank and 30% by the Government. Because of the port's close proximity to Corfu Island in Greece, there is considerable passenger traffic during the summer months. The Saranda Gateway project aims at protecting the value and productivity of Albanian coastal and cultural assets and its marine environment and promoting sustainable economic development.

- ***Shëngjini Port Deepening:*** The deepening of the basin at the Port of Shëngjini is in process. The project is expected to be completed by the end of 2015. The total cost of the project, which is being financed by the State budget, is ALL 150 million.

Post and Communications

The post and communications sector contributed 2.3% of GDP in each of 2014 and 2013. The electronic communication sector alone contributes, on average, between 5% and 6% to GDP annually.

According to statistics published by the Albanian Authority of Electronic and Postal Communications, as at 30 June 2014, there were 3,473,361 active users of mobile telephony and 1,058,354 users of mobile broadband internet from mobile phones. The number of fixed telephony customers decreased to 255,358 as at 30 June 2014 from 281,200 as at 31 December 2013. The number of fixed broadband services was 188,668 as at 30 June 2014. Use of mobile telephony has increased annually in recent years. Internet penetration in Albania, according to data published by the International Telecommunications Union, is estimated to be over 60%, while mobile broadband penetration (including smartphones and tablets) was 37% as at 31 December 2013. Figures for more recent periods are not available as at the date of this Prospectus. Competition in the electronic communications market has increased and in 2014 there were four mobile telephony operators in the electronic communications market, 79 alternative fixed telephony operators and

131 providers of internet services. Three of the mobile telephony operators provided broadband mobile services based on 3G technology in 2014.

Between 2008 and 2013, a number of laws relating to electronic communications were adopted to: (i) eliminate obstacles to the efficient functioning of the internal market in electronic communication networks and services; (ii) promote competition in the internal market; and (iii) protect consumers. Competition in the telecommunications market has increased in recent years and, in 2014, there were four telecom operators in the electronic telecommunications market and 131 providers of internet services.

In 2013, the National Plan for the Development of Broadband Infrastructures and Services was adopted, which provides for a governmental broadband strategy for 2013-2020 in order to develop broadband infrastructure and services across Albania and for the health, education, trade and governments services sectors to gain access to electronic services. A law "For the development of the electronic communications network and the provision of the right of way" is currently in draft form and is expected to be adopted by the end of 2015.

Development of advanced electronic communications infrastructure, together with fast and super-fast broadband is a main priority of Albania's digital agenda. To improve access to communications technology, the Government plans to implement a spectrum policy to facilitate access to Next Generation Networks, 4G/5G spectrums in compliance with EU practices and Stabilisation and Association Agreement ("**SAA**") engagements. Reforms are also underway to improve the legal and regulatory framework for the efficient administration of the spectrum, simplify the procedures for the establishment of electronic communications infrastructure, stimulate joint investment and utilisation of the broadband infrastructure across Albania and protect personal data.

Environment

In recent years, Albania's objective to obtain EU accession has driven its environmental policy and a number of new policies and legislation have been developed focusing on the harmonisation of environmental policy across Albania, as well as the integration of environmental protection provisions in sector-specific policies. A National Strategy for Development and Integration (the "**NSDI**") for the period 2013 to 2020 has been drafted and is expected to be adopted by the end of November 2015. The Ministry of Environment has also drafted a cross sector strategy, which is expected to be adopted in the short-term. The NSDI, which is in line with the Council of Ministers strategy for 2013 to 2017, identifies challenges, vision, strategic priorities and goals, and sets out necessary policy measures to be taken. Recent environmental legislative and policy initiatives have been based on requirements defined by the approximation of EU environmental legislation.

The Ministry of Environment is the principal authority responsible for the implementation of Albania's environmental commitments pursuant to national law and international treaties. The Directorate of Integration and Projects within the Ministry of Environment has overall responsibility for international cooperation. The Ministry of Environment has undergone several reorganisations in recent years and its staff dealing with environmental issues has almost doubled. In respect of international environmental cooperation, the Ministry of Environment shares responsibility with the Ministry of Foreign Affairs, which has the authority to initiate the ratification of MEAs (international agreements, between three or more countries, on how to jointly address environmental problems of a cross-border nature), as well as the Ministry of European Integration, which is responsible for coordinating and monitoring measures for the implementation of the requirements of Albania's European commitments. The Environmental State Inspectorate has been established, which is responsible for controlling and enforcing environmental legislation in Albania. The Inspectorate sets penalties for administrative violations and has the authority to suspend or permanently close activities and operations, which do not comply with applicable environmental legislation.

Inflation

The following table sets forth inflation rates based on changes in average consumer price index ("**CPI**") and producer price index ("**PPI**") in Albania for the years indicated, as compared to the previous year.

Inflation Rates by CPI and PPI

	As at 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
			%		
CPI Inflation	3.6	3.4	2.0	1.9	1.6
PPI Inflation.............	0.3	2.6	1.1	(0.4)	(0.5)

Source: INSTAT

Between 2010 and 2014, the average CPI inflation rate in Albania was 2.5%. Inflationary pressures from the depreciation of the domestic currency in 2009, along with a new cycle of increases in administered prices and commodities prices in the international market, resulted in rising inflation during 2010 and 2011, while the slowdown in domestic demand, as well as low global inflation and related disinflationary pressures from abroad, reduced overall inflationary pressures between 2012 and 2014.

Between February and April 2015, inflation increased as a result of increases in core inflation and higher food prices. Core inflation excludes administratively regulated items and price-volatile food items, partially offset by disinflationary pressures from abroad. Higher food prices were primarily due to lower agriculture production, in turn, as a result of floods in southern Albania in February 2015, which have resulted in increased prices for vegetables. Overall, in the first eight months of 2015, inflation rates remained low, with annual headline inflation at 1.9% in August 2015. These low inflation rates were primarily due to weak demand and low international prices, coupled with disinflationary pressures from abroad.

See also "*Monetary and Financial System—Monetary Policy*".

Wages

The following table sets forth details regarding recent wage trends for the years indicated.

Wage Trends by Sector

	As at 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
			(ALL millions)		
Average public sector monthly wage...	43,625	46,665	50,092	52,150	53,025
Official minimum wage.............	19,000	20,000	21,000	22,000	22,000
Average monthly wage (public and private combined)...............	34,767	36,482	37,534	36,332	*N/A*[(1)]
Industry	*33,273*	*35,746*	*37,071*	*37,646*	*N/A*[(1)]
Construction	*37,652*	*35,458*	*36,558*	*35,113*	*N/A*[(1)]
Transport and comm..............	*52,263*	*55,476*	*54,108*	*51,638*	*N/A*[(1)]
Trade....................................	*31,179*	*32,962*	*33,698*	*31,734*	*N/A*[(1)]
Services	*28,819*	*31,819*	*35,334*	*34,447*	*N/A*[(1)]

Source: INSTAT Structure Business Survey

Note:

(1) As at the date of this Prospectus, data for 2014 is not available.

In 2013, the minimum monthly wage was increased from ALL 21,000 to ALL 22,000. In 2014, lower rate wages increased by 5.6%, while higher rate wages increased by smaller amounts.

In 2014, the average monthly wage for public sector workers increased by 1.7%, as compared to 2013, although the average annual increase in CPI inflation in 2014 was 1.6%, which resulted in real wage growth in 2014 of only 0.1%.

The highest average wages for 2013 were in the transport and communication sector (ALL 51,638), while the lowest average wages were in the trade sector (ALL 31,734).

Employment

The table below sets forth information on Albania's labour force and employment and unemployment levels as at the dates indicated.

Labour Force and Employment / Unemployment Levels

	As at 31 December				As at 30 June
	2011	**2012**	**2013**	**2014**	**2015**
Labour force *(thousands)*......................	1,349	1,291	1,217	1,257	1,049
Labour force activity rate (15-64 years) *(%)*	68.0	66.0	52.4	53.7	63.7
Employment rate (15-64 years) *(%)*	58.7	56.3	44.1	44.3	52.7
Employment by main sectors *(%)*					
Agriculture..	*45.4*	*47.4*	*44.2*	*42.7*	*40.5*
Industry	*3.0*	*1.8*	2.2	2.4	*11.8*
Construction	*8.2*	*8.3*	*7.1*	*6.4*	7.3
Services	*20.6*	*20.8*	*21.9*	*22.6*	22.9
Unemployed (*thousands*)......................	189	173	194.0	219.8	220.2
Unemployment rate *(%)*........................	13.9	13.9	15.9	17.5	17.3

Source: INSTAT, except for employment data for the agricultural sector, which is based on household surveys.

The unemployment rate increased from 15.9% in 2013 to 17.5% in 2014, while the labour force increased from 1.2 million in 2013 to 1.3 million in 2014. At the same time, the employment rate has also increased from 44.1% in 2013 to 44.3% in 2014. The agricultural sector is the largest source of employment in Albania, representing 44.2% of total employment in 2013 and 42.7% in 2014. The services sector is also a significant source of employment, representing 21.9% of total employment in 2013 and 22.6% in 2014. As at 30 June 2015, the unemployment rate was 17.3% and the total labour force was 1.0 million.

As part of the Government's macroeconomic policy framework, the Government is implementing measures to encourage increased employment. For example, the Government has exempted certain agricultural inputs from custom duties and increased subsidies to the textile sector. Employment in public administration is also expected to increase. See "—*Economic Programme and Recent Reforms*".

Pensions and Social Insurance

Pension Reform

The pension system in Albania provides benefits to almost 570,000 citizens that belong to specific categories, such as: the elderly, the disabled and family (death) pensions. The system relies on a pay-as-you-go scheme pursuant to which benefits are paid directly from current workers' contributions and taxes.

During 2014, the Government commenced reforms of the pension system, which entered into force on 1 January 2015. The reform aims to increase the number of contributors in the mid-term and long-term period, reduce the high level of redistribution, improve the scheme's financial sustainability in the long-term by creating incentives for the payment of contributions for longer periods, provide for the payment of contributions based on real contributory wages, provide for the continuation of employment beyond the retirement ages, simplify the method of calculation of benefits and increase the transparency of the system. In particular, the new pensions law includes the following measures:

- A gradual increase of the retirement age from 2015 until 2056. In particular, the women's retirement age is scheduled to increase by two months a year to reach 63 by 2032, whereas the men's retirement age is scheduled to increase by one month a year, with both genders to reach 67 years by 2056.

- Improvement of the pension formula in rural areas through the merger of the current two schemes into a single national scheme by 2018. Since 1 January 2015, the minimum contributory wage has been unified with the official minimum wage (which, as at 31 December 2014, was 12.0% higher than the minimum contributory wage of the self-employed). Increases in contributory wages are also expected to be correlated with increases in minimum wages.

- Reinforcement of the contributory principle by changing the pension-calculating formula.

- Removal of the ceiling used for the calculation of the maximum pension and indexing of the maximum contributory wage with average wage growth.

- Increase of the contribution period for the purpose of entitlements to the full base pension.

- Establishment of a social pension, to be funded by the State Budget, for all individuals over 70 years of age, resident in Albania during the five years prior to their retirement, who do not qualify for a compulsory pension scheme.

- Imposition of conditions leading to reduced costs of state supplementary pensions for political officials, professors, military personnel and other state workers.

- Establishment of occupational pension schemes that aim to guarantee incomes for individuals who retire earlier than the official retirement age.

- Freezing of current pensions, which shall not be subject to recalculation, except for inflation indexing.

- Improvement of the performance of private pension funds, which will continue to be established on the free will of their contributors.

- Removal of the existing privilege (acknowledgement of unpaid university period as insurance period) for women with a university degree after 2032.

- Introduction of de-motivating elements regarding early retirement and encouraging postponed retirement.

Social Protection and State Aid

Important steps are expected to be taken with regard to improving the financial management system of Albania's social protection scheme, which provides direct cash transfers to the poor and disabled. In particular, the Social Assistance Modernisation Project was drafted and came into effect in October 2012 with the assistance of the World Bank and has as its core goal the sustainability of Albania's social protection programme. The reforms have digitalised the process from application to assignment and introduced a unified scoring formula, reducing the risk of abuse or human mistakes with the aim of ensuring that only eligible persons benefit from cash transfers.

Spending on disability benefits has risen sharply in recent years due, in part, to weak controls and instances of fraud. The Government is working with the World Bank on a medium-term project to reform disability benefits, which is expected to begin in the second half of 2015. In June 2015, the Council of Ministers issued and published a decree reducing disability benefits in certain cases where they have been deemed too generous. The estimated savings for the 2015 fiscal year from these reforms is ALL 0.4 billion.

Currently, the contribution rate to the social protection scheme for employed people is 24.5% of the gross wages (partly contributed by the employers and subject to a maximum level five times the minimum wage), while for the self-employed the rate is 23.4%. The contribution rate for employed people includes contributions in respect of compulsory social insurance (*i.e.*, sickness benefits, maternity benefits, accident-at-work benefits, old-age, sickness and veterans pension benefits and unemployment insurance). The contribution rate for self-employed people includes maternity and pension benefits. In addition, under Albania's compulsory health care insurance scheme, employed people contribute 3.4% of gross wages and self-employed people contribute 3.4% of the twice monthly minimum gross wages for healthcare services.

The main aims of the Government's state aid policy for 2015 to 2017 are to: (i) ensure an effective and transparent system of state aid control in Albania; (ii) ensure continued compliance with existing laws on state aid; (iii) continue alignment of Albania's laws and regulations with EU laws and guidelines on state aid; (iv) ensure effective monitoring and reporting of state aid measures; (v) continue to increase awareness raising activities on state aid issues to all state aid granting authorities and the public, with support from international experts; (vi) develop and implement a simplified system of monitoring of state aid, including *de minimis* aid, with support from international experts; and (vii) draft and approve annual reports relating to state aid.

Subsidies

Historically, certain sectors of the economy have benefited from significant subsidies from the Government, although, in recent years, the Government has reduced the amount of subsidies available.

The Government's subsidy policy as at the date of this Prospectus consists of: (i) subsidies to support loss-making strategic sectors (such as railroads and water supply); and (ii) subsidies to incentivise priority sectors through the funding of new policies, such as employment schemes.

The following table sets forth the details of the actual subsidies for 2010 to 2014 and the budgeted subsidies for 2015.

State Subsidies[1]

	For the year ended 31 December					
	2010	**2011**	**2012**	**2013**	**2014**	**2015 (budgeted)**
			(ALL thousands)			
Water supply and sanitation[2]	2,590	2,289	929	600	450	430
Railways	284	452	440	440	440	440
School books and student accommodation	380	380	350	350	350	350
Employment scheme	200	100	90	90	271	450
Other	81	80	75	94	89	90
Total	**3,535**	**3,301**	**1,884**	**1,574**	**1,600**	**1,760**

Source: Ministry of Finance

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Notes:

(1) Support to the energy sector is generally provided through project-based financing and guarantees (including by international financial institutions) and, accordingly, subsidies are not granted to this sector.

(2) In 2010 and 2011, water supply and sanitation subsidies included arrears payments for electricity owed to power distribution companies by water utility companies.

Healthcare

The healthcare system in Albania is in a relatively nascent stage of development, and key health system performance indicators in Albania are mixed. While health outcomes are relatively strong by regional standards, the sector suffers from inefficiencies and inequities.

In 2013, the number of hospitals in Albania was 1.4 per 100,000 population. During 2006-2012, on average, there were 260 standard hospital beds, approximately 236 acute hospital beds and 21 psychiatric beds per 100,000 population. The range of facilities in hospitals in Albania varies depending on whether the hospitals are located in urban or rural areas.

The following table sets forth details of the healthcare infrastructure in Albania:

Health Infrastructure

Indicator	Amount	Year
Hospitals (*per 100,000 population*)	1.4	2013
Hospital beds (*per 100,000 population*)	260.0	2006-2012
Acute care hospital beds (*per 100,000 population*)	236.2	2012
Psychiatric beds (*per 100,000 population*)	21.0	2006-2010
Primary health care units (*per 100,000 population*)	76.2	2009
Computed tomography units (*per million population*)	5.4	2013
Radiotherapy units (*per million population*)	0.3	2013
Mammography units (*per million females aged 50-69 years*)	54.4	2013

Source: World Health Organization

In February 2015, the World Bank's Board of Executive Directors approved €32.1 million in IBRD financing for a Health System Improvement Project. The total project cost is €36.1 million, with the remainder to be co-financed by the Government. The project is aimed at improving the efficiency of care in selected hospitals in Albania, improving the management of information in the health system and increasing financial access to healthcare services. Health sector stakeholders are also expected to benefit from capacity-building, with 700 staff in public health institutions expected to benefit from training and capacity-building activities.

Privatisation

Albania has carried out a major privatisation programme as part of its structural reforms towards the consolidation of a market economy. Most privatisations took place during the 1990s and aggregate privatisation proceeds for the period from 1992 to 2014 exceeded U.S.$979 million.

Privatisations in Albania began in the second half of 1991 with the creation of the National Privatisation Agency. Law № 7512 of 10 August 1991 "On sanctioning and protecting private property, free initiative, independent private activities and privatisation" recognised private property generally and the concept of privatisation of state enterprises in particular. This law also provided guidelines for the full restitution of nationalised properties to the original owners, enabled local and foreign investors to start private businesses, provided legal guarantees for the protection of investors and created a base for developing a legal framework to regulate specific sectors of the economy. From 1991 to 1992, more than 17,000 small service and trade businesses, as well as 2,000 tracks, fishing boats, agricultural machineries and other assets, were privatised through direct selling or management buyouts.

The privatisation process developed in steps, starting with the privatisation of small businesses, particularly service providers. This was followed by the privatisation of land, which consisted in the transfer of the land of the former collective and state farms into 450,000 units, and was made possible by Law № 7501 of 19 July 1991 "On Land." This process was completed by the end of 1993. The privatisation process also included the sale of approximately 220,000 state-owned apartments.

The next step was the privatisation of small and medium-sized state-owned enterprises, defined as those with values of less than U.S.$150,000 and U.S.$500,000, respectively. More than 60,000 companies were privatised between January 1993 and April 1995. This was followed by a programme of "voucher privatisation" or "mass privatisation" for 97 joint stock state companies, in which individuals were given vouchers to "buy" shares of companies, but this initiative produced limited success. The remainder of privatisations of small and medium enterprises took place through employee buy-outs, with many companies being liquidated during this process.

In 1998, a strategy to privatise major companies operating in strategic sectors was put in place. Law № 8306 of 14 March 1998 outlined a privatisation strategy for sectors with significant importance to the economy, such as telecommunications, postal services, mining and energy, oil and gas, forests and water, roads and railways, airports, insurance companies and state-owned second-tier banks. Large enterprises were privatised with strategic investors acquiring no less than 30% of the shares; medium enterprises were privatised with strategic and non-strategic investors acquiring no less than 30% of the shares; and small enterprises were privatised by transforming them into joint stock or limited liability companies. Limited domestic capital, however, made privatisation of large enterprises difficult, and slower than initially planned.

In 1999, Albania privatised its first mobile phone network, through a U.S.$85.6 million sale to Telenor and Greece's Cosmote. In 2001, it awarded the second mobile phone licence to Vodafone. Other important privatisations include the privatisation by concession of the International Tirana Airport "Mother Teresa", the concession of the Port of Durres, the privatisation of several water supply enterprises (Sarande, Durres, Lezhe, Fier and Kavaje through management contracts, and Elbasan through concession contracts); the privatisation of 85% of the shares of Albanian Refining and Marketing Oil ("**ARMO**") with a value of €128 million; and the privatisation of 76% of the shares of the fixed line telecommunications company, AlbTelecom, with a value of €120 million.

As a result of all of this activity, as at the date of this Prospectus, the vast majority of economic activity in Albania is in private hands.

In 2007, the Government decided to privatise the distribution arm of the state-owned power company KESH in order to reduce losses and improve service quality. As a first step, the distribution arm was unbundled from KESH and incorporated as a separate power distribution system operator (OSSH) in June 2007. In 2009, Albania sold a 76% stake in OSSH to the Czech power group, CEZ, for €102 million. In late 2014, however, the State resumed ownership of the distribution company.

In 2013, the Government privatised 100% of the shares of HPP Bistrica 1 and Bistrica 2 sha for an aggregate of €109.5 million.

In 2014, the privatisation policy of the small and medium non-strategic sectors with 100% state capital was revised, with companies with poor economic and financial performance to be put into liquidation and other companies to merge, while unused assets of other enterprises with poor economic performance would be offered to foreign and domestic investors to be leased for nominal rent (€1).

The following table sets out information on privatisation revenues received by Albania in millions of Lek and as a percentage of GDP in the years indicated.

Privatisation Revenues

	For the year ended 31 December					
	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Privatisation revenues *(ALL millions)*..................	25,138	411	438	1,221	13,230	35
Privatisation revenues *(% of GDP)*......................	2.20	0.033	0.034	0.09	0.97	0.002

Source: Ministry of Finance

The Government intends to raise a total of €9.4 million over the two-year period from 2014 to 2015 through the sale of stock of 20 enterprises in which the State hold less than a 50% interest. Such sales are to be carried out through public auctions, in accordance with Law № 9874 of 14 February 2008 "On Public Auction", which gives pre-emptive rights to existing shareholders. A working group with technical assistance from the IFC, is studying the additional possibility of restructuring the large state-owned company AlbPetrol as part of a review of strategic sector privatisation opportunities.

As at the date of this Prospectus, the Government's privatisation plan for the period 2015 to 2017 includes the privatisation of the following key state-owned enterprises, subject to market conditions.

Privatisation Plan

			Planning privatisation year		
Enterprises	**Current State Holding**	**Value**	**2015**	**2016**	**2017**
	(% of shares)	*(€ millions)*			
AlbPetrol sh.a....................	100	95 (Registered Capital)	—	95	—
INSIG sh.a.........................	100	7.3 (Registered Capital)	7.3		—
AlbTelecom sh.a.................	16.77	26.5 (refer major packet)	—	—	26.5
ARMO sh.a	14.9	22 (refer major packet)	—	—	22
Other enterprises privatisation.......................	—	—	3.2	4.3	4.6
Total *(€ millions)*	—	—	**10.5**	**99.3**	**53.1**

*Source: Ministry of Economic Development, Tourism, Trade & Entrepreneurship ("**MEDTTE**")*

The Government is in the process of preparing the legal framework and procedures for the sales of these companies, as well as creating *ad hoc* working groups to evaluate and address issues relating to the restructuring and privatisation of such companies. All sales are expected to be conducted at market value.

Public Private Partnerships

The Government has announced its intention to encourage the use of PPPs. To mitigate against potential risks to Albania's public finances, PPPs will be subject to a strict legal and regulatory framework and will be required to follow international best practices, and the fiscal costs and contingent liabilities related to PPPs will be transparently accounted for in fiscal accounts and debt statistics.

Informal Economy

Albania has an informal economy, which is significant in terms of the production of both goods and services and as a source of employment. According to figures published by INSTAT and academic reports, Albania's informal economy represented 34.7% of GDP in 2012 and 32.7% in 2013. See "*Risk Factors—Risks Relating to Albania—A significant portion of the Albanian economy is not recorded.*"

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

The following table sets forth data, prepared by the Bank of Albania, on Albania's balance of payments for the periods indicated.

Balance of Payments[(1)]

	For the year ended 31 December					For the six months ended 30 June	
	2010	2011	2012	2013	2014	2014	2015
				(€ millions)			
Current Account	**(1,018.6)**	**(1,225.2)**	**(978.0)**	**(1,049.1)**	**(1,287.2)**	**(608.8)**	**(423.3)**
Goods and Services	**(1,850.9)**	**(2,106.6)**	**(1,785.9)**	**(1,735.5)**	**(1,892.4)**	**(881.4)**	**(741.5)**
Credit	2,922.2	3,152.9	3,198.8	2,765.5	2,813.1	1,289.4	1,290.8
Debit	4,773.1	5,259.6	4,984.7	4,519.0	4,705.0	2,170.8	2,032.4
Goods	**(2,305.8)**	**(2,512.3)**	**(2,233.4)**	**(1,979.3)**	**(2,215.6)**	**(974.8)**	**(977.3)**
Credit	548.1	692.7	868.7	1,050.6	931.7	480.7	422.2
Debit	2,853.9	3,205.0	3,102.1	3,029.9	3,147.3	1,455.5	1,399.4
Services	**454.9**	**405.6**	**447.4**	**225.7**	**323.2**	**93.4**	**235.7**
Credit	2,374.1	2,460.2	2,330.1	1,489.1	1,558.2	808.6	868.7
Debit	1,919.2	2,054.6	1,882.6	1,673.7	1,763.2	715.2	632.9
Manufacturing Services on Physical Inputs owned by others	*223.1*	*270.7*	*234.2*	*148.6*	*199.6*	*106.6*	*107.9*
Maintenance and Repair Services	*0.0*	*0.0*	*0.0*	*3.3*	*5.4*	*3.1*	*1.4*
Transport	*(50.7)*	*(50.4)*	*(54.0)*	*24.6*	*(25.2)*	*(19.7)*	*(8.7)*
Travel	*194.9*	*47.9*	*142.6*	*165.2*	*171.3*	*(11.2)*	*120.0*
Construction	*17.9*	*57.9*	*22.5*	*9.1*	*5.2*	*3.7*	*2.0*
Insurance and Pension Services	*(58.0)*	*(62.9)*	*(63.2)*	*(9.6)*	*(4.7)*	*(2.8)*	*(7.4)*
Financial Services	*(7.8)*	*(0.3)*	*(3.3)*	*(4.0)*	*(7.1)*	*(3.9)*	*(3.0)*
Charges for the use of Intellectual Property	*0.0*	*0.0*	*0.0*	*(16.1)*	*(15.9)*	*(7.9)*	*(7.8)*
Telecommunications, Computer, and Information Services	*39.8*	*35.3*	*86.6*	*70.2*	*73.7*	*25.4*	*18.5*
Other Business Services	*57.5*	*103.0*	*54.7*	*23.0*	*20.5*	*10.4*	*12.5*
Personal, Cultural, and Recreational Services	*12.8*	*(13.9)*	*(2.5)*	*(2.9)*	*(13.6)*	*(6.2)*	*(2.9)*
Government Goods and Services	*25.4*	*18.4*	*29.9*	*(14.5)*	*(1.4)*	*(3.9)*	*3.5*
Primary Income	**(90.1)**	**(24.8)**	**(71.7)**	**24.5**	**(119.4)**	**(48.2)**	**(72.8)**
Credit	286.3	216.4	188.5	137.8	125.6	60.4	51.9
Debit	376.4	241.2	260.1	113.3	245.0	108.7	124.7
Secondary Income	**922.4**	**906.3**	**879.6**	**679.9**	**724.6**	**320.9**	**391.0**
Credit	1,076.6	1,011.5	1,026.5	810.4	851.7	377.0	455.2
Debit	154.2	105.3	146.9	130.5	127.1	56.1	64.2
Capital Account	**85.5**	**84.9**	**81.4**	**47.8**	**86.7**	**44.9**	**47.3**
Financial Account	**(599.4)**	**(899.2)**	**(621.4)**	**(807.5)**	**(934.5)**	**(458.8)**	**(370.7)**
Assets	454.3	372.1	479.5	479.5	463.9	568.1	609.8
Liabilities	1,053.7	1,271.3	1100.9	1271.4	1184.2	109.2	239.1
Direct Investments	**(788.5)**	**(608.9)**	**(647.9)**	**(923.2)**	**(811.5)**	**(346.5)**	**(467.6)**
Assets	4.8	21.4	17.9	21.6	57.7	20.7	15.2
Liabilities	793.3	630.3	665.8	944.8	869.2	367.2	482.8
Portfolio Investments	**(232.1)**	**(69.3)**	**33.6**	**115.4**	**122.1**	**28.9**	**(158.1)**
Assets	84.2	88.8	87.5	127.4	130.2	42.9	(122.2)
Liabilities	316.3	158.1	53.9	12.0	8.1	14.0	35.8
Financial Derivatives (other than reserves) and Employee Stock Options	**0.0**	**0.0**	**0.0**	**1.0**	**0.0**	0.0	0.0
Assets	0.0	0.0	0.0	(1.3)	0.0	0.0	0.0
Liabilities	0.0	0.0	0.0	(2.3)	0.0	0.0	0.0
Other Investments	**242.3**	**(192.3)**	**(84.3)**	**(105.1)**	**(342.3)**	**(123.4)**	**127.0**
Assets	186.3	290.5	296.9	211.8	(35.3)	63.5	218.1
Liabilities	(56.0)	482.9	381.2	316.9	307.0	187.0	91.1
Reserve Assets	**179.0**	**(28.7)**	**77.3**	**104.4**	**97.2**	**(17.9)**	**128.0**
Monetary gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDRs	0.5	(1.0)	4.8	15.1	6.9	57.2	91.1
Reserve Position in the IMF	0.0	0.0	3.4	0.0	0.0	0.0	0.0
Other Reserve Assets	178.5	(27.7)	69.1	89.2	90.3	(75.0)	36.9
Net Errors and Omissions	**325.4**	**242.6**	**276.2**	**193.8**	**265.9**	**105.0**	**5.4**

Source: The Bank of Albania

Note:

(1) INSTAT compiles statistics for foreign trade, while the Bank of Albania compiles and releases overall balance of payment statistics (which include foreign trade data received from INSTAT). Since the first quarter of 2014 (and covering data as at and since 31 December 2013), the Bank of Albania has compiled balance of payments statistics in compliance with international standards laid down in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* ("***BPM6***"). Prior to that, balance of payment statistics were compiled based on the fifth edition of the IMF's *Balance of Payments and International Investment Position Manual* ("***BPM5***"). Data as at

31 December 2013 and later periods are compiled in accordance with BPM6. For analytical and comparative purposes, data for prior periods have been reclassified in line with the newly-applied BPM6 methodology (both in the above table and in official statistics now prepared by the Bank of Albania).

Current Account

Albania's current account deficit during the last ten years has averaged 11.6% of nominal GDP. A substantial part of Albania's current account deficit is attributable to a cyclical component with higher imports than exports, reflecting increased investment activity in Albania, as well as higher primary income outflows. The impact of the performance of net exports on Albania's current account reflects Albania's significant import dependence.

Albania's current account deficit increased to €1,287.2 million as at 31 December 2014 from €1,049.1 million as at 31 December 2013, an increase of €238 million, or 22.7%. This increase, which continues the widening of the current account deficit since 2012, was primarily due to the increase in the net exports deficit and a decrease in primary income (which decreased from income of €24.5 million as at 31 December 2013 to expenditure of €119.4 million as at 31 December 2014). These fluctuations were partially offset by increases in secondary income from €679.9 million as at 31 December 2013 to €724.6 as at 31 December 2014 and in services income from €225.7 million as at 31 December 2013 to €323.2 million as at 31 December 2014.

In the six months ended 30 June 2015, the current account deficit decreased to €423.3 million, as compared to €608.8 million in the corresponding period of 2014, a decrease of 30.5%, primarily due to a higher net service account surplus and higher secondary income transfers. The service account surplus increased to €235.7 million, as compared to €93.4 million in the corresponding period of 2014. The net secondary income account surplus also increased as a result of higher remittances from abroad.

In 2014, Albania's current account deficit accounted for 12.9% of GDP, as compared to 10.9% in 2013. In the six months ended 30 June 2015, the current account deficit to GDP ratio decreased to 8.4%.

Net Exports and Trade Balance

In 2014, Albania's net exports deficit was €1,892.4 million, as compared to €1,735.5 million in 2013, an increase of 7.9%. Exports of goods and services were €2,813.1 million in 2014, as compared to €2,765.5 million in 2013, reflecting an increase of 1.7%. Imports of goods and services were €4,705.0 million in 2014, as compared to €4,519.0 million in 2013, reflecting an increase of 4.1%.

Although exports increased in 2014, imports grew at a faster pace, which, in turn, led to a further deterioration of the net exports performance in 2014. Exports increased primarily due to higher exports in the textile industry, as well as higher exports of agricultural goods. Greater total imports were a result of an increase of imports of capital goods related to investment from the oil industry. In 2014, Albania recorded a trade deficit of €2,215.6 million, as compared to €1,979.3 in 2013, reflecting a widening of the deficit by 11.9%. The trade deficit represented 22.3% of nominal GDP in 2014, as compared to 20.6% of nominal GDP in 2013 and 2.7% below its average over the preceding five years. The trade deficit increased further during the six months ended 30 June 2015, reaching 19.5% of GDP.

Despite the widening trade deficit, exports have increased by an annual average of 30.9% over the last five years. Export growth has been primarily driven by increased exports of crude oil, textiles and footwear, raw and manufactured metals and minerals exports. See "—*Foreign Trade*".

In the six months ended 30 June 2015, the net exports deficit decreased from €881.4 million during the corresponding period of 2014 to €741.5 million. Exports of goods and services were €1,290.8 million in the six months ended 30 June 2015, as compared to €1,289.4 million in the corresponding period of 2014. Imports of goods and services decreased from €2,170.8 million in the six months ended 30 June 2014 to €2,032.4 million in the six months ended 30 June 2015.

Services Account

The services account improved during 2014, following a contraction in 2013. The net balance of the services accounts registered a surplus of €323.2 million as at 31 December 2014, as compared to a surplus of €225.7 million as at 31 December 2013, reflecting an increase of 43.2%. This increase was primarily due to the implementation of new policies in the tourism sector, which encouraged growth in the sector, as well as a more stable political and economic environment in 2014.

Improvement in the services account was also driven by higher surpluses of net manufacturing services on physical inputs owned by others, which accounted for 62.0% of the services balance surplus, mainly due to an increase of exports of such services by 34.3% during 2014. Telecommunications, computer, and information services receipts also contributed positively to the overall services balance, reflecting higher service exports from the telecommunications industry. Receipts from travel services increased in 2014 to approximately €86.7 million from a deficit of approximately €6.0 million in 2013. Transport, insurance and pension services registered a deficit in 2014, contributing negatively to the overall performance of the services account.

The six months ended 30 June 2015 registered a positive net balance of €235.7 million in the services account, as compared to €93.4 million during the corresponding period of 2014, primarily due to an increase in the travel services balance. Receipts from travel services increased to €120 million during the six months ended 30 June 2015 from a deficit of €11.2 million registered in the corresponding period of 2014.

Primary Income

Albania's primary income balance has been historically affected by the performance of investments. After a substantial deficit recorded during 2009, the primary income balance improved, gradually turning to a surplus in 2013, primarily due to lower investment income outflows during this period.

In 2014, however, the primary income account registered a deficit of €119.4 million, as compared to a surplus of €24.5 million in 2013. The main driver behind the negative change in the primary income balance was higher outflows of investment income, which, in turn, reflected higher profitability of direct investments. In particular, the decline in net FDIs from €923.2 million in 2013 to €811.5 million in 2014 was a key factor. See "*Capital and Financial Accounts—Financial Account—Foreign Direct Investment*". This decrease was partially offset by the surplus registered in respect of compensation of employees, although this was still lower than the average amount over the last five years, which amounted to €26.2 million.

Secondary Income

The secondary income account reflected a surplus of €724.6 million during 2014, an increase of 6.6%, as compared to 2013. Net flows in the secondary income account were estimated at 7.3% of nominal GDP in 2014. The increase in the secondary income account was primarily due to an increase in remittances by 8.8% in 2014 to €591.9 million. Remittances accounted for 5.9% of nominal GDP in 2014**.** Capital and financial accounts remittances have historically contributed significantly to Albania's secondary income. See "*—Remittances*".

In the six months ended 30 June 2015, the surplus amounted to €391.0 million, an increase of 21.8%, as compared to the corresponding period of 2014. Net flows in the secondary income account were estimated at 7.8% of nominal GDP in the six months ended 30 June 2015.

The surplus of the secondary income account financed 32.7% of the trade deficit in 2014 and 40.0% in the six months ended 30 June 2015. In the six months ended 30 June 2015, remittances reached €303.4 million, an increase of 18.7%, as compared to the corresponding period of 2014, and were estimated to represent 6.1% of GDP.

Capital and Financial Accounts

Capital Account

The capital account recorded a surplus of €86.7 million in 2014, as compared to €47.8 million in 2013, reflecting an increase of 80.6%. Net flows of the capital account represented 0.9% of nominal GDP in 2014. The widening surplus in the capital account was mainly determined by capital transfers relating to general government items. Historically, the capital account has not registered large fluctuations in its net balance. During 2013, the capital account registered its lowest value in the last five years, reaching a value of €47.8 million.

The combination of net non-financial transactions in the current account and capital account renders the net position of a domestic economy as a net lender, if in surplus, and a net borrower, if in deficit, versus non-resident economies. Conceptually, this result is equal to the net balance of the financial account, which reflects the manner in which the net lending position or net borrowing position by non-residents is being financed. In 2014, Albania's economy held a net borrowing position of €1.2 billion, which was financed by flows in the financial account (minus errors and omissions). In the six months ended 30 June 2015, Albania's net borrowing position was €376.1 million, as compared to €563.8 million in the corresponding period of 2014.

As at 30 June 2015, the capital account registered a positive balance of €47.3 million, an increase of 5.3%, as compared to the corresponding period of 2014.

Financial Account

The financial account resulted in an inflow of €934.5 million in 2014, as compared to €807.5 million in 2013, reflecting an increase of 15.7%. Net inflows of the financial account represented 9.4% of nominal GDP in 2014. Domestic assets invested in non-resident economies decreased by 46.2% and residents' financial liabilities to non-residents decreased by 6.9% annually. Financial outflows decreased mainly due to the reduction of other investment assets invested abroad, and financial inflows decreased as a result a decrease in foreign direct investments. Overall financial account net inflows financed 72.6% of the current account deficit registered in 2014. As at 30 June 2015, the financial account registered a net balance of €370.7 million, representing a decrease of 19.2%, as compared to the corresponding period of 2014.

Foreign Direct Investment

The financial account received €811.5 million (8.2% of nominal GDP) from FDI in 2014, a decrease of 12.1%, as compared to 2013. This decrease was primarily due to one-off projects in 2013, as well as certain exogenous factors. On the financing side, FDI declined following a spike in FDI in 2013 in connection with hydropower privatisation projects, as well as because of falling investment in the oil sector as a result of declining oil prices. In the six months ended 30 June 2015, FDI was €467.6 million, as compared to €346.5 million for the corresponding period of 2014, reflecting a 34.9% increase.

Privatisation receipts, especially in the second quarter of 2013, played an important role in direct investment inflows in 2014. Excluding the privatisation receipts from total direct investment inflows, the annual growth rate of net direct investment was 5.2% in 2014. See "*The Albanian Economy—Privatisation*".

Direct investments represent an important foreign currency inflow in financing the trade and current account deficits. This has particularly been the case since 2009, when the importance of other foreign currency inflows, such as remittances, began to progressively contract.

The following table sets forth details of Albania's FDI, for the periods indicated.

Net Foreign Direct Investment

	For the year ended 31 December					**For the six months ended 30 June**	
	2010	**2011**	**2012**	**2013**	**2014**	**2014**	**2015**
				(€ millions)			
Net FDI	788.5	608.9	647.9	923.2	811.5	346.5	467.6
Net FDI/GDP *(%)*	8.8	6.6	6.7	9.5	7.9	7.1	9.3
Net FDI/Current account deficit *(%)*	77.4	49.7	66.2	89.0	61.5	56.9	110.5
Net FDI/Balance of trade *(%)*	34.2	24.2	29.0	48.8	37.5	35.5	47.8

Source: Ministry of Finance

The following table sets forth details of Albania's FDI stock, by country, as the dates indicated.

Foreign Direct Investment Stock by Country

	As at 31 December			
	2010	**2011**	**2012**	**2013**
		(%)		
Canada	11.08	15.57	18.10	19.04
Switzerland	2.80	15.99	10.15	2.35
Austria	14.52	13.05	10.03	10.15
Greece	24.67	14.93	20.09	25.98
Italy	15.88	12.57	11.74	12.02
Turkey	7.66	5.52	8.44	8.83
Netherland	9.14	7.44	8.67	9.32
Cyprus	2.47	3.80	2.72	2.63
Germany	3.44	2.46	2.58	2.75
France	1.64	1.50	2.18	1.99
International Organisations	1.89	1.59	1.64	1.90
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: The Bank of Albania

In each of 2010, 2011, 2012 and 2013, net FDI flows from Greece accounted for the largest portion of Albania's total FDI flows, accounting for 24.7%, 14.9%, 20.1% and 26.0%, respectively. In 2013, the FDI stock from Greece increased to €1.09 billion from €782.0 million in 2012, reflecting an increase of 30.0%. This increase was primarily due to an increase in the FDI stock related to transport, storage and communication from Greece.

The second largest portion of net FDI inflows originate from Canada, which accounted for 11.1% of net FDI flows in 2010, 15.6% in 2011, 18.1% in 2012 and 19.0% in 2013. The third largest portion of net FDI inflows originate from Italy, which accounted for 15.9% of net FDI flows in 2010, 12.6% in 2011, 11.7% in 2012 and 12.0% in 2013.

As at the date of this Prospectus, a breakdown of FDI, by country, is not available for periods after 2013.

The following table sets forth details of Albania's FDI stock, by industry, as at the dates indicated.

Foreign Direct Investment Stock by Industry

	As at 31 December			
	2010	**2011**	**2012**	**2013**
		(%)		
Transport, Storage and Communication	16.40	11.43	20.27	27.32
Financial Intermediation	28.72	21.04	19.33	19.50
Mining and Quarrying	12.78	17.99	20.81	17.71
Manufacturing	17.08	27.99	24.42	17.19
Real Estate, Renting and Business Activities	2.57	2.44	2.32	7.42
Wholesale and Retail Trade and Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	9.85	6.37	4.02	3.37
Construction	(0.04)	0.32	3.65	3.27
Hotels and Restaurants	3.13	2.05	1.63	1.51
Extra-Territorial Organisations and Bodies	1.00	1.06	1.17	1.43
Health and Social Work	2.62	1.38	0.92	0.76
Other Community, Social and Personal Service Activities	0.49	0.26	0.47	0.44
Education	0.18	0.17	0.17	0.19
Agriculture, Hunting and Forestry	0.30	0.12	0.03	0.03
Fishing	0.07	0.11	0.00	0.00
Public Administration and Defence and Compulsory Social Security	0.00	0.00	0.00	0.00
Activities of Households	0.00	0.00	0.00	0.00
Electricity, Gas and Water Supply	4.83	7.25	0.78	(0.14)
Total	**100.00**	**100.00**	**100.00**	**100.00**

Source: The Bank of Albania

In each of 2012 and 2013, net FDI flows to the transport, storage and communication sector accounted for the largest portion of Albania's total FDI flows, accounting for 20.3% and 27.3%, respectively. In 2013, net FDI flows to the transport, storage and communication sector increased to €27.3 million from €20.2 million in 2012, reflecting an increase of 35.1%. This increase was primarily due to an increase in FDI in the post and telecommunications sector.

Prior to 2012, net FDI flows stock to the financial intermediation sector accounted for the largest portion of Albania's total FDI stock. In 2012 and 2013, FDI flows stock to this sector accounted for 19.3% and 19.5% of total FDI flows, respectively.

Other significant contributors to total FDI include the mining and quarrying sector, which accounted for 20.8% and 17.7% of total FDI flows in 2012 and 2013, respectively, and the manufacturing sector, which accounted for 24.4% and 17.2% of total FDI flows in 2012 and 2013, respectively.

As at the date of this Prospectus, a breakdown of FDI by sector is not available for periods after 2013.

Attracting FDI is a continuing priority for the Government. Although the Government has successfully attracted certain key strategic projects in recent years, including the TAP (see "*The Albanian Economy—Principal Sectors of the Economy—Energy—Energy Sector Reform*"), to date, there has been little success in the attraction of Greenfield projects and FDI for production sectors of the Albanian economy.

In 2015, the Assembly adopted a new law, which aims to encourage increased foreign investment. This law is expected to enter into force in July 2015. Pursuant to this law, investment in certain industries (including the energy, tourism, transport and infrastructure and agriculture sectors) over a certain threshold will be considered strategic investments and will benefit from accelerated procedures and incentives. The law provides for the establishment of a Committee of Strategic Investments, as a collegial body of the Council of Ministers, which will be headed by the Prime Minister of the Republic of Albania. This Committee is expected to be formed within three months of the entry into force of the law. The Committee will have the right to take decisions on classifying investments as strategic investments or, in the alternative, associated investments. The draft law also provides for the establishment of the Fund of Real Estates for the Support of Strategic Investments, which will finance various projects regarding the improvement of investments management.

Portfolio Investments and Net Other Investments

Net portfolio investments increased as a result of an increase in assets invested abroad by approximately €130.2 million during 2014, an increase of 5.8%, as compared to 2013. The net other investments account reflected higher liabilities to non-residents, posting a negative balance of €342.3 million in 2014.

In the six months ended 30 June 2015, net portfolio investments registered an outflow of €158.1 million as a result of a decrease in assets invested abroad. In the six months ended 30 June 2015, domestic assets invested abroad decreased by approximately €122.2 million, as compared to the corresponding period in 2014. The net other investment balance was €127.0 million as at 30 June 2015, as compared to a negative balance of €123.4 million in the corresponding period of 2014.

Foreign exchange reserve assets increased by €97.2 million in 2014 to €2.19 billion as at 31 December 2014, which represented 5.5 months of imports of goods and services and 181.0% of Albania's short-term external debt. See "*Monetary and Financial System—Foreign Reserve Assets*".

Net errors and omissions

Due to problems that may be faced in the sources of information and during the compilation of the external sector statistics, the balance of payments may include certain discrepancies. All of these are aggregated under the balancing item of net errors and omissions. In 2014, net errors and omissions registered a value of €265.9 million (2.7% of nominal GDP), as compared to €193.8 million in 2013, reflecting an increase of €72.1 million. In the six months ended 30 June 2015, net errors and omissions amounted to €5.4 million, as compared to €105.0 million in the corresponding period of 2014.

Foreign Trade

Albania has liberalised its foreign trade since 1990 and, as at the date of this Prospectus, follows guidelines set by the EU and the WTO. Albania has been a member of the WTO since 2000 and applies WTO rules on import licencing. See "*The Republic of Albania—International Relations*". As a result of this liberalisation and an on-going process of harmonisation of Albanian customs rules with the EU system, imports and exports of commodities are not generally subject to special authorisation requirements. Exceptions apply to quotas or control requirements imposed through different bilateral or multilateral agreements signed by Albania.

An important achievement towards EU integration, the SAA between Albania and the EU was ratified in April 2009, and includes a provision for the establishment of a free trade area between Albania and the EU within ten years. The SAA supersedes the previous Interim Agreement, which is now incorporated as an integral part of the SAA.

On 19 December 2006, all of Albania's bilateral trade agreements with countries in the region were transformed into a multilateral agreement, the Central European Free Trade Agreement (the "**CEFTA**"), which includes eight countries: Albania, Macedonia, Montenegro, Kosovo, Moldova, Croatia, Serbia and Bosnia and Herzegovina.

In December 2009, Albania signed a free trade agreement with the European Free Trade Association ("**EFTA**"). The EFTA member states are: Iceland, Liechtenstein, Norway and Switzerland.

Albania has also concluded a free trade agreement with Turkey, which entered into force in May 2008. In addition, Albania follows the General System of Preferences, the U.S. trade programme providing for preferential U.S. duty-free treatment on up to 3,500 products from 128 countries, including Albania.

Foreign trade of goods and services in Albania represented 77.0% of nominal GDP in 2014, reflecting the small size and open nature of Albania's economy.

The following table sets forth information on Albania's imports and exports by sector, for the periods indicated.

Imports and Exports by Sector

	For the year ended 31 December					For the seven months ended 31 July	
	2010	2011	2012	2013	2014	2014	2015
				(€ millions)			
Imports							
Food, Beverages and Tobacco	632.32	655.35	670.27	666.00	671.49	369.39	390.63
Minerals, Oil and Electrical Energy	533.82	729.19	794.72	660.48	644.65	364.90	237.30
Chemical and Plastic Products	408.77	434.69	474.84	486.44	521.06	297.68	316.71
Leather and Related Products	60.84	67.10	69.91	81.20	102.30	62.78	68.65
Wood and Paper Products	148.31	145.48	130.20	144.68	163.79	90.87	86.16
Textiles and Shoes	331.87	359.72	347.38	385.80	450.09	260.89	275.89
Construction Materials and Metals	554.85	584.75	489.68	451.34	505.94	272.66	283.32
Machinery and Parts	672.87	781.72	703.25	702.22	755.22	389.18	453.63
Others	124.89	118.53	121.06	109.26	131.62	72.23	81.80
Total	**3,468.54**	**3,876.52**	**3,801.32**	**3,687.42**	**3,946.16**	**2,180.57**	**2,194.09**
Exports							
Food, Beverages and Tobacco	68.61	79.60	92.18	104.39	119.69	60.78	79.33
Minerals, Oil and Electrical Energy	325.49	419.14	547.70	708.59	613.58	387.82	304.53
Chemical and Plastic Products	12.65	20.26	14.56	20.58	24.25	14.15	16.94
Leather and Related Products	18.63	20.83	19.93	22.76	21.98	13.17	12.48
Wood and Paper Products	34.78	32.50	38.47	57.02	65.59	36.59	33.91
Textiles and Shoes	403.89	456.72	446.41	494.41	613.90	369.11	377.20
Construction Materials and Metals	234.76	294.31	289.29	257.98	265.10	154.10	165.15
Machinery and Parts	48.83	55.23	54.92	58.77	65.98	34.90	51.49
Others	24.83	24.70	28.49	31.51	37.19	20.30	26.26
Total	**1,172.47**	**1,403.29**	**1,531.94**	**1,756.01**	**1,827.26**	**1,091.91**	**1,067.29**

Source: The Bank of Albania

Since 2010, the value of total exports has increased from €1,172 million to €1,827 million in 2014, a cumulative increase of 58.4%. Export growth since 2010 has been primarily driven by growth in crude oil, textiles and footwear, raw and processed metals and minerals exports.

In 2014, exports increased to €1,827 million from €1,756 million in 2013, an increase of 3.8%. This growth was primarily due to the positive contribution of the textile and footwear and construction materials and metals sectors, as well as exports of mineral, fuels, electricity, representing 33.6% of total exports, despite weak external demand.

After two consecutive years of falling imports as a result of lower mineral fuels and electricity imports, imports increased from €3,687 million in 2013 to €3,945 million in 2014, an increase of 5.3%. This increase was primarily due to increased imports of machinery, equipment and spare parts and textile and footwear imports.

Total exports decreased to €1,067 million for the seven months ended 31 July 2015, as compared to €1,092 million in the corresponding period of 2014, reflecting a decrease of 2.2%. Total imports increased to €2,194 million for the seven months ended 31 July 2015, as compared to €2,181 million in the corresponding period of 2014, reflecting an increase of 0.6%.

A significant change in the structure of Albanian exports by commodity and destination has been observed in recent years. While there has been a positive contribution of exports of crude oil through 2014, generated mainly by the FDI made by oil companies, data for 2014 shows that the weight of minerals, fuels and electricity exports decreased to 33.6% of total exports, as compared to 40.3% for 2013. The decreased share of crude oil exports in 2014, as compared to 2013, primarily reflected an increase in the domestic usage of crude oil produced domestically. Future positive developments in the crude oil sector are expected, however, as a result of the increased production capacity of Bankers Petroleum and positive initial exploration results in the Shpiragu Mountains. Electricity exports were almost non-existent in 2014, but the completion of the hydropower projects in Banjë and Moglicë, which is expected in 2016 and 2018, respectively, is projected to increase production capacities and result in increased exports. In 2014, exports of textile and footwear products continued to increase as a result of sector-specific public policy, as well as an abundance of labour.

Total merchandise imports grew by 7.0% during 2014 to €3,946.16 million, as compared to €3,687.42 million in 2013. The three main categories of imports, as a percentage of total imports in 2014, continued to be machineries, equipment and spare parts, minerals, fuels and electricity and food, beverages and tobacco, representing, in the aggregate, 52.4% of total imports in 2014. Machinery, equipment and spare parts imports increased by 7.5% from 2013 to 2014. Food, beverages and tobacco and minerals, fuels and electricity, however, each decreased, as a percentage of total imports in 2014, primarily as a result of lower imports of fuel. Imports of textile and footwear and construction materials and metals increased, as a percentage of total imports in 2014, as a result of increased activity in the re-exporting industry for textiles and footwear.

Focus of Trade

The following table sets forth Albania's exports and imports of goods, by origin or destination, as a percentage of total exports and imports for the years indicated.

Exports and Imports of Goods by Origin or Destination

	For the year ended 31 December					For the seven months ended 31 July	
	2010	**2011**	**2012**	**2013**	**2014**	**2014**	**2015**
				(%)			
Exports							
Italy	51.4	53.5	51.6	46.3	52.0	53.7	48.9
Kosovo	6.3	7.6	8.0	6.6	7.3	6.0	9.1
Turkey	5.5	7.3	6.2	3.7	3.9	3.7	4.2
Spain	3.5	3.5	9.1	9.8	6.5	7.0	4.8
Greece	5.4	5.1	4.5	3.2	3.5	3.5	3.7
China	5.5	2.6	2.6	4.6	3.4	4.0	2.9
Germany	2.8	3.0	3.0	3.8	2.8	2.3	3.2
Macedonia	1.6	2.1	1.9	1.8	2.1	1.8	2.6
Malta	0.7	2.4	1.8	6.7	6.2	6.1	6.8
Switzerland	3.8	2.4	0.9	1.8	0.8	0.7	1
Others	13.3	10.6	10.3	10.97	11.04	11.2	12.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Imports							
Italy	28.1	30.4	31.7	32.9	29.8	29.5	30.9
China	6.3	6.4	6.3	6.8	7.3	6.9	8.3
Greece	13.2	10.7	9.6	8.8	9.4	9.7	8.4
Turkey	5.7	5.5	5.7	6.4	7.1	7.1	7.5
Germany	5.6	5.7	6.0	5.8	6.0	5.9	6.5
Serbia	3.6	3.6	4.5	2.9	4.3	4.2	3.9
United States	1.6	1.4	2.1	2.41	2.42	3.0	1.9
Switzerland	1.6	2.5	3.0	1.6	3.1	3.6	1.6
Russia	2.2	2.0	2.5	2.0	2.1	2.2	1.9
France	2.2	2.5	1.6	3.0	1.9	1.6	1.9
Others	30.0	29.3	26.9	26.6	28.3	26.2	27.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: The Bank of Albania

Italy, Albania's major trading partner, accounted for a market share of 52.0% of total exports in 2014, as compared to 46.3% in 2013. In 2014, exports to Italy increased in almost all commodity groups, with textile and footwear and minerals, fuels and electricity sectors continuing to comprise the largest components of the total.

Albania's second largest trading partner for exports in 2014 was Kosovo, which constituted 7.3% of total exports. In 2013, the weight of Albanian exports to Kosovo was 6.6%. Exports to Kosovo are mainly focused on minerals, fuels and electricity and construction materials and metals.

Exports to Spain in 2014 accounted for 6.5% of total exports, as compared to 9.8% in 2013. Exports to Spain were also dominated by minerals, fuels and electricity.

In 2014, Italy was Albania's largest trading partner in imports, followed by Greece, China and Turkey. Italy's market share in total imports has grown since 2010, reaching 29.8 % in 2014 from 28.2% in 2010. Conversely, Greece's market share of total imports decreased from 13.1 % in 2010 to 9.4 % in 2014.

Italy remained Albania's largest trading partner in the seven months ended 31 July 2015, accounting for a market share of 48.9% of total exports and 30.9% of total imports.

Remittances

Historically, remittances have contributed significantly to funding Albania's current account deficit. In recent years through 2013, however, the level of remittances deteriorated, due, in part, to economic hardship in Italy and Greece, where a large portion of Albanian migrants are located, as well as the overall effects of the global financial crisis. In addition, a large number of Albanians previously living in Greece have returned to Albania (133,544 in the period 2009 to 2013, according to a study by INSTAT and the International Organization for Migration ("**IOM**")), thus reducing the size of the remitting population outside Albania.

The following table sets forth details of Albania's remittances for the periods indicated.

Remittances

	For the year ended 31 December					For the six months ended 30 June	
	2010	**2011**	**2012**	**2013**	**2014**	**2014**	**2015**
Net remittances *(€ millions)*	689.8	664.5	675.3	543.8	591.9	255.7	303.4
Remittances/Trade deficit *(%)*	7.7	7.2	7.0	5.6	5.9	5.3	6.1

Despite the declining trend in net remittances since 2010, net remittances increased by 8.8% in 2014 to €591.9 million. This increase was primarily related to the clearance of arrears of electricity receipt payments, as well as other reforms to the electricity sector. Remittances accounted for 5.9% of nominal GDP in 2014. This increase continued in the six months ended 30 June 2015, with remittances increasing by 18.7%, as compared to the corresponding period of 2014, representing 6.1% of GDP.

PUBLIC DEBT

Public debt is comprised of central Government debt and Government guaranteed debt, both external and domestic, as well as local government domestic debt. It is the sum of (i) all financial liabilities created through borrowing by the central Government and local government (municipalities) and (ii) Government guaranteed debt. The distinction between external and domestic debt follows the creditor's residency criteria. External debt includes debt to external multilateral, external bilateral and external private creditors. Domestic debt includes debt owed to domestic creditors.

The following table sets out Albania's public debt broken down into domestic debt and external debt, both in millions of Lek and as a percentage of GDP, as at the dates indicated.

Total General Government Debt

	As at 31 December					As at 30 June
	2010	2011	2012	2013	2014	2015
			(ALL millions)			
Central Government debt(1)	**715,371**	**772,517**	**827,981**	**884,692**	**977,102**	**1,015,324**
Domestic debt	407,372	438,582	470,358	520,673	564,673	582,754
Securities	401,821	429,925	454,695	500,868	538,641	552,078
Loans(2)	5,551	8,657	15,663	19,918	26,033	30,676
Total domestic debt	**407,372**	**438,582**	**470,358**	**520,673**	**564,673**	**582,754**
Securities	41,631	41,679	41,877	42,060	42,042	42,087
Loans	266,368	292,256	315,745	321,846	370,387	390,483
Total external debt	**307,999**	**333,935**	**357,622**	**363,906**	**412,429**	**432,570**
Total central Government debt	**715,371**	**772,517**	**827,981**	**884,692**	**977,102**	**1,015,324**
Loans	147	218	288	391	855	942
Total local government debt	**147**	**218**	**288**	**391**	**855**	**942**
Total public debt	**715,518**	**772,735**	**828,269**	**885,083**	**977,957**	**1,016,267**
GDP	1,239,645	1,300.624	1.335,488	1,364,782	1,413,931	1,491,990(3)
			(% of GDP)			
Public debt	**57.7**	**59.4**	**62.0**	**64.8**	**69.2**	**68.1**
Central Government debt	**57.7**	**59.4**	**62.0**	**64.8**	**69.1**	**68.1**
Domestic debt	32.9	33.7	35.2	38.2	39.9	39.1
External debt	24.8	25.7	26.8	26.7	29.2	30.0
Local government debt	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**

Source: Ministry of Finance

Notes:

(1) Includes central Government and central Government guaranteed debt.
(2) Consists only of domestic guarantees.
(3) Estimated data.

In line with Albania's continuing expansionary fiscal policy, public debt increased to 69.2% of GDP as at 31 December 2014, as compared to 64.9% of GDP as at 31 December 2013. The increase in public debt as a percentage of GDP from 2013 to 2014 was partially due to the weakening of the Lek against other currencies comprising Albania's debt stock, as well as budgetary support of €218.7 million granted by the World Bank and the IMF for the repayment of arrears. See "—*Relationships with Multilateral Financial Institutions*".

In accordance with its new mid-term macroeconomic framework, the Government has stated an intention to reduce the debt to GDP ratio to below 60% by 2020. The Ministry of Finance has projected the debt to GDP ratio at the end of 2015 to be 71.6% as a result of financing the projected budget deficit, in which the repayment of the remaining arrears is included. As at 30 June 2015, public debt decreased to 68.1% of GDP (based on annualised estimated GDP figures).

Debt Management Policy

In 2015, the Assembly approved a new debt management law, which is in line with international best practice and was drafted in consultation with institutional partners, including the IMF. According to the Law "On State Loans, State Debt and State Loan Guarantees of the Republic of Albania", the main goal of Albania regarding its debt management is to "obtain the necessary loan funds, by assessing its risk and cost, from the mid-term and long-term point of view, as well as the market development of state securities, by increasing its instruments and enlarging the investor base." The

Ministry of Finance prepares the mid-term strategy for the evaluation and development of Albania's debt portfolio (the "**Debt Management Strategy**").

The focus of the Government's Debt Management Strategy relates to state debt and guaranteed debt (*i.e.,* borrowings of State Owned Entities ("**SOEs**")). The terms and conditions of this direct and contingent debt are decided by the Minister of Finance after receiving proposals from the Public Management Directorate. The Debt Management Strategy generally focuses on public sector debt, with the exception of a minor part of domestic SOEs debt, since SOEs usually borrow externally with the benefit of government guarantees, although the Government has also issued guarantees for domestic SOE borrowing.

Albania has historically relied on domestic and foreign non-commercial borrowing (from multilateral financial institutions) as its main sources of funding. Since 2008, external commercial borrowing, including international bank debt, has provided an important complementary source of funding for the Government and, as at 31 December 2014, external commercial borrowing constituted 50% of external debt stock. The Ministry of Finance is responsible for the Government's foreign borrowing. In 2008, Albania borrowed €230 million in a 15-year syndicated loan from Greece's Alpha Bank and National Bank of Greece, which bears interest at a rate of 3 month EURIBOR, plus 125 basis points. In 2010, Albania issued its debut Eurobond in a principal amount of €300 million, with a 7.5% coupon, which was repaid in full in accordance with its terms on 4 November 2015.

The majority of Albania's external debt is directly or indirectly (*i.e.*, through special drawing rights ("**SDRs**")) denominated in Euros, and one of the goals of the Debt Management Strategy is to orientate Albania's borrowing primarily towards Euro-denominated borrowings, where possible, in compliance with Albania's objective of accession to the EU. Another key component of the Debt Management Strategy is to extend the overall maturity of the debt portfolio.

In each annual budget, the Assembly sets a net borrowing limit for the relevant year. The net borrowing limit for 2015 as set out in the 2015 budget is ALL 56.7 billion, as compared to ALL 69.9 billion of actual borrowing in 2014, ALL 55.8 billion of actual borrowing in 2013 and ALL 46.4 billion of actual borrowing in 2012. With the Assembly's approval, the Ministry of Finance may exceed the borrowing limit if the limit is breached due to currency exchange rate fluctuations. In addition, the Assembly may authorise the Government to exceed the borrowing limits in case of emergencies.

Domestic Debt

Domestic debt includes debt owed to domestic creditors. It is comprised of: (i) central Government securities issued to finance the budget deficit; and (ii) central Government guarantees issued to domestic creditors for loans extended to SOEs (at present, one energy sector company).

As at 30 June 2015, domestic debt was ALL 582.8 billion (representing 57.3% of total public debt), as compared to ALL 564.7 billion as at 31 December 2014 and ALL 521.8 billion as at 31 December 2013. The increase in domestic debt since 31 December 2013 is due to increases in both treasury bills and bonds issued, as well as an increase in guarantees provided for domestic loans.

Treasury bills and bonds are issued through public auctions and purchased principally by Albanian banks. Treasury bills are short-term instruments, with maturities of up to one year, while treasury bonds are long-term instruments, with maturities of more than one year.

The coverage ratios for auctions between January 2015 and June 2015 ranged from a low of 0.9% in January 2015 to a high of 1.7% in April 2015. The coverage ratios for auctions between January 2013 and December 2014 ranged from a low of 0.8% in November 2014 to a high of 2.0% in September 2013.

Market conditions constrained domestic borrowing during 2014 and the six months ended 30 June 2015. Investors, primarily in the banking sector, have been less active than in 2013. In particular, investors' willingness for exposure to long-term instruments has decreased, primarily due to compliance constraints related to new liquidity ratios, as well as capital burdens and risk weighting on sovereign risk exposures in accordance with the implementation of Basel III in certain jurisdictions and ECB regulation for foreign banks operating in Albania. The overall picture for the period from 2010 to 30 June 2015, reflects that the amount offered by the Ministry of Finance in the domestic market through auctions was less than the amount requested by the market.

The following table sets forth details of the instruments offered by the Ministry of Finance through actions in the periods indicated.

Instruments Offered through Auctions

	For the year ended 31 December					For the six months ended 30 June	
	2010	**2011**	**2012**	**2013**	**2014**	**2014**	**2015**
			(ALL millions)				
Offered by Ministry of Finance	419.577	414.838	423.618	466.433	476.144	238.600	258.800
Requested	528.843	474.380	495.325	615.534	506.300	277.175	294.764
Difference	109.266	59.542	71.707	149.102	30.156	38.575	35.964
Bid/Cover	1.26	1.14	1.17	1.32	1.06	1.16	1.14

Source: Ministry of Finance

As at 30 June 2015, 46.2% of Albania's domestic debt was comprised of short-term treasury bills, although the Government began issuing domestic bonds (with maturities of more than one year) in 2002 and the volume of bonds issued and their maturity have both followed an increasing trend. Treasury bonds, as a percentage of total domestic debt, increased from 42.4% in 2010 to 53.8% in June 2015, with maturities ranging from two to ten years. The majority of treasury bonds have maturities of between two and five years. Treasury bonds with maturities of more than five years are issued with both fixed and floating interest rates, with interest rates on floating rate bonds linked to the one-year treasury bill yield. Ten-year bonds were first issued in 2013, and their share of total domestic debt has increased from 1.7% of Albania's domestic debt as at 31 December 2013 to 4.9% as at 30 June 2015.

As at 30 June 2015, the weighted average maturity of Albania's domestic debt was 673 days, as compared to 630 days as at 31 December 2014 and 559 days as at 31 December 2013.

The following table sets forth a breakdown of Albania's domestic debt, by maturity, as at the dates indicated.

Domestic Debt

	As at 31 December					As at 30 June
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
			(ALL millions)			
Central government debt	**401,821**	**429,924**	**454,695**	**500,868**	**538,641**	**552,078**
Short-term debt	231,436	241,385	250,352	245,782	260,599	254,850
Long-term debt	170,385	188,539	204,343	255,086	278,042	297,228
Central government guaranteed debt	**5,551**	**8,657**	**15,663**	**19,918**	**26,033**	**30,676**
Total domestic debt	**407,372**	**438,582**	**470,358**	**520,786**	**564,673**	**582,754**

Source: Ministry of Finance

The table below sets forth the composition of central Government domestic debt, by instrument, as at the dates indicated.

Central Government Domestic Debt by Instrument Type

	As at 31 December										As at 30 June	
	2010		2011		2012		2013		2014		2015	
	(ALL millions)	*(% of total)*	*(ALL millions)*	*(% of total)*	*(ALL millions)*	*(% of total)*	*(ALL millions)*	*(% of total)*	*(ALL millions)*	*(% of total)*	*(ALL millions)*	*(% of total)*
3M Bills	11,495	2.9	11,579	2.7	6,998	1.5	7,959	1.6	19,697	3.7	13,682	2.5
6M Bills	44,188	11.0	42,914	10.0	39,129	8.6	39,242	7.8	35,831	6.7	36,993	6.7
9M Bills	3,317	0.8	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
12M Bills	172,436	42.9	186,892	43.5	204,225	44.9	198,581	39.6	205,071	38.1	204,175	37
Total short-term debt	**231,436**	**57.6**	**241,385**	**56.1**	**250,352**	**55.1**	**245,782**	**49.1**	**260,599**	**48.4**	**254,850**	**46.2**
2Y Bonds	70,957	17.7	75,141	17.5	76,742	16.9	81,731	16.3	85,358	15.8	88,028	15.9
3Y Bonds	15,613	3.9	19,387	4.5	22,625	5.0	32,655	6.5	34,278	6.4	37,272	6.8
5Y Bonds	71,815	17.9	82,012	19.1	87,994	19.4	93,910	18.7	93,760	17.4	93,891	17.0
7Y Bonds	12,000	3.0	12,000	2.8	16,982	3.7	38,517	7.7	43,544	8.1	50,827	9.2
10Y Bonds	—	—	—	—	—	—	8,274	1.7	21,102	3.9	27,210	4.9
Total long-term debt	**170,385**	**42.4**	**188,539**	**43.9**	**204,343**	**44.9**	**255,086**	**50.9**	**278,042**	**51.6**	**297,228**	**53.8**
Total domestic debt	**401,821**	**100.0**	**429,924**	**100.0**	**454,695**	**100.0**	**500,868**	**100.0**	**538,641**	**100.0**	**552,078**	**100.0**

Source: Ministry of Finance

The following table sets forth the weighted average original yield (at issuance) of Lek-denominated Government securities as at the dates indicated.

Weighted Average Yield at Issuance of Lek-Denominated Government Securities

	As at 31 December					As at 30 June
	2010	2011	2012	2013	2014	2015
				(%)		
Treasury Bills	**7.30**	**6.88**	**6.61**	**5.21**	**3.36**	**3.29**
3 months	5.81	5.47	5.17	4.25	3.10	2.68
6 months	7.13	6.60	6.16	5.19	3.32	3.18
9 months	—	—	—	6.36	3.79	—
12 months	8.03	7.36	7.03	5.35	3.45	3.49
Bonds	**8.94**	**8.48**	**8.88**	**7.27**	**6.20**	**5.96**
2 years	8.59	8.25	8.40	6.21	4.71	4.91
3 years	9.49	9.04	8.96	7.59	5.77	5.74
5 years	9.56	8.84	9.25	7.48	6.31	6.42
7 years	—	—	10.61	8.18	7.48	7.45
10 years	—	—	—	8.65	8.74	8.54

Source: Ministry of Finance

External Debt

As at 30 June 2015, Albania's external debt was €3,083 million (representing 42.6% of total public debt), as compared €2,943 million as at 31 December 2014 and €2,596 million as at 31 December 2013. The increase in external debt since 31 December 2013 was primarily due to increased amounts of loans entered into with bilateral and multilateral creditors, with external debt due to bilateral creditors increasing from ALL 78.4 billion as at 31 December 2013 to ALL 90.2 billion as at 30 June 2015, and external debt due to multilateral creditors increasing from ALL 204.1 billion as at December 2013 to ALL 269.0 billion as at 30 June 2015. The €300 million Eurobond issued by the Government in November 2010 is included in the external debt tables presented below. This Eurobond was repaid in full in accordance with its terms on 4 November 2015. See "*—Debt Management Policy*". External borrowings are used for project financing and budget support. Project financing covers projects in different economic sectors, such as transport, energy, water supply and health care. The proceeds of budget support loans are used to finance the budget deficit and are not linked to a specific project.

On 15 June 2015, the Government entered into a €250 million loan with Deutsche Bank, with benefits from a World Bank PBG. This loan was ratified by the Assembly and disbursed in July 2015. See "*—Relationships with Multilateral Financial Institutions—World Bank*".

The majority of Albania's external debt, 53.9% as at 30 June 2015, is denominated in Euros. A substantial portion consists of loans from the International Development Association (the "**IDA**"), an agency of the World Bank, which are denominated in SDRs. Overall, 28.7% of Albania's total external debt as at 30 June 2015 was denominated in SDRs. Most of the remaining external debt (10.4%) is denominated in U.S. Dollars.

The following table sets forth Albania's total external debt, by currency, as at the dates indicated.

Denomination of External Debt by Currency

	As at 31 December										**As at 30 June**	
	2010		**2011**		**2012**		**2013**		**2014**		**2015**	
	(€ millions)	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*
ACU......	66	3.0	70	2.9	71	2.8	70	2.7	73	2.5	76	2.5
AED......	—	—	—	—	13	0.5	33	1.3	42	1.4	45	1.5
EUR.......	1,266	57.0	1,391	57.9	1,469	57.4	1,495	57.6	1,680	57.1	1,661	53.9
JPY.........	49	2.2	51	2.1	43	1.7	32	1.2	46	1.6	51	1.6
KWD......	27	1.2	26	1.1	27	1.0	27	1.0	29	1.0	29	0.9
KRW......	19	0.9	19	0.8	21	0.8	20	0.8	22	0.8	23	0.7
SAR........	—	—	1	0.0	2	0.1	2	0.1	6	0.2	7	0.2
SDR........	667	30.0	694	28.9	694	27.1	664	25.6	758	25.8	884	28.7
USD.......	126	5.7	152	6.3	222	8.7	252	9.7	287	9.8	308	10
Total......	**2,219**	**100.0**	**2,404**	**100.0**	**2,562**	**100.0**	**2,596**	**100.0**	**2,943**	**100.0**	**3,083**	**100.0**

Source: Ministry of Finance

Over 54.5% of Albania's external debt is on concessional terms, including low rates (from 0-3%) and long maturity terms (over 20 years on average), as it was obtained from international financial institutions for development support. Albania's rescheduled debt, which was originally incurred prior to 1992 by previous Communist Governments and has since been rescheduled, is also entirely on concessional terms. The level of Albania's concessional external debt, however, has reduced as Albania's economy has developed. Since July 2010, the World Bank has classified Albania as an upper middle income country, reducing its ability to obtain concessionary funding from the World Bank and the IMF. This change, together with an increase in commercial foreign borrowing in recent years with a floating rate interest rate, has contributed to an increase in indicated floating rate debt, as a percentage of total external debt.

The following table sets forth Albania's total external debt, by creditor, as at the dates indicated.

External Debt by Creditor

	As at 31 December					As at 30 June
	2010	2011	2012	2013	2014	2015
			(ALL millions)			
Multilateral	**158,202**	**178,864**	**198,217**	**204,083**	**249,163**	**269,008**
CEB	10,570	13,971	15,109	15,323	14,964	14,876
EBRD	13,691	16,388	19,276	18,655	19,720	18,643
EC	1,249	1,250	1,256	1,262	1,261	1,263
EIB	24,352	27,361	30,431	32,765	33,036	31,903
IBRD	2,664	5,436	6,298	6,820	31,393	32,134
IDA	88,372	92,065	92,517	88,721	93,723	97,520
IDB	9,164	13,454	23,570	29,910	35,376	38,526
IFAD	4,119	4,292	4,354	4,377	4,664	4,870
OPEC	4,020	4,647	5,405	6,251	7,166	7,584
IMF	—	—	—	—	7,861	21,688
Bilateral	**64,699**	**70,400**	**75,196**	**78,355**	**86,319**	**90,159**
Germany	20,509	22,069	22,457	23,112	25,015	26,579
Greece	1,726	1,692	1,665	1,638	1,602	1,586
Austria	1,039	1,923	3,393	4,583	6,247	6,793
Italy	25,209	28,479	30,587	30,901	31,079	31,460
Japan	6,798	7,112	6,016	4,524	6,449	7,092
China	193	200	197	189	214	233
Kuwait	3,712	3,638	3,720	3,772	4,000	4,040
Norway	385	133	—	—	—	—
Netherlands	1,470	1,353	1,181	1,004	821	730
Spain	968	1,000	986	948	1,072	1,168
South Korea	2,689	2,686	2,885	2,796	3,054	3,169
Abu Dhabi Fund	—	—	1,836	4,621	5,903	6,329
Saudi Arabia	—	115	274	266	863	979
Private Creditors	**73,548**	**73,633**	**73,983**	**74,306**	**71,051**	**67,900**
Private Creditors	31,917	31,954	32,106	32,246	29,009	25,813
Eurobond	41,631	41,679	41,877	42,060	42,042	42,087
Rescheduled Debt	**11,550**	**11,038**	**10,225**	**7,161**	**5,896**	**5,502**
Paris Club	3,688	3,647	3,404	3,070	3,171	3,272
Germany	—	—	—	—	—	-
Italy	334	315	289	258	242	235
Russia	3,354	3,332	3,116	2,811	2,929	3,037
Others	7,862	7,391	6,821	4,092	2,724	2,230
Turkey	1,251	1,057	810	557	378	275
Greece	3,568	3,090	2,448	1,865	1,641	1,533
China	1,717	1,420	1,047	672	380	208
Hungary	442	304	300	—	—	—
Germany	—	—	—	—	—	—
Romania	253	204	143	83	31	—
Slovak Republic	211	164	107	52	—	—
Montenegro	—	—	28	—	—	—
Croatia	—	—	436	140	—	—
Republic of Macedonia	—	—	190	61	—	—
Czech Republic	421	326	215	103	—	—
Slovenia	—	—	204	—	—	—
Bosnia-Herzegovina	—	—	261	125	—	—
Serbia	—	825	632	434	295	214
Total	**307,999**	**333,935**	**357,621**	**363,906**	**412,429**	**432,570**

Source: Ministry of Finance

Notes:

(1) Includes Central Government external debt and Central Government external guaranteed debt.

(2) See "—*Relationships with Multilateral Financial Institutions*".

The following table sets forth Albania's external debt, by category of creditor and maturity, as at the dates indicated.

External Debt by Category of Creditor and Maturity Profiles[1]

	As at 31 December										As at 30 June	
	2010		**2011**		**2012**		**2013**		**2014**		**2015**	
	(ALL millions)	*(%)*	*(ALL millions)*	*(%)*	*(ALL millions)*	*(%)*	*(ALL millions)*	*(%)*	*(ALL millions)*	*(%)*	*(ALL millions)*	*(%)*
Long-term Debt.................	307,999	100.0	333,935	100.0	357,623	100.0	363,906	100.0	412,429	100.0	432,570	100.0
Multilateral......	*158,202*	*51.4*	*178,864*	*53.6*	*198,217*	*55.4*	*204,083*	*56.1*	*249,163*	*60.4*	*269,008*	*62.2*
Bilateral...........	*64,699*	*21.0*	*70,400*	*21.1*	*75,197*	*21.0*	*78,355*	*21.5*	*86,319*	*20.9*	*90,159*	*20.8*
Private Creditors..........	*73,548*	*23.9*	*73,633*	*22.1*	*73,983*	*20.7*	*74,306*	*20.4*	*71,051*	*17.2*	*67,900*	*15.7*
Rescheduled.....	*11,550*	*3.8*	*11,038*	*3.3*	*10,226*	*2.9*	*7,161*	*2.0*	*5,896*	*1.4*	*5,502*	*1.3*
Short-term........	—	—	—	—	—	—	—	—	—	—	—	—
Total	**307,999**	**100.0**	**333,935**	**100.0**	**357,623**	**100.0**	**363,906**	**100.0**	**412,429**	**100.0**	**432,570**	**100.0**

Source: Ministry of Finance

Note:

(1) All rescheduled debt was originally incurred before 1992 by previous Communist governments.

Debt Service

The following table sets forth Albania's historical public debt service as at the dates and for the periods indicated.

Historical Public Debt Service

	As at 31 December					As at 30 June
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
	(ALL millions, except %)					
Interest payments	41,604	41,121	41,497	43,335	39,937	17,184
Domestic	35,583	34,253	34,005	35,890	31,696	14,141
Foreign	6,021	6,868	7,492	7,445	8,241	3,043
Interest payments/GDP (%)...................	3.36	3.16	3.11	3.18	2.82	1.15
Total debt service/GDP (%)................	**3.88**	**3.75**	**3.91**	**4.11**	**4.09**	**1.91**

Source: Ministry of Finance

The following table sets forth external debt service projections for Albania's public debt, by type of debt, for the years indicated. The projections are based on Albania's existing debt stock as at 30 June 2015 and without taking into account the issuance of the Notes.

External Debt Service Projections for Public Debt by Type of Debt

	2015[1]	2016	2017	2018	2019	2020	2021-2050	Total Payments
				(ALL millions)				
Principal	**50,728**	**22,728**	**24,805**	**27,164**	**28,316**	**28,133**	**250,695**	**432,570**
Guaranteed	1,493	2,987	3,204	4,439	2,615	1,756	10,704	27,200
Floating rate	*803*	*1,606*	*1,606*	*1,606*	*1,018*	*159*	*79*	*6,878*
Fixed rate	*690*	*1,381*	*1,598*	*2,833*	*1,598*	*1,598*	*10,625*	*20,322*
Government debt	49,235	*19,741*	21,601	22,725	25,701	26,377	239,991	405,370
Floating rate	*3,300*	*11,345*	*11,959*	*12,449*	*15,023*	*15,499*	*136,780*	*206,355*
Fixed rate	*45,935*	*8,396*	*9,642*	*10,275*	*10,678*	*10,878*	*103,211*	*199,015*
Interest	**7,729**	*3,867*	**3,227**	**3,062**	**2,768**	**2,576**	**17,349**	**40,629**
Guaranteed	395	*547*	446	378	298	238	585	2,886
Floating rate	*71*	*60*	*27*	*16*	*6*	—	—	*179*
Fixed rate	*324*	*487*	*420*	*362*	*292*	*238*	*585*	*2,707*
Government debt	7,334	*3,320*	2,831	2,684	2,470	2,338	16,764	37,743
Floating rate	*3,203*	*2,044*	*1,677*	*1,648*	*1,537*	*1,493*	*13,272*	*24,875*
Fixed rate	*4,131*	*1,276*	*1,154*	*1,036*	*994*	*845*	*3,492*	*12,868*
Total	**58,457**	**26,595**	**28,082**	**30,226**	**31,084**	**30,709**	**268,045**	**473,198**

Source: Ministry of Finance

Note:

(1) July to December 2015.

The higher external debt service payments on Government debt in 2015 reflected the scheduled repayment of Albania's €300 million Eurobond in November 2015, which amounted to approximately ALL 42.1 billion of the total principal amount (based on the exchange rate in place as at 30 June 2015). The Eurobond was repaid in full in accordance with its terms on 4 November 2015.

The following table sets forth central Government domestic debt service projections for Albania's public debt, by type of debt, for the years indicated, based on Albania's existing debt stock as at 30 June 2015.

Central Government Domestic Debt Service Projections for Public Debt by Type of Debt

	2015[1]	2016	2017	2018	2019	2020	2021-2025	Total
				(ALL millions)				
Principal payments	**167,722**	**194,274**	**57,339**	**34,566**	**19,238**	**27,666**	**51,521**	**552,324**
Loans	—	—	—	—	—	—	—	—
Securities	167,722	194,274	57,339	34,566	19,238	27,666	51,521	552,324
Interest payments	**13,056**	**20,144**	**11,854**	**9,086**	**7,171**	**5,582**	**10,596**	**77,489**
Loans	—	—	—	—	—	—	—	—
Securities	13,056	20,144	11,854	9,086	7,171	5,582	10,596	77,489
Total	**180,778**	**214,418**	**69,193**	**43,652**	**26,409**	**33,248**	**62,117**	**629,814**
Loans	—	—	—	—	—	—	—	—
Securities	180,778	214,418	69,193	43,652	26,409	33,248	62,117	629,814

Source: Ministry of Finance

Note:

(1) July to December 2015.

Contingent Liabilities

The following table sets forth the contingent liabilities that arise from guarantees given by Albania as at the dates indicated.

Contingent Liabilities Arising from Guarantees

	As at 31 December					As at 30 June
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
			(ALL millions)			
Publicly guaranteed debt....................................	45,426	48,316	53,453	51,324	54,540	57,952
Domestic guarantees	*5,551*	*8,657*	*15,663*	*19,918*	*26,033*	*30,676*
External guarantees	*39,875*	*39,659*	*37,790*	*31,406*	*28,507*	27,276

Source: Ministry of Finance

As at the date of this Prospectus, domestic guarantees are provided in respect of one public energy sector company. The share of such domestic guarantees, as a percentage of total guaranteed debt, increased from 12.2% in 2010, to 52.9% as at 30 June 2015, reflecting the Government's support to the energy sector. External guarantees issued cover different economic sectors, such as energy, water supply and railway, and have fluctuated since 2010 in line with the needs of such sectors.

Defaults

Albania has not defaulted or delayed interest payments on any of its indebtedness since 1991. Albania has certain indebtedness that was originally incurred before 1992 by previous Communist governments and which has been rescheduled on concessional terms.

Credit Ratings

Albania's long-term foreign currency is rated B1 (outlook stable) by Moody's and B (outlook positive) by S&P. In October 2014, S&P raised the outlook on Albania's credit rating from stable to positive, recognising Albania's progress on fiscal consolidation and as a result of the programme entered into with the IMF. See "*—Relationships with Multilateral Financial Institutions—IMF*".

Relationships with Multilateral Financial Institutions

Albania has entered into a number of loans with, and benefits from a number of grants from, multiple multilateral financial institutions. See *"—External Debt."*

European Bank for Reconstruction and Development

The EBRD is one of the largest institutional investors in Albania. Albania has been a member of the EBRD since 18 December 1991, owning 0.1% of the EBRD's shares. The EBRD has supported Albania's transition to a market economy through the financing of various projects in different economic sectors, with an emphasis on infrastructure projects. Since the beginning of its operations in Albania, the EBRD has committed €917 million to 69 projects in infrastructure, corporate, energy and financial sectors, with 51.0% in the private sector. These investments have been augmented by additional public and private contributions from a number of financing sources, with approximately €2.5 billion of finance linked to EBRD projects.

On 16 July 2014, the EBRD granted the Albanian Deposit Insurance Agency ("**ADIA**") a €100 million standby credit line, fully guaranteed by the Government. The standby credit line is tailored to the needs of ADIA and is designed to be available in the event of a bank failure, to prevent an isolated bank failure causing systemic issues. It is designed to enable ADIA to improve its deposit coverage ratio, while it gradually builds up its own funds, providing better protection for depositors and improved confidence in the financial system as a whole.

In April 2015, the EBRD's Investment Climate and Governance Initiative ("**ICGI**") worked with the Government to launch Albania's Investment Council, an institution with the goal of enhancing public-private dialogue and spurring concrete action to strengthen the business climate in Albania. See "*The Albanian Economy—Economic Programme and Recent Reforms*."

International Monetary Fund

Albania joined the IMF on 15 October 1991. Its quota during 2015 is SDR 60.0 million, with 1,337 votes or 0.05% of the total votes of all IMF members. A member country's quota determines its maximum financial commitment to the IMF, its voting power and has a bearing on its access to IMF financing. The IMF's Executive Board has 24 board members representing all 188 countries. Large economies have their own seat at the table, but most countries are grouped in constituencies representing four or more countries. Albania is in the same constituency as Italy, Greece, Portugal, Malta, San Marino and East Timor.

In February 2014, the IMF approved a 36-month, SDR 295.42 million (approximately €330.9 million) arrangement under the EFF for Albania in support of the Government's reform programme. The conditions under the EFF arrangement include the implementation of Government objectives regarding economic growth, fiscal performance, inflation expectations, pension reforms, arrears clearance and prevention reforms, NPLs reduction and improved financial sector supervision. Under the programme, the floor on net international reserves ("**NIR**") is set at three months of import cover, based on reserve adequacy needs, and there is no reserve money targeting. In June 2014, the IMF Executive Board completed the first review of Albania's performance under the EFF and reaffirmed Albania's qualification to access EFF resources. The second and third reviews were completed in February 2015, as a result of which Albania's continued qualification to access EFF resources was again affirmed and the IMF noted that Albania's recovery was on track. In May 2015, the Executive Board completed the fourth review of Albania's EFF and approved a further SDR 28.88 million disbursement, bringing the total disbursements under the EFF arrangement to SDR 123.1 million. The IMF confirmed that all end-December 2014 and continuous performance criteria had been met with comfortable margins and all but one structural benchmark had been implemented.

Albania is subject to routine visits by the IMF to monitor its progress under the EFF arrangement. The most recent IMF mission was completed on 30 June 2015. In a press release dated 30 June 2015, the leader of the mission, Mr. Nadeem Ihali, noted that "*Albania's economic program[me] continues to make progress...Growth will be driven by a sustained recovery in domestic demand, continued [f]oreign [d]irect [i]nvestment, and a gradual pickup in banking lending.*" The IMF further noted its expectation that spillover risks from the Greek crisis would be low, noting the liquid and well-capitalised nature of the Albanian banking sector and the decline in importance of remittances. The press release also stated that "*Monetary policy should continue to be supportive of economic recovery, consistent with the Bank of Albania's mandate of maintaining price stability*", commenting that credit growth is recovering but remained low due to high NPLs and weaknesses in contract enforcement. The IMF noted the Government's and the Bank of Albania's efforts to develop a strategy to address NPLs and the successful implementation of power sector reform.

World Bank

The World Bank began work with Albania in 1991. It has supported a number of projects aimed at delivering an immediate alleviation of poverty and at providing sustainable tools and long-lasting development to foster further growth. During its period of engagement with Albania, the World Bank has provided more than U.S.$1.8 billion in assistance through commitments from the IDA, the IBRD, the International Finance Corporation ("**IFC**") and the Multilateral Investment Guarantee Agency ("**MIGA**"). The current portfolio consists of six projects totalling U.S.$286.5 million in IDA credits and IBRD loans, and about U.S.$25 million in trust funds. The World Bank currently supports eight projects in Albania with a commitment of U.S.$512 million, while IFC has a committed portfolio of U.S.$136 million.

The Government has embarked on structural reforms (in energy and pensions) to enhance growth and improve public finance management, including implementing an arrears clearance and prevention strategy. The World Bank is supporting the Government's programme for strengthening the financial sector and reducing key vulnerabilities. A new power sector recovery project was launched in late 2014 in partnership with the World Bank, which aims to support further improvements in the distribution sector, financing key investment that will advance security of supply and further reform to move the sector on the path towards financial self-sufficiency.

In May 2014, Albania and the World Bank entered into two loan agreements for an aggregate amount of U.S.$220 million to enable the final settlement of arrears without impacting public spending.

Under the 2011-2014 joint World Bank-IFC Country Partnership Strategy, the World Bank allocated U.S.$574.6 million to support Albania in recovering economic growth, sustaining and broadening social gains and reducing vulnerability to climate change. The World Bank Group has stated its intention to support, build on and deepen assistance in areas of long-term engagement in Albania. On 21 May 2015, the World Bank endorsed the 2015-2019 Country Partnership Framework (the "**CPF**") for Albania, which proposed a lending programme of up to U.S.$1.2 billion over a five-year period aimed at supporting Albania's aspirations to achieve equitable growth and integration into the EU. The CPF supports three focus areas: (i) promoting fiscal sustainability and financial stability, in order to support measures for improved fiscal consolidation, strengthened public investment management in the transport sector and improved overall financial stability; (ii) stimulating private sector growth, pursuant to which the World Bank intends to provide support to increase competitiveness and job creation and reduce bottlenecks in the business environment and infrastructure gaps; and (iii) strengthening public sector management and service delivery, in order to build citizens' trust in Government, strengthen service provision and improve service delivery and access to basic services. The themes of gender integration and the EU accession process as a long-term policy anchor cut across the entire strategy of the CPF.

On 15 June 2015, Albania entered into a loan with Deutsche Bank, which benefits from a PBG extended by the World Bank. The PBG was offered to further support the fiscal and budgetary reforms being implemented by the Government. The loan is for a principal amount of €250 million, €200 million of which benefits from the PBG. The loan is for a tenor of ten years and has a fixed spread equivalent to 1.3% over the benchmark rate (weighted average of EUR five year and ten year SAP rates) and a commitment charge of 1.25% of the total amount. The loan provides budgetary support for 2015 and is expected to increase the participation of secondary-level banks in the domestic market. The loan was ratified by the Assembly on 2 July 2015 and funds were disbursed under the loan on 31 July 2015.

The Council of Europe Development Bank

The Council of Europe Development Bank (the "**CEB**") represents a major instrument of the policy of solidarity for its 41 member states, using its resources in the financing of social projects in order to help member states achieve sustainable and equitable growth. Albania has been a member of CEB since 24 April 1999. The CEB has financed 11 projects in Albania, with a total amount of more than €135.6 million. These projects are mainly focused in the healthcare, education and infrastructure sectors.

The Islamic Development Bank

The Islamic Development Bank (the "**IDB**") is an international financial institution, which aims to foster the economic development and social progress of member countries and Muslim communities. Albania joined the IDB in 1993 and owns 0.02% of the IDB's total capital. The IDB has financed projects in Albania primarily in the infrastructure, agriculture and health care sectors, with a total amount of more than 366.8 million Islamic Dinar loans approved.

The OPEC Fund for International Development

The OPEC Fund for International Development (the "**OFID**") is a development finance institution that aims to promote cooperation between member states of Organisation of Petroleum Exporting Countries ("**OPEC**") and other developing countries. Co-operation with Albania began in 1992, with the OFID providing financial support to infrastructure projects in the agriculture, education, health care, transportation and water supply sectors, as well as providing direct support to private sector initiatives. The OFID has provided financing in Albania in an aggregate amount of U.S.$96.24 million.

European Union

The EU has provided Albania with financial assistance through a range of programmes, notably the Country Action Programme for Albania for 2014. The EU has allocated Albania funding of €649.4 million for 2014 – 2020. See "*The Republic of Albania—International Relations—European Union.*"

In addition, in July 2015, Albania and Germany signed six new financial agreements amounting to an aggregate of €107.5 million, with the aim of further developing the energy and water supply sectors and to provide support for farmers and small enterprises.

European Investment Bank

Since 2000, the EIB has signed over €359 million worth of loans in support of the Albanian economy, in particular, supporting infrastructure projects, such as the construction of the national road network and port infrastructure. See "*The Albanian Economy—Principal Sectors of the Economy—Transport and Infrastructure*". In 2012 and 2014, the EIB concluded two loan agreements with Albania in amounts of €35 million and €18 million, respectively, to finance road infrastructure costs in Albania. Such strategic projects aim to improve Albania's integration and connections to the rest of the region and Europe.

MONETARY AND FINANCIAL SYSTEM

The Bank of Albania

The Bank of Albania, which was founded in 1925, is the central bank of Albania. Its operations are governed by Law № 8269 of 23 December 1997 "On the Bank of Albania" (the "**Bank of Albania Law**"), which outlines the Bank of Albania's powers and responsibilities. The Bank of Albania is the issuer of all Albanian currency and banknotes. It is responsible for formulating and implementing Albania's monetary policy, maintaining price stability, implementing foreign exchange and exchange rate policy, managing foreign reserves and regulating and supervising the banking sector. As the regulator of the banking sector, the Bank of Albania has the power to grant and revoke banking licences, and it supervises banking activity to safeguard the stability of the banking sector. In addition, the Bank of Albania acts as banker, advisor to and fiscal agent of the Government, while also promoting the normal functioning of payment systems.

The Bank of Albania is accountable to the Assembly, and its paid-up capital is owned exclusively by the State. The Bank of Albania is governed by the Supervisory Council, which consists of the governor, two deputy governors and six other members. The governor is appointed by the Assembly and the two deputy governors are appointed by the Supervisory Council. In September 2014, the then governor and the internal auditor of the Bank of Albania were removed from office by the Assembly, upon the request of the Supervisory Council of the Bank of Albania, on charges of dereliction of duty relating to a vault theft in which a mid-level employee of the Bank of Albania is alleged to have stolen U.S.$6.6 million over a four year period. In February 2015, the Assembly appointed Mr. Gent Sejko as the new governor of the Bank of Albania.

In July 2007, the Bank of Albania signed a Memorandum of Understanding with the central banks of neighbouring nations. Comprised of the supervisory bodies of Macedonia, Greece, Bulgaria, Cyprus, Romania, Serbia, Bosnia and Herzegovina, Republic of Srpska and Montenegro, as well as Albania, the co-operative endeavour seeks to facilitate the exchange of information, views and assessments among banking supervisors and to promote a better understanding of each others' methods and approaches with the aim of encouraging the convergence of supervisory practices.

The Bank of Albania is engaged in a medium-term project to amend the Law on the Bank of Albania to align it more fully with the European System of Central Banks. In addition, an Audit Committee has been established to assist the Supervisory Council of the Bank of Albania in fulfilling its oversight responsibilities in respect of the financial reporting process, the system of internal control, the audit process and the process for monitoring compliance with laws, regulations and code of conduct.

The following table sets forth the sectoral balance sheet of the Bank of Albania as at the dates indicated.

Balance Sheet of the Bank of Albania

	As at 31 December					As at 31 July
	2010	2011	2012	2013	2014	2015
	(ALL millions)					
Total Assets	**368,031.5**	**384,581.3**	**394,833.6**	**398,813.6**	**433,878.0**	**520,926.2**
Monetary gold and SDR holdings	8,126.9	8,226.5	17,703.3	16,701.5	19,299.7	32,917.3
Foreign currency	647.0	59.8	67.5	57.3	56.2	33.9
Deposits	41,705.7	40,286.0	30,517.5	23,892.8	32,524.0	77,067.3
Securities other than shares	280,300.9	284,209.6	294,007.2	308,387.0	320,744.6	323,242.9
Loans	14,302.2	27,388.1	23,706.8	23,333.2	27,286.3	38,941.8
Financial derivatives	81.4	35.3	14.2	31.5	17.4	31.5
Receivable accounts	10,748.3	11,295.9	14,129.2	11,994.1	18,197.8	33,202.7
Non-financial assets	12,119.1	13,080.0	14,688.0	14,416.4	15,752.1	15,488.79
Total Liabilities	**368,031.5**	**384,581.3**	**394,833.6**	**398,813.6**	**433,878.0**	**520,926.2**
Currency in circulation	202,386.7	202,906.6	200,898.7	207,792.7	226,434.1	239,515.6
Deposits included in broad money	256.8	102.8	187.3	249.7	154.2	567.6
Deposits excluded from broad money	98,841.8	108,016.5	120,691.0	132,764.9	140,569.3	205,767.9
Loans	5,920.6	4,852.0	3,870.7	2,919.3	2,294.2	2,022.5
Other accounts payable	939.4	1,064.3	1,680.5	1,828.3	889.8	350.4
SDR allocation	7,439.5	7,647.1	7,557.9	7,287.5	7,753.2	8,258.5
Shares and other equity	52,246.7	59,992.0	59,947.5	45,971.3	55,783.2	64,443.8

Source: The Bank of Albania

The Ministry of Finance maintains a deposit account denominated in Lek with the Bank of Albania of approximately ALL 7 billion (based on the three month average balance between July and September 2015), according to account information provided by the Bank of Albania to the Ministry of Finance's Treasury Office.

Monetary Policy

Pursuant to Article 3, paragraph 4a1 of the Bank of Albania Law, the Bank of Albania's duty is "*to independently formulate, adopt and implement the monetary policy of Albania, consistent with its main objective*". The Bank of Albania is independent in setting targets for its monetary policy, as well as the operational instruments to achieve it.

The primary objective of the Bank of Albania is to achieve and maintain price stability. In accordance with its obligations arising from the Bank of Albania Law, the Bank of Albania formulates and implements policies seeking to achieve price stability by pursuing low but positive inflation rates for long periods of time. The Bank of Albania has been committed to achieving and maintaining annual inflation at 3.0%. Inflation, however, has remained below this medium-term target since 2012. In response, the Bank of Albania lowered its policy rate to 2.0% in January 2015. The inflation target is measured by the annual rate of change in CPI, as calculated and published by INSTAT. The Bank of Albania policy rate remains at 2.0%, a historic low.

The Bank of Albania implements a monetary policy regime, which targets inflation. The main indicator of the balance of inflationary pressures in the economy is the deviation of the medium term forecast inflation from target. In order to achieve its objective, the Bank of Albania sets the operational framework of monetary policy instruments used to intervene in the money market. The instruments employed by the Bank of Albania for this purpose include instruments used in open market operations and standing facilities. The Bank of Albania's primary tool for implementing monetary policy is the seven-day maturity reverse repurchase agreement ("**reverse repo**"), which also serves as its main open market operation. The Bank of Albania provides liquidity in the financial markets through reverse repos of one week to three months maturities. Since 1 January 2010, reverse repos have been issued by way of variable-price auctions; previously, these operations were conducted through fixed-price auctions.

Since 2011, the Bank of Albania has pursued an accommodative monetary policy, reducing its policy rate on thirteen consecutive occasions by a total of 325 basis points, as at the date of this Prospectus, to address slack in the economy and, more recently, disinflationary pressures from abroad.

Inflationary pressures remain weak, given below-potential economic growth, low inflation abroad and a slight downward trend in inflation expectations. Under these circumstances, monetary policy is likely to remain accommodating, supplemented by the Bank of Albania' use of forward guidance monetary policy tools. The improved financial performance of the banking system and the expected gradual rise in credit demand in domestic currency is, however, expected to strengthen the transmission of monetary impulses to the broader economy.

In addition to its traditional monetary policy instruments, the Bank of Albania has introduced certain temporary macro-prudential measures to address the slowdown in domestic lending to the private sector. These measures include: (i) the reduction of capital requirements for annual lending of between 4% and 10% (for the period from May 2013 to December 2015); and (ii) the increase of capital requirements for additional banking sector investments with non-resident financial institutions (for the period from May 2013 to December 2015). See "—*The Albanian Banking Sector*".

Money Supply

Money supply has expanded at relatively moderate rates in recent years, reflecting the sluggish economic activity during this time. The slowing pace in the growth of monetary aggregates mirrors lower intermediation of the banking sector and has been affected by resulting pressures on both credit supply and credit demand. After a period of significant growth preceding the global financial crisis, the rates of credit to the economy gradually curbed and even declined in mid-2013. Thereafter, credit growth to the economy has continued to remain sluggish, notwithstanding the Bank of Albania's adoption of an accommodative monetary policy. The lowering of interest rates for Lek-denominated instruments, combined with the general regulatory framework and increased awareness of credit risks in foreign currency, has stimulated a gradual shift in credit towards local currency instruments. Deposit activity in Albania in recent years has reflected the expansion of both local and foreign currency deposits, although the overall level of deposits has decreased to date in 2015. In an environment of low deposit interest rates, economic agents have shifted part of their savings towards longer maturity deposits (over two years), as well as towards higher-yielding Government securities. Investors have also demonstrated a preference for more liquid assets, as shown by the shift from time deposits to demand deposits, as well as an increase in cash held outside of banks.

The growth in net foreign assets has been the largest contributor to the expansion of money supply. In addition, the financing of the public sector using domestic funds has also contributed positively to the expansion of the money supply since 2011. Since mid-2014, a gradual but modest increase in the contribution of credit to the economy has also had an expansionary effect.

The table below sets forth certain statistics relating to money aggregates as at the dates indicated.

Money Aggregates

	As at 31 December					As at 31 July
	2010	2011	2012	2013	2014	2015
	(annual growth rate (%))					
M1 (*banknotes, coins, demand deposits*)	(3.2)	0.5	1.6	5.2	19.4	17.0
M2 (*M1 plus deposits in local currency (Lek)*)	4.6	7.0	3.5	3.5	4.2	4.0
M3 (*M2 plus deposit in foreign currency*)	12.5	9.2	5.0	2.3	4.0	3.4

Source: The Bank of Albania

Foreign Reserve Assets

The Bank of Albania's current framework for the management of foreign exchange reserves was developed with the assistance of the World Bank. The Bank of Albania's Investment Policy, which was approved in 2006 and reviewed in 2010, sets out the objectives to guide the investment process for foreign exchange reserves. The Bank of Albania is committed to maintaining an adequate level of foreign reserves in order to shield against potential pressures originating from adverse developments in the external balance of the economy. Liquidity and safety objectives are considered of paramount importance, whereas the generation of reasonable returns in the long-term is a secondary objective. Its reserve adequacy policy has two main criteria for the medium-term: (i) to cover at least four months of imports and (ii) to cover 100% of Albania's short-term foreign debt. Albania's EFF arrangement with the IMF also requires the Bank of Albania to fulfil other reserve adequacy criteria. See "*Public Debt—Relationships with Multilateral Financial Institutions—IMF*". The level of reserves has met these indicators and criteria comfortably for the last couple of years.

The level of foreign reserve assets as at 30 June 2015 was €2.4 billion, which is estimated to cover 6.3 months of imports and 162.0% of Albania's short-term foreign debt. This marked an increase from the level of foreign reserve assets and the coverage of short-term debt as at 31 December 2014, which were €2.2 billion and 153%, respectively. These increases were primarily due to inflows of foreign currency from the partial disbursement of funds under the EFF arrangement with the IMF, as well as increases in other reserve assets. See "*Public Debt—Relationships with Multilateral Financial Institutions—IMF*".

The majority of Albania's foreign reserves assets is invested in highly rated long-term bonds. Since 2013, the level of foreign reserve assets has been supported by financing provided by the IMF and the World Bank.

The table below sets forth the total foreign reserve assets (including gold) held by the Bank of Albania and reserve adequacy indicators as at the dates indicated.

Total Foreign Reserve Assets

	As at 31 December					As at 30 June
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
			(*€ millions*)			
Reserve Assets	**1,905**	**1,912**	**1,972**	**2,015**	**2,192**	**2,388**
Monetary gold	53	62	64	44	50	53
SDR	59	59	63	75	88	184
Reserve position in the Fund	4	4	7	7	7	8
Foreign currency	1,789	1,788	1,838	1,889	2,047	2,143
In months of import	4.8	4.4	4.7	4.7	5.5	6.3
% of short-term debt	***340***	***230***	***180***	***170***	***180***	***162***
NIR (*€ millions*)	1,348	1,329	1,407	1,458	1,539	1,609
NIR floor (*€ millions, IMF programme, which commenced in 2014*)	—	—	—	—	1,330	1,570

Source: The Bank of Albania

Interest Rates

The following table sets forth the average Bank of Albania interest rates in Lek as at the dates indicated.

Average interest rates

	As at 31 December					As at 30 June
	2010	**2011**	**2012**	**2013**	**2014**	**2015**(1)
			(*% average*)			
Interest rate (*day-to-day money rate, per annum*)	4.93	5.08	3.93	3.50	2.55	1.97
Lending interest rate (*one year, per annum*)	12.01	11.32	10.59	9.87	7.97	8.16
Deposit interest rate (*one year, per annum*)	6.42	5.86	5.43	4.16	1.91	1.49

Source: The Bank of Albania

Note:

(1) Average for the six months ended 30 June 2015.

Interest rates in Albania are determined using free market mechanisms and the Bank of Albania does not apply administered interest rates for specific sectors of the economy. In accordance with its monetary policy framework, the Bank of Albania aims to influence short-term interest rates in the inter-bank market by managing the Bank of Albania's policy rate (currently 2%) and open market operations, with the ultimate aim of anchoring inflationary expectations.

Between 2010 and 2015 and, in particular, in 2014, financial markets activity has increased and interest rates have generally declined. The Bank of Albania's monetary policy in respect of interest rates has been one of the main factors driving interest rates down. In 2014, the average interest rate for deposits in Lek dropped below the Bank of Albania's policy rate of 2%, reflecting low liquidity needs, as well as a slowing demand for credit. The decline in Lek lending interest rates has resulted in the growth of lending in domestic currency, which has, in turn, contributed to an increase in the share of the Lek portfolio as a share of overall lending to the private sector. Uncertainties regarding economic developments, tight credit conditions and relatively high NPLs in the banking sector, however, continue to exert negative pressure on credit expansion.

Interbank market rates and government securities yields have also decreased, in line with policy rate decreases, declining to historically low levels.

Since 2011, the Bank of Albania has pursued an accommodative monetary policy, reducing its policy rate by a total of 325 basis points, as at the date of this Prospectus. See "*—Monetary Policy*".

Exchange Rate Policy and Operations

The Bank of Albania implements a free-floating exchange rate regime, whereby the value of the Lek against foreign currencies is freely determined in the foreign exchange market by its supply and demand. The Bank of Albania intervenes in the foreign exchange market in accordance with the relevant internal regulations. The Bank of Albania may intervene in the exchange rate market to achieve one or more of three objectives: (i) to calm disorderly markets; (ii) to correct exchange rate misalignment; or (iii) to accumulate international reserves. The Bank of Albania has not intervened to influence the level of the exchange rate since 2009, while interventions to increase reserve levels have been pre-announced since 2014. In 2014, the Bank of Albania intervened on one occasion to encourage an increase in foreign reserves, as compared to three occasions in 2013, eight occasions in 2012, four occasions in 2011 and four occasions in 2010. In each year, intervention volumes accounted for 0.2-0.4% of annual foreign exchange transactions conducted through the Albanian banking system. The Bank of Albania has announced that there will be four pre-announced foreign currency purchasing auctions in 2015, each with the aim of increasing the Bank of Albania's foreign reserves.

Exchange rate developments for the period 2011 to 2014 reflect the stability of the Albanian Lek against a basket of major currencies, principally the Euro and the U.S. Dollar, primarily due to internal domestic factors, such as low inflation and overall macroeconomic stability. In particular, the Lek has shown low volatility against the Euro, with relatively higher volatility against the U.S. Dollar between 2011 and 2014. Notwithstanding regional financial turmoil, the decline in remittances has been matched with an increase of exports and FDI and increased foreign currency deposits due to the return of migrants, while the lack of a developed financial market has served as a buffer against the short-term flow of investors' portfolios. The Lek has depreciated strongly against the U.S. Dollar since late 2014, reflecting the general strengthening of the U.S. Dollar against other currencies during that period.

The following table sets forth the average and period end exchange rates for the Lek to Euro and Lek to U.S. Dollar exchange rates.

Exchange Rates

	As at 31 December					As at 31 July
	2010	2011	2012	2013	2014	2015
ALL per €						
Year or period end	138.77	138.93	139.59	140.20	140.14	139.59
Average for year or period[(1)]	137.77	140.34	139.02	140.27	139.97	140.35
ALL per U.S.$						
Year or period end	104.00	100.84	105.85	101.86	115.23	127.49
Average for year or period[(1)]	104.08	107.54	108.24	105.69	105.48	126.09

Source: The Bank of Albania

Note:

(1) Calculated as daily average over the year. For 2015, calculated as daily average for the period January-June.

As at 31 July 2015, the Lek to Euro exchange rate was ALL 139.59 per Euro and for the seven-month period ended 31 July 2015, the average Lek to Euro exchange rate was ALL 140.35 per Euro. As at 31 July 2015, the Lek to U.S. Dollar exchange rate was ALL 127.49 per U.S. Dollar and for the seven-month period ended 31 July 2015, the average Lek to U.S. Dollar exchange rate was ALL 126.09 per U.S. Dollar.

The Albanian Banking Sector

The following table sets forth information on the Albanian banking sector as at the dates indicated.

Banking Sector

	As at 31 December					As at 31 July
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Number of banks (fully foreign-owned) .	16 (14)	16 (14)	16 (14)	16 (14)	16 (14)	16(14)
Asset share of fully foreign-owned banks (%)	92.8	90.3	89.8	88.6	87.1	86.5
Non-performing loans as a % of total loans	12.2	18.8	22.5	23.5	22.7	21.1
Domestic credit to private sector as a % of GDP(1)	37.5	39.5	39.0	37.6	37.1	36.4
Domestic credit to households as a % of GDP(1)	12.0	11.4	11.2	11.0	10.7	10.9
of which mortgage lending as a % of GDP(1)	9.0	8.3	8.1	8.0	7.7	7.7
Capital adequacy ratio	16.2	15.6	16.2	18.0	16.8	16.0
Liquidity ratio(2)	42.5	33.1	36.7	34.7	40.4	41.3
Loan to deposit ratio	63.2	61.6	58.6	55.6	55.5	55.6

Source: The Bank of Albania

Notes:

(1) For 2014, nominal GDP is estimated at ALL 1,399 billion, according to IMF estimates. Lending to the private sector includes lending to residents. See "*The Albanian Economy—Gross Domestic Product*".

(2) The calculation methodology changed in 2010, providing for a more restrictive "liquid assets" definition and the application of minimum liquidity ratios for Lek, U.S. Dollars and Euro. The overall required minimum liquidity ratio is 20%.

As at 31 December 2014, the assets of the banking sector constituted 90.4% of Albania's total financial assets and represented 91.7% of nominal GDP. The banking sector is comprised of 16 banks, of which two are both foreign and domestically-owned, while the rest are wholly foreign-owned. As at 31 December 2014, 87.1% of assets in the banking sector were held by foreign-owned banks. Following the privatisation of the Government's 40.0% equity stake in the United Bank of Albania in March 2009, the banking sector is fully privatised.

The following table sets forth details of bank ownership in Albania, by country, as at 31 December 2014.

Bank Ownership in Albania

Bank	Country of Ownership	Assets	Deposits
		(%)	*(%)*
National Commercial Bank..................................	Turkey	24.3	23.0
Raiffeisen Bank..	Austria	20.9	21.4
Intesa San Paolo Bank	Italy	11.2	11.3
Credins Bank	Albania	10.2	10.4
Tirana Bank	Greece	7.2	7.3
Alpha Bank...	Greece	5.6	6.1
Societe General Albania	France	5.4	5.5
National Bank of Greece......................................	Greece	3.1	3.0
Procredit Bank	Germany	2.8	2.8
Union Bank...	Albania	2.7	2.8
Veneto Banca (ex Italian Dvlpm Bank)	Italy	2.0	2.0
Credit Agricole (ex Emporiki Bank)......................	France	1.9	1.9
First Investment Bank..	Bulgaria	1.2	1.3
International Commercial Bank	Malaysia	0.7	0.6
United Bank of Albania	Arab Development Bank/ Saudi Arabia	0.5	0.4
Credit Bank of Albania..	Kuwait	0.2	0.1
Total	—	**100.0**	**100.0**

The following table sets forth the aggregate financial position of banks in Albania as at the dates indicated.

Aggregate Financial Position of Banks

	As at 31 December					As at 31 July
	2010	2011	2012	2013	2014	2015
	(ALL millions)					
Total Assets	**990,631.3**	**1,120,168.1**	**1,187,983.4**	**1,234,320.9**	**1,293,720.9**	**1,309,528.9**
Treasury and interbank transactions	296,181.9	333,249.0	382,157.9	401,391.7	409,462.0	426,304.7
Operations with customers (gross)	486,490.2	561,682.1	573,507.2	563,099.6	591,299.5	593,082.0
Securities transactions	210,662.6	244,172.0	256,682.2	302,410.5	327,792.1	318,802.1
Provisions	(37,384.6)	(58,793.8)	(73,798.1)	(88,027.3)	(92,906.4)	(86,703.6)
Other assets	9,108.5	13,799.5	21,402.9	25,450.9	28,996.8	30,432.6
Fixed assets	13,825.4	13,869.2	15,895.2	18,597.7	18,291.5	16,818.5
Accrued interests	11,747.3	12,190.1	12,136.0	11,397.7	10,785.4	10,792.6
Total assets denominated in foreign currency	*525,588.5*	*616,432.9*	*665,671.5*	*696,171.7*	*730,161.9*	*740,859.9*
Total assets of non-residents	*121,992.4*	*183,261.7*	*249,885.9*	*285,709.5*	*312,800.2*	*330,770.7*
Total Liabilities	**990,631.3**	**1,120,168.1**	**1,187,983.4**	**1,234,320.9**	**1,293,720.9**	**1,309,528.9**
Treasury and interbank transactions	61,235.0	72,127.4	64,231.4	67,835.3	64,559.6	66,822.4
Operations with customers (gross)	805,041.4	911,209.6	978,087.6	1,013,522.2	1,064,661.2	1,066,444.7
Securities transactions	—	—	333.7	667.1	5,925.2	6,431.7
Other liabilities	7,522.3	10,164.7	11,308.6	9,955.1	11,981.2	13,189.9
Permanent resources	104,822.9	113,395.6	120,061.3	129,892.0	139,248.6	148,428.8
Accrued interests	12,009.8	13,270.8	13,960.6	12,449.2	7,975.0	8,211.2
Total liabilities denominated in foreign currency	*505,202.8*	*581,435.6*	*624,686.3*	*651,740.9*	*677,533.5*	*686,966.1*
Total liabilities of non-residents	*48,379.3*	*76,257.6*	*80,174.3*	*91,469.3*	*93,740.1*	*84,157.3*

Source: The Bank of Albania

The following table sets forth the composition of deposits with all domestically operating banks as at the dates indicated.

Banking Sector Deposit Portfolio

	As at 31 December					As at 31 July
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
			(ALL millions)			
Local currency deposits	**409,458.4**	**452,080.1**	**476,872.0**	**494,279.5**	**504,691.1**	**495,121.1**
Current account and sight deposits	80,368.4	81,974.9	88,541.5	96,983.9	135,656.1	137,793.2
Local government deposits	*948.1*	*1,157.4*	*1,059.7*	*1,305.0*	*2,047.5*	*1,418.0*
Public non-financial corporations deposits	*7,134.0*	*7,303.5*	*7,168.0*	*6,108.2*	*9,799.5*	*7,307.3*
Other financial corporations deposits	*920.6*	*532.5*	*1,789.2*	*937.0*	*1,919.8*	*898.1*
Other non-financial corporations deposits	*22,505.0*	*20,681.5*	*24,716.6*	*24,244.0*	*38,198.6*	*34,061.2*
Other resident sectors deposits	*48,860.8*	*52,300.1*	*53,807.9*	*64,389.7*	*83,690.6*	*94,108.7*
Time deposits	329,090.0	370,105.2	388,330.5	397,295.6	369,035.0	357,327.8
Local government deposits	*55.1*	*109.6*	*19.4*	*57.1*	*7.8*	*28.2*
Public non-financial corporations deposits	*3,054.3*	*2,608.9*	*1,715.4*	*1,257.8*	*1,167.9*	*1,104.2*
Other financial corporations deposits	*1,773.4*	*1,423.5*	*2,224.4*	*2,556.5*	*1,730.1*	*2,450.3*
Other non-financial corporations deposits	*8,316.8*	*11,292.5*	*10,954.1*	*14,523.4*	*11,772.0*	*11,611.9*
Other resident sectors deposits	*315,890.5*	*354,670.8*	*373,417.3*	*378,900.8*	*354,357.3*	*342,133.2*
Foreign currency deposits	**375,766.6**	**423,146.2**	**453,830.8**	**455,808.8**	**472,729.6**	**473,491.4**
Current account and sight deposits	87,471.8	86,753.0	89,206.6	109,627.6	147,856.9	124,280.4
Local government deposits	*256.0*	*263.1*	*44.5*	*372.6*	*231.3*	*111.8*
Public non-financial corporations deposits	*4,102.0*	*2,091.5*	*2,137.6*	*1,972.2*	*4,104.4*	*3,476.4*
Other financial corporations deposits	*971.9*	*971.8*	*253.4*	*982.3*	*1,733.2*	*1,196.0*
Other non-financial corporations deposits	*29,547.6*	*28,217.3*	*29,224.4*	*35,856.9*	*44,806.0*	*46,801.4*
Other resident sectors deposits	*52,594.2*	*55,209.4*	*57,546.6*	*70,434.6*	*96,982.0*	*72,694.9*
Time deposits	288,294.8	336,393.2	364,624.2	346,181.2	324,872.7	309,230.2
Local government deposits	*237.0*	*17.4*	—	—	—	—
Public non-financial corporations deposits	*4,470.0*	*3,150.8*	*1,873.6*	*2,514.0*	*2,995.2*	*2,119.3*
Other financial corporations deposits	*5,229.1*	*5,050.5*	*6,049.9*	*5,690.8*	*3,139.7*	*3,780.2*
Other non-financial corporations deposits	*27,835.3*	*26,201.1*	*17,643.1*	*13,516.4*	*11,028.2*	*11,987.9*
Other resident sectors deposits	*250,523.5*	*301,973.4*	*339,057.6*	*324,460.1*	*307,709.6*	*291,342.8*

Source: The Bank of Albania

As at 31 December 2014, 62.0% of the total banking sector loan portfolio was denominated in currencies other than the Lek (from a peak of 72.0% in 2007) primarily in Euros (which accounted for 45.0% of total loans) and, to a lesser extent, U.S. Dollars. The high euroisation of the banking sector has increased the vulnerability of the banking sector. Although the ratio of foreign currency loans to total loans has decreased, un-hedged loans account for 45% of total loans.

Following the global financial crisis and the European sovereign debt crisis, Albania experienced a contraction in the inflow of foreign currency as a result of a decline in exports, reduced FDI and declining remittances from Albanians working abroad, although recently higher exports have offset lower remittances. As a result, lending growth began to decelerate sharply, reflecting deleveraging measures from parent banking groups in the Eurozone, a slowdown in Albanian economic growth and higher asset quality risk requirements for banks. The quality of the banking sector loan portfolio started to deteriorate, and NPLs reached a high of 23.5% of the banking sector loan portfolio in 2013, although NPL levels have since started to decline. Provisions for credit risk, which covered 52.7% of NPLs or 7.4% of total loans as at 31 December 2010, increased to 67.1% of non-performing loans and 15.4% of total loans as at 31 December 2014 and 68.7% of non-performing loans and 14.5% of total loans as at 30 June 2015.

Due to a decline in interest income margins and increased provisions, the banking sector's overall profit declined to ALL 0.7 billion in 2011 from ALL 6.7 billion in 2010. Since 2011, this decline has gradually reversed, and profit within the sector has improved steadily to reach ALL 11.2 billion in 2014. The annual deposit growth rate has remained positive but declined to 5.0% in 2014, as compared to 7.3% in 2013, also affected by repeated declines in policy rates for the Lek and main foreign currencies in 2013 and 2014.

In order to address concerns of future development and stability, the NPL-to-total loans ratio and loan growth, the Bank of Albania has introduced certain temporary macro prudential measures. Loan growth has been encouraged through the reduction of capital requirements for annual portfolio growth between 4-10% and investments abroad were discouraged through the imposition of increased capital requirements for additional banking sector investments with non-resident financial institutions (through applying a 100% risk weight coefficient for such exposures).

The Bank of Albania has also made efforts to encourage loan restructuring, through the relaxation of certain regulatory requirements. In cooperation with the World Bank, the Bank of Albania has developed a project to facilitate loan restructuring through the development of recovery and resolution plans for large problem borrowers. To prevent deterioration of their loan portfolios, banks are encouraged to restructure loans as and when the borrower shows signs of weakness, even if they still have a "standard" credit rating. If banks do so, the borrower's credit rating will not be downgraded and will remain at "standard" with a higher provision rate of 10%. If the borrower's problems persist, the normal cycle of credit classification will follow. In addition, if loans that were classified as an NPL (in particular those classified as "substandard" and "doubtful") were restructured, the time needed to keep them in the existing category before moving them in a higher category (for example, from "substandard" to "special mention") was reduced from nine months to six months. Recent reforms to speed up collateral execution and increase loan write-offs are starting to yield results. Changes to the Civil Procedures Code intended to minimise execution suspension gaps also came into effect in September 2013, which contributed to an increase in collateral recoveries by 5% between September 2013 and December 2014. A new regulation requiring the mandatory write-off of loans that have been classified in the "loss" category for three years came into force at the beginning of 2015 and is expected to contribute to a projected reduction of NPLs by 3% by the end of 2015. The Boards of Directors of Albanian banks are explicitly required to manage the risk analysis process relating to large exposures. The process must also be reformed through the preparation of large borrowers' recovery and resolution plans and on the basis of chartered financial statements. The Albanian authorities are reviewing the commercial bankruptcy law in order to facilitate the restructuring of private balance sheets and a new strategy is expected to be approved by the Council of Ministers and the Bank of Albania by the end of September 2015.

The Albanian banking sector remains well-capitalised and liquid. The capital adequacy ratio was 16.8% as at 31 December 2014, as compared to the required minimum level of 12.0%. Liquid assets as a percentage of total assets were 40.4% as at 31 December 2014. The capital adequacy of the banking sector is sufficient to cover for a "worse case" scenario that combines slower economic growth, a higher level of depreciation of the Lek and a higher level of NPLs in the banking sector. The Bank of Albania has not provided assistance to any of the banks in terms of capital or liquidity beyond the usual refinancing operations conducted for monetary policy purposes.

In light of concerns relating to the stability of the Greek financial sector, the three Greek-owned banks in Albania are currently subject to tighter capital adequacy requirements of 14% for one bank and 15% for the other two banks. As at 30 June 2015, each of the three banks was in compliance with these requirements. In addition, Greek-owned banks in Albania require the approval of the Bank of Albania to pay dividends to their Greek parent companies. In July 2015, as a result of the Greek financial crisis, Greek-owned banking subsidiaries in Albania experienced a withdrawal in deposits, although a significant portion of such withdrawals comprised transfers to other banks in Albania and the banking sector overall experienced only a 0.3% decrease in total banking deposits as at 31 July 2015, as compared to 30 June 2015. Beginning in August 2015, the rate of deposit withdrawals from Greek-owned banking subsidiaries appears to be slowing, partially as money supply conditions in Greece have eased, apparently allowing for improved remittances to Albania. No requests were made to the Bank of Albania by the Greek-owned banks to pay dividends to their parent companies during the recent Greek financial crisis.

Given the significant presence of Greek bank subsidiaries in the Albanian banking system, which accounted for 14.4% of total assets and 14.6% of total deposits in the Albanian banking sector as at 30 June 2015, any further developments adversely affecting Greek banks may cause additional volatility in Albania, including further local withdrawals of customer deposits from local subsidiaries of Greek banks, as a result of the actual or perceived weaknesses of such subsidiaries. See "*Risk Factors—Risks Relating to Albania—An investment in a developing country, such as Albania, is subject to substantially greater risks than an investment in a more developed country*" and "*Risk Factors—Risks Relating to Albania—The high level of foreign ownership in the Albanian banking system makes it vulnerable to disruption as a result of internal or external factors*". The IMF noted, however, in a press release dated 30 June 2015 that "*[s]pillover risks from the Greek crisis are low. The banking sector is highly liquid and well capitali[s]ed, including the subsidiaries of Greek banks. Remittances may be affected by developments in Greece, but have been declining in importance over the past few years*".

Banks in the sector have also taken measures to strengthen their balance sheets, including (i) measures to improve credit risk management, such as the establishment of credit collection units; (ii) separation between credit underwriting and credit risk assessment units; (iii) measures to sell NPLs; (iv) involvement in the NPL workouts for common borrowers; (v) measures to increase capital; and (vi) measures to capitalise profits.

The performance of the banking sector was stable in the six months ended 30 June 2015, with increases in volume of activity and financial performance. The capital adequacy ratio of the banking sector was 16% as at 30 June 2015, while net profit increased by 53% for the six months ended 30 June 2015, as compared to the corresponding period in 2014, to ALL 5.4 billion. This strong performance was mainly driven by an increase in net interest income. As at 31 July 2015, NPLs accounted for 21.1% of total loans, with a large exposure in foreign currency loans and the business portfolio.

Banking Supervision and Regulation

Banking supervision in Albania is carried out by the Bank of Albania pursuant to the Bank of Albania Law. As the regulator of the banking sector, the Bank of Albania has the power to grant and revoke banking licences, and it supervises the banking activity to safeguard the stability of the banking sector. In addition, the Bank of Albania acts as banker, advisor to and fiscal agent of the Government, while also promoting the normal functioning of payment systems.

Government policies in the banking sector focus on reviving credit growth and reducing NPLs. In 2014 and 2015, the Bank of Albania's supervision of the banking sector has mainly focused on the monitoring of banks' resilience to risks, in order to maintain adequate capital and liquidity positions, thereby ensuring the stability of the banking system. The overall supervisory process and on-site examinations have emphasised the importance of enhanced governance and risk administration, with a focus on the fastest-growing segments of the banking system. In January 2015, the Supervisory Department of the Bank of Albania adopted the new Supervisory Policy and Risk Assessment System ("**RAS**"). The RAS is broadly consistent with the systems used by other European banks and aims to strengthen the supervisory process and achieve a more comprehensive treatment of the full range of risks assumed by the banking system.

The new mandatory guideline of the Supervisory Council of the Bank of Albania "On Recovery Plans," approved by Decision № 11 of 26 February 2014, determines the core principles and the supervisory requirements on the structure and contents of recovery plans and reporting requirements for banks. According to this guideline, banks were required to submit first recovery plans to the Bank of Albania in accordance with its requirements by 30 June 2015. All banks operating in Albania complied with this requirement.

The Bank of Albania has a relatively high level of compliance with the Basel Core Principles for Effective Banking Supervision. The Bank of Albania has continued the further implementation of the supervisory regulatory framework with the EU directives and Basel Committee recommendations, taking into consideration developments in the Albanian banking system. The new regulation "On capital adequacy ratio", which came into force on 31 December 2014, harmonises the Bank of Albania's regulatory framework requirements with the European Directive and Regulation on the activity of credit institutions and Basel Committee requirements on the Basel II Capital Accord, which came fully into force in January 2015. Banks provide data to the Bank of Albania according to the new *COREP* (Common Reports) templates, using the standardised approach for the calculation of the capital requirement for credit, market and operational risk (Pillar 1).

Minimum disclosure requirements for banks and foreign bank branches (Pillar 3 - on market discipline) have been revised in accordance with the capital requirements of Pillar 1. The implementation of Pillar 2 has commenced and is expected to continue throughout 2015 prior to implementation in 2016.

In 2011, the Basel Committee on Banking Supervision agreed on a new standard, Basel III, which, *inter alia,* sets new capital, liquidity and leverage requirements to be applied by 2019. The Bank of Albania is continuing to implement Basel II requirements, while beginning preparatory work to implement Basel III in the Albanian banking sector. The Bank of Albania intends to conduct an impact study to assess the liquidity coverage ratio in the Albanian Banking System by the end of 2015. Based on these results, the Bank of Albania will examine the possibility of refining the liquidity ratio already in force. There is no set deadline for the implementation of Basel III in the Albanian banking sector.

Deposit Insurance

In 2002, the Financial Services Volunteer Corps ("**FSVC**") played a pivotal role in implementing the law on Deposit Insurance by providing highly-skilled volunteer experts to launch the Albanian Deposit Insurance agency ("**ADIA**"). Under the current programme, which began in 2011 and is funded by the United States Agency for International Development via the Volunteers for Economic Growth Alliance, insurance premiums collected from banking institutions and income generated from portfolio management, FSVC is working to improve the quality and consistency of Albanian financial regulation and supervision. As part of this programme, FSVC is continuing to support the ADIA mandate to collect annual deposit insurance premiums, manage insurance funds, and reimburse insured deposits. The quarterly insurance premium for banking institutions is calculated as 0.1% of the arithmetic average balance of the insured deposits on the last day of each month in the previous quarter.

Albania's deposit insurance system provides coverage for deposits of natural persons up to ALL 2.5 million, covering 55% of total system deposits and 95% of all depositors as at 30 June 2015. The mandate of the deposit insurer as a paybox is appropriate for the development and size of the financial sector. A flat rate deposit insurance premium of 0.5% of insured deposits is used.

Anti-Money Laundering, Terrorism Financing, Organised Crime and Anti-Corruption Regulations

Albania's legal regime for the prevention and suppression of money laundering and terrorism financing comprises two main pieces of legislation. In 1998, Law № 9917 of 19 May 2008 "On the prevention of money laundering and fight against terrorism financing" ("**AML/CFT law**") established a framework to prevent money laundering, the derivation of proceeds from criminal offences and the financing of terrorism. In 2013, Law № 157/2013 "On the measures against terrorism financing", which was enacted in line with the relevant resolutions of the United Nations Security Council and other international agreements to which Albania is a party, set forth measures allowing the freezing and seizing of funds and properties of activities and individuals who support the financing of terrorism.

The General Directorate for the Prevention of Money Laundering ("**GDPML**") is responsible for monitoring instances of money laundering and terrorism financing and refers cases of suspected money laundering and terrorism financing to the law enforcement agencies. In 2014, the number of cases referred to the State Police or Prosecutor increased by 60%, as compared to 2013. A portion of those cases were accompanied by temporary freezing orders (for a period of 72 hours) in order to prevent the alienation of the proceeds suspected to be subject to the laundering process or those suspected to be used in the financing of terrorism. Referrals are generally followed by a court order for preventive seizures.

The following table sets forth data on the number of freezing orders and amounts frozen and seized for the years indicated.

Freezing Amounts Frozen by the GDPML and Amounts Seized by the Magistrates

	Number of Freezing Orders	Total Amounts Frozen by the GDPML	Total Amounts Seized by the Magistrates
		(€)	
2010	23	1,297,066	949,878
2011	13	1,619,508	872,124
2012	8	1,297,066	1,145,957
2013	15	880,977	213,523
2014	65	18,183,760	13,967,770
Total	**24**	**23,278,377**	**17,149,252**

Source: Ministry of Finance

In recent years, through enacting domestic legislation and partnering with international organisations and the EU, Albania has achieved significant milestones in combating money laundering and terrorist financing, including:

- in March 2011, the law "On the prevention of money laundering and financing of terrorism" was amended;
- in February 2012, the a risk assessment regarding exposure to non-profits organisations in Albania with regard to the financing of terrorism, was carried out in accordance with the recommendation of the Financial Action Task Force ("**FAFT**") and completed;
- in October 2012, the National Risk Assessment of Money Laundering and Financing of Terrorism was completed;
- in April 2013, the "Support for the structures of the fight against money laundering and the investigation structures of financial crimes in Albania" project was completed in collaboration with the EU;
- in October 2013, the Assembly adopted the law "On the measures against financing of terrorism";
- in February 2015, FAFT removed Albania from the list of the countries under on-going monitoring for money laundering and the financing of terrorism; and

- in June 2015, the National Risk Assessment of Money Laundering and Financing of Terrorism completed its review.

The National Risk Assessment findings suggested that the Government's adaptation of international standards and best practices has helped to establish a more effective system to deter money laundering and terrorism financing, although some sectors require continued evaluation. The key findings of the National Risk Assessment were as follows:

- that the detection of suspected instances of money laundering and terrorism financing is good, but the efficiency of investigations needs improvement, such as by making timely submissions of letters to foreign judicial authorities to avoid suspensions and closures of criminal investigations;

- that investigation of standalone money laundering cases remain at an elementary level;

- that the foreign product of crime, which is deemed to derive mainly from drug trafficking committed abroad, is the main risk; and

- that the internal product of crime comes from tax and customs offences, such as smuggling, concealment of income and VAT fraud, in addition to drug-related crimes.

The FATF's removal of Albania from the list of countries subject to the FAFT's monitoring process under its on-going AML/CFT compliance process recognises Albania's significant progress in addressing its strategic AML/CFT deficiencies. As it works to improve its AML/CFT regime, Albania will continue working with the FATF regional body ("**FSRB**").

In further support of its domestic anti-money laundering and anti-terrorist financing regime, Albania has signed and ratified a number of international conventions related to anti-terrorism financing and anti-money laundering, including: the Vienna Convention (ratified on 26 December 2000), the Palermo Convention (ratified on 07 November 2002), the Merida Convention Against Corruption (ratified on 25 May 2006), the European Council Convention "On the search, seizure and confiscation of proceeds of crime and terrorism financing" (the so-called "**Warsaw Convention**") (ratified on 27 November 2006) and the European Council Convention "For the protection of terrorism" (ratified on 20 November 2006).

Albanian Financial Supervisory Authority

The Albanian Financial Supervisory Authority (the "**AFSA**") was established in October 2006 to regulate and supervise non-banking financial markets in Albania. The AFSA is an independent public institution, accountable to the Assembly.

The AFSA's main functions are the regulation and supervision of:

- the insurance market and its activities, which includes all insurance, reinsurance, intermediary activities and operations that stem from such activities;

- the securities market and its activities, which includes the activity of entities linked with securities investments and entities that operate in this market; and

- the private pension funds market and its activities, which includes all private pension fund activities provided by entities that operate in this market.

In 2014, changes to the law regulating AFSA were introduced to set out in law the independence of the AFSA in financial and governance matters.

Capital Market Legislation

Albania has enacted a body of capital market legislation to ensure the smooth running of capital markets in Albania. This legislation includes (i) Law № 9879 of 21 February 2008 "On Securities", which is the general rule identifying and governing issuance, trading, registration and securities transactions; (ii) Law № 10158 of 15 October 2009 "On Corporate and local Government bonds", which relates to local government and corporate bond issuances; (iii) Law № 10198 of 10 December 2009 "On Collective Investment Undertakings", which regulates the establishment and issuances of units and other matters relating to collective investment undertakings; and (iv) Law № 10 236 of 18 February 2010 "On takeover of companies with public offer", which regulates takeovers of publicly listed companies, primarily in line with EU regulations.

Capital Market

The capital market in Albania is generally considered to be small and underdeveloped. In recent years, however, this market has shown higher growth than in previous years due to an expansion of investment funds. The investment funds industry in Albania emerged in 2012 with the establishment of two investment funds, one operating in Lek and the other in Euro, administered by one management company. Since then, both funds have grown considerably and, as at 31 December 2014, they represented almost 71% of the size of the total markets supervised by the AFSA. With total net assets of €460 million as at 31 December 2014, 27% higher than as at 31 December 2013, and almost 32,700 members, or 15% higher than as at 31 December 2013, the investment funds market is the second largest financial market in Albania, after the banking market. The assets of the fund operating in Lek are mainly invested in Government securities issued in Lek, while the assets of the other funds are mainly invested in debt instruments dominated in Euros issued by the Government, the governments of European countries, foreign corporations and investments funds.

The AFSA is the exclusive regulator of the capital market in Albania. Until 2012, the only organised securities market in Albania had been the Tirana Stock Exchange ("**TSE**") founded in 1996. At the end of 2014, the Ministry of Finance decided to close the TSE, which had not been functioning for 12 years.

As at 31 December 2014, there were 42 licenced intermediaries for the securities market such as brokers, established as legal entities or natural persons attached to broker companies, stock registers, consulting companies or advisors specialised in securities investment.

Since the first issue in November 2011, the corporate bond market has been more active. Corporate bonds are issued through private offerings with fixed interest rates, long-term maturities and semi-annual coupons. The total amount of corporate bonds (issued by financial institutions) offered to investors from 2011 to 2014 was €44 million, while the amount purchased was around €33 million.

The Government has issued domestic bonds of two, three, five and seven year maturities, with floating and fixed interest rates. See "*Public Debt—Domestic Debt*". After their issuance, such bonds are traded on the retail market by licenced entities.

Government Securities Retail Market

The retail market for Government debt instruments (treasury bills and bonds) is an active securities market segment in Albania. The performance of the Government securities retail market can be followed on a daily basis on the Government Securities Retail Market (the "**GSRM**") section of the AFSA website. The GSRM platform provides daily updated information on transactions, quotes, prices and the performance of Government securities. All financial intermediaries (mainly banks) that have been licenced to operate in the Government securities retail market must disclose all the above-mentioned information on the GSRM platform. The platform also includes a historical database of such information.

The volume of secondary market Government securities during the year 2014 was dominated by transactions in short-term instruments (treasury bills), which represented 77.7%, while long-term instruments (primarily notes and treasury-bonds) represented 22.3%. In terms of the number of transactions, 98.3% of all transactions in the secondary market for Government securities were in treasury bills.

The following table sets forth certain statistical data relating to the Government Securities Retail Market for the periods indicated.

Government Securities Retail Market

Type of Transaction	Value					Change			
	2010	2011	2012	2013	2014	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014
	(ALL millions)					*(%)*			
Purchase in the primary Market	**9,321**	**8,850**	**19,991**	**46,342**	**37,058**	**(5.05)**	**125.89**	**131.81**	**(20.03)**
Individuals	5,938	7,260	10,896	8,310	12,137	22.26	50.08	(23.73)	46.05
Legal Persons	3,383	1,590	9,095	38,031	24,921	(53.00)	472.01	318.15	(34.47)
Selling from Financial Intermediaries Portfolio	**11,643**	**6,935**	**7,066**	**5,217**	**7,190**	**(40.44)**	**1.89**	**(26.17)**	**37.82**
Individuals	7,278	5,781	5,876	4,912	5,879	(20.57)	1.64	(16.40)	19.69
Legal Persons	4,364	1,153	1,193	305	1,311	(73.58)	3.47	(74.43)	329.84
Purchase from individuals prior to maturity date	**4,192**	**3,108**	**5,663**	**2,876**	**3,330**	**(25.86)**	**82.21**	**(49.21)**	**15.79**
Individuals	2,747	1,687	5,021	2,442	2,959	(38.59)	197.63	(51.36)	21.17
Legal Persons	1,445	1,421	642	435	372	(1.66)	(54.82)	(32.24)	(14.48)
Pledging of Government securities as collateral	**72**	**53**	**97**	**105**	**372**	**(26.39)**	**83.02**	**8.25**	**254.29**
Individuals	60	36	54	78	45	40.00	50.00	44.44	(42.31)
Legal Persons	12	17	43	26	326	41.67	152.94		1,153.85
Payment of nominal value in maturity date	**21,828**	**13,473**	**12,578**	**16,955**	**11,952**	**(38.28)**	**(6.64)**	**34.79**	**(29.51)**
Individuals	13,703	11,449	11,041	14,696	10,675	(16.45)	(3.56)	33.10	(27.36)
Legal Persons	8,125	2,024	1,537	2,258	1,277	(75.09)	(24.06)	46.91	(43.45)

Source: AFSA

Pension Funds

The pension fund market in Albania is regulated by Law № 10197 of 10 December 2009 "On Voluntary Pension Funds", which sets the necessary standards in terms of regulating and supervising voluntary pension funds in compliance with the European Directives, OECD and International Organisation of Pension Supervisors principles.

There are three voluntary private pension funds operating in the Albanian market, with total net assets as at 31 December 2014 of ALL 629.1 million (€4.5 million). This market also experienced relatively strong growth of 44.7% in 2014, as compared to 2013. The main reasons for the increase in pension fund assets are (i) an increase in the number of professional plans available, resulting in increases in membership and contributions, and (ii) an increase in assets as a result of investing in Government securities with longer term maturities.

There were 8,491 members operating in the three pension funds as at 31 December 2014, representing an increase of 7.7%, as compared to 2013.

Pension fund assets are invested in treasury bonds and bank deposits.

Insurance Market

The insurance industry in Albania is regulated by a single regulatory body, the AFSA. As at 31 December 2014, ten insurance companies were operating in Albania, consisting of seven non-life insurers, two life insurers and one composite insurer, as well as four licenced insurance and non-insurance brokerage firms. In 2014, total assets held by Albanian insurance companies amounted to ALL 24,858 million, or 1.8% of nominal GDP. The investment portfolio of insurance companies accounted for 66.7% of total assets. As at 31 December 2014, bank deposits accounted for 54.8% of the total investment portfolio, followed by investments in affiliates and participating interests of 21.6%, real estate investments of 11.9% and Government securities of 11.8% of the investment portfolio.

The gross written premiums of insurers in Albania were ALL 11,624 million for 2014, representing a 36.2% increase, as compared to 2013. In 2014, the number of issued insurance contracts was 1,033 million, reflecting a 3.7% increase, as compared to 2013. The market continued to be dominated in 2014 by non-life insurance products, which accounted for 90.9% of the total volume of written premiums. The life insurance market share represented 8.8% of total written premiums, while the reinsurance market share was 0.2%. Voluntary and compulsory insurance gross written premiums represented 40.3% and 59.7%, respectively, of total gross written premiums.

PUBLIC FINANCES

The Budget Process

Albania's current organic budget law, the "Law on the Management of the Budget System" (the "Organic Budget Law"), came into effect in 2009. The Organic Budget Law sets out the basic organisation structures of the budget, and is supported by the Constitution and laws regarding local government, public procurement, internal audit, public financial inspection and financial management and control. Part 13 of the Constitution includes provisions relating to a budgetary system composed of the state budget and local budgets. Since 2005, Albania has used an integrated planning system ("**IPS**"), which aims to ensure coherence, effectiveness and harmonisation on strategic planning, public finance and policy monitoring.

The Government's fiscal year runs from 1 January to 31 December. The beginning of each budget year is preceded by a detailed IPS calendar with processes and respective deadlines, which is circulated by the Ministry of Finance. The IPS calendar is first approved by the Strategic Planning Committee, and later receives final approval from the Council of Ministers by September.

In January of each year, the Ministry of Finance prepares a three-year macroeconomic and fiscal framework, which provides the basis for setting out the expenditure ceilings for each budgetary institution (*i.e.,* entities whose activities are financed by the State budget) based on its policies and past performance. Within these ceilings, the budgetary institutions prepare their budget requests as part of the Medium Term Budget Programme ("**MTBP**") preparation process for the next three years. The budget requests take into account the criteria set by the Organic Budget Law, which requires each budgetary institution to define its policies with all related elements and attach costs to achieve them. The budget requests are then submitted to the Ministry of Finance, twice per year: by 1 May (Phase 1) and by 1 September (Phase 2) of each year. The Ministry of Finance then analyses their compliance with applicable Government ceilings and objectives and makes recommendations, which are included in a MTBP analysis report. This report is discussed with the ministries and then officially submitted to the ministries and central institutions.

The Ministry of Finance then prepares the final MTBP document and the annual Budget Law, which are initially submitted to the Strategic Planning Committee and Council of Ministers by 20 October of each year for review and approval, and then to the Assembly for final approval, by 1 November. In accordance with the Organic Budget Law, each annual budget must be approved by the end of November of the preceding fiscal year. If there is a delay and the budget is approved in December, the Ministry of Finance proceeds to allocate the minimum necessary expenses (such as salaries and other current expenditures) that would not exceed the respective actual amounts spent in the previous year.

Following approval, according to Law № 9936 of 26 June 2008 on "Management of the Budgetary System in the Republic of Albania," the Ministry of Finance issues the budget implementation instruction in January. The budget implementation instruction establishes rules, procedures and deadlines for all budgetary institutions during the budget implementation process. The Ministry of Finance approves the initial breakdown of budgetary funds for each spending unit of the budgetary institutions, and takes responsibility for ensuring that the breakdown of budgetary funds is reflected in the treasury system on time and in accordance with the budget implementation instruction.

During the budget year, each budgetary institution may submit requests to the Council of Ministers to reallocate funds among its own spending programmes, although the reallocation amount may not exceed 10% of the approved fund for that particular spending programme. According to the Organic Budget Law, at the end of each trimester, all budgetary institutions are required to submit to the Ministry of Finance periodic reports regarding the status and progress of their performance in terms of policy and financial achievements.

The Ministry of Finance reviews and revises the reports and eventually makes recommendations for improvements to the respective budgetary institutions. The Ministry of Finance's second trimester overall monitoring report serves as a basis for the macroeconomic and fiscal framework review in this period. The third trimester Ministry of Finance overall monitoring report provides feedback for the Medium Term Budget Programme and annual budget preparation process for subsequent years. By 30 April of each year, the Minister of Finance submits to the Council of Ministers a report on the consolidated annual budget implementation, which the Council of Ministers submits to the Assembly by 30 May.

This report includes:

- annual consolidated accounts for state financial transactions;
- a report on the annual budget implementation against approved funds;
- a report on public debt and its composition;
- a report on the use of the reserve and contingency fund; and
- information on achievement of objectives, status of financial management and internal control and internal audit.

The consolidated annual budget implementation report is audited by the State Audit Office each year.

Amendments to the annual budget law may be made in the effect of discrepancies or revised targets. Typically, the annual budget is revised once per year, as needed, to reflect actual results.

Local Budgets

The Organic Budget Law sets out the rules and procedures with regard to the interaction of national and local budgets. Through the budget preparation instructions issued for general Government units twice annually in February and July, the Ministry of Finance provides local government units with estimates for respective unconditional transfers from the Central Budget. Upon receiving these instructions, local government units start preparing their budget proposals by reconciling unconditional transfer estimates with their own revenue estimates. Local governments then submit their budget proposals to their respective councils for approval.

In addition to unconditional transfers, local government units are entitled to obtain conditional funds from central Government units for shared functions in sectors such as education, health, and social protection. The Organic Budget Law also sets out the principles and rules for each local government unit with regard to their right to obtain loans for financing investment projects.

The Law № 9869 of 4 February 2008 "On Local Borrowing" offers the opportunities to finance local government investment programmes. It defines debt broadly to include any monetary obligation or liability created by a financing agreement, the issuance of securities or a guarantee to third parties. The local government's long-term borrowing is subject to preliminary approval by the Minister of Finance in respect of its procedures, limits and effects. The Chairman of the local government units submits a copy of the budget implementation and monitoring reports to the respective Local Government Council.

Put in place in 2002, the unconditional transfer system is primarily a formula-based distribution system. Local governments may utilise the unconditional transfers according to their own priorities, including spending funds on current operating expenditures or capital investments. The pool of unconditional transfers is allocated to the various local governments (regional councils, municipalities, and communes) according to a multiple step process, which takes into account factors such as geography, population, economy and infrastructure in allocating the funds.

The Local Government Council is responsible for approving, by special decision, the annual budgetary revenues and appropriations for the local government units and their special funds. Through its approval, the Council gives local governments the right to undertake expenditures in exercising their functions, as well as to borrow for investment projects.

Fiscal Policies and Budget Performance

The soundness of public finances is a key pillar of the Government's economic reform programme, which aims to safeguard macroeconomic stability and sustainability by strengthening the overall fiscal framework, creating mechanisms to ensure that forecasting is realistic and streamlining the three-year Medium Term Budget Programme preparation process.

EU Integration

Albania has adopted EU principles for good public finance management and fiscal prudence as expressed in the EU 2011 directive on budgeting. Albania's Public Finance Management Reform ("**PFMR**") aims to comply with this directive currently such that its provisions will be met upon Albania's accession to the EU.

IMF Programme

For the period 2014 to 2016, Albania has entered into a programme with the IMF under the EFF with access to funds of SDR 295.4 million, with programme disbursements in the form of direct budget support. Performance under the programme is monitored through quarterly quantitative performance criteria and extensive structural conditionality. Over the programme period, emphasis will be placed on public financial management, the prevention of arrears, the addressing of shortcomings of the pension system and the reform of the energy sector. The 2014 public financial management structural benchmarks included:

- publishing a comprehensive arrears prevention and clearance strategy;
- contracting an external auditor with a mandate to conduct risk-based audits of arrears payments;
- introducing multi-year commitment limits in the 2015 budget, and changing the Procurement Law, the Financial Management and Control Law and the Budget Law accordingly; and
- developing a corporate strategy for medium to long-term capacity building by the General Department of Taxes.

See "*Public Debt—Relationships with Multilateral Financial Institutions—IMF*".

Medium Term Priorities

As part of the NSDI, which outlines Albania's long-term development priorities, Albania's Public Financial Management ("**PFM**") Strategy 2014 – 2020 aims to achieve a better-balanced and sustainable budget with a reduced debt ratio by implementing policies for stronger financial management and control and audit processes that link budget execution to Government policies.

The main thematic priorities over the medium term include:

- implementing a prudent macroeconomic framework and fiscal policy with the objective to decrease the debt to GDP ratio over the medium term;
- eliminating arrears and preventing their reoccurrence;
- tightening commitment control, controlling multi-year commitments and pre-commitments and enhancing the financial control system;
- creating a prudent, well-functioning multiyear budget process;
- strengthening revenue collection and compliance, with the objective of decreasing tax evasion and the tax gap;
- developing a well-trained and capable internal audit function;
- increasing transparency and improving accountability mechanisms; and
- creating an efficient public procurement system that improves the quality of public spending.

Recent Budgets

2015 Consolidated Budget

The budget for 2015 was approved in November 2014, with a projected budget deficit-to-GDP ratio of 3.9%.

The 2015 budget was designed to build on the foundations laid during the implementation of 2014 budget. It focuses on supporting structural reforms in areas such as territorial administration, energy, agriculture and water, the improvement of public service delivery through innovation and public order.

The 2015 budget aims to achieve:

- a relatively high level of public investment (5.4% of GDP), by focusing on sectors such as water, energy, innovation and Information and Communication Technology ("**ICT**"), tourism, and urban and rural infrastructure;
- continuing structural reforms in pension schemes, energy, territorial administration and labour markets; and
- continuing fiscal consolidation, with the aim of achieving the medium-term objective of decreasing the level of public debt from 71% of GDP (end of 2014) to 65.5% of GDP (end of 2017).

The Ministry of Finance intends to rely on contingencies (expenditure that may only be executed if revenue targets are met) and expenditure cuts, if necessary, in order to control the budget deficit for 2015. *See "Risk Factors—Risks Relating to Albania—Albania has and expects to continue to have a high level of public debt in order to finance its budget deficit, and Albania may not be able to service its public debt and, as a result, may not be able to repay principal and make payments of interest on the Notes*".

The following table sets out the budget for 2015, as compared to the actual results for 2014.

2015 Budget

	2014	2015(1)(2)
	(ALL millions)	
Revenues and Grants	**366,686**	**414,469**
Tax Revenue	335,921	377,069
Grants	10,092	12,000
Non-tax Revenue	20,673	25,400
Expenditures	**438,820**	**472,697**
Personnel Expenditures	71,367	76,154
Interest	40,075	49,200
Operational and Maintenance	31,341	39,714
Subsidies	1,599	1,760
Social Insurance Outlays	138,534	143,662
Local Budget Expenditure	32,892	41,207
Other Expenditures	25,520	24,500
Reserve Fund/Contingency	0	5,500
Capital Expenditures	60,541	68,000
Arrears	33,782	20,000
Other Transfers	169	0
Net Lending for Energy	1,500	3,000
Expropriation Fund	1,500	0
Cash Balance	**(72,134)**	**(58,228)**

Source: Ministry of Finance

Notes:

(1) Budget as approved in November 2014. No assurance can be given that the actual financial performance and condition will match the forecasts in the budget.

(2) For 2015, the Ministry of Finance's budgeted GDP figure of ALL 1,491,990 million has been used.

Revenues

Total revenues and grants for 2015 are budgeted to be ALL 414 billion, as compared to ALL 367 billion in the 2014 budget, representing an annual increase of 13.0%, primarily due to an increase in tax revenues. Tax revenues are budgeted to increase by 12.2% to ALL 377 billion for 2015, as compared to ALL 336 billion in 2014. This budgeted increase is primarily due to: (i) a 16.2% increase in tax revenue from tax offices and customs from ALL 254 billion in 2014 to ALL 295 billion in 2015, reflecting increases across the board in revenues from VAT, profit tax, excise tax, personal income tax, national taxes and customs duties; and (ii) an 8.9% increase in tax revenues from local government from ALL 12 billion in 2014 to ALL 14 billion in 2015, reflecting increases in revenues from property taxes and local taxes, which offset decreases in revenues from small business taxes.

Total grants for 2015 are budgeted to be ALL 12 billion, as compared to ALL 10 billion in 2014, representing an annual increase of 18.9%.

Non-tax revenues comprising mainly profit transfers from the Bank of Albania, the income of budgetary institutions, dividends, service fees and others are budgeted at ALL 25 billion in 2015, as compared to ALL 21 billion in 2014, representing an annual increase of 22.9%. This increase was primarily due to a 35.7% increase in income from budgetary institutions from ALL 11 billion in 2014 to ALL 15 billion in 2015.

Expenditures

Government expenditures are budgeted to increase by 7.7% to ALL 473 billion in 2015, as compared to ALL 439 billion in 2014. This increase is primarily due to (i) a 25.2% increase in local budget expenditures from ALL 32 billion in 2014 to ALL 41 billion in 2015; (ii) a 22.0% increase in interest payments from ALL 40 billion in 2014 to ALL 49 billion in 2015; (iii) a 26.7% increase in operational and maintenance expenditures from ALL 31 billion in 2014 to 40 billion in 2015; and (iv) a 12.3% increase in capital expenditures from ALL 61 billion in 2014 to ALL 68 billion in 2015.

Arrears are budgeted to decrease 40.7% from ALL 34 billion in 2014 to ALL 20 billion in 2015 as a result of the Government's continuing efforts to clear arrears.

2016 Budget

As is typically the case in Albania's annual budgetary cycle, the 2016 budget preparation process has been underway since January 2015. As at the date of this Prospectus, all budget institutions have submitted their MTBE 2016-2018 requests, which have been analysed by the Ministry of Finance. The first draft of the MTBP for 2016 to 2018 was approved by the Council of Ministers on 31 June 2015. The budget for 2016 is expected to be submitted to the Council of Ministers in October 2015 and to be approved by the Assembly by the end of November 2015.

2015 Interim Results

The following table sets forth Albania's actual fiscal results for the periods indicated.

Interim Results—January-July[(1)]

	January-July 2014	January-July2015
	(ALL millions)	
Revenues and Grants	**211,262**	**221,228**
Tax Revenues	185,910	192,729
Grants	6,021	5,057
Non-tax Revenues	13,310	18,385
Expenditures	**236,026**	**232,577**
Personnel Expenditures	40,905	41,185
Interest	23,399	22,058
Operational and Maintenance	14,588	21,133
Subsidies	700	985
Social Insurance Outlays	77,931	77,917
Local Budget Expenditure	14,836	19,066
Other Expenditures	13,997	10,986
Reserve Fund/Contingency	0.0	0.0
Capital Expenditures	23,920	25,457
Arrears	25,749	13,790
Other Transfers	0.0	0.0
Cash Balance	**(30,785)**	**(16,406)**

Source: Ministry of Finance

Note:

(1) Results of interim period are not necessarily indicative of full year results.

Revenues

Total revenues and grants increased by 4.7% to ALL 221.2 billion in January to July 2015 from ALL 211.3 billion in January to July 2014, primarily due to: (i) a 3.7% increase in tax revenues (from ALL 186.9 billion in January to July 2014 to ALL 192.7 billion in January to July 2015); and (ii) a 38.1% increase in non-tax revenues (from ALL 13.3 billion in January-July 2014 to ALL 18.4 billion in January to July 2015). These increases were partially offset by a 16.0% decrease in grants over the same period. The increase in tax revenues in January to July 2015 was primarily due to a 12.4% increase in social insurance contributions (from ALL 37.1 billion in January to July 2014 to ALL 41.6 billion in January to July 2015) and a 1.8% increase in tax revenue from tax offices and customs (from ALL 141.3 billion in January to July 2014 to ALL 143.8 billion in January to July 2015), which were partially offset by a 3.7% decrease in revenues from local governments. The increase in non-tax revenues in January to July 2015 was primarily due to a 84.9% increase in income from budgetary institutions (from ALL 7.1 billion in January to July 2014 to ALL 13.5 billion in January to July 2015), which was partially offset by decreases in profit transfers from the Bank of Albania, dividends and tariffs on services.

Expenditures

Total expenditures decreased by 1.5% to ALL 232.6 billion in January to July 2015 from ALL 236.0 billion in January to July 2014. This decrease was partially offset by a 6.4% increase in capital expenditures (from ALL 23.9 billion in January-July 2014 to ALL 25.5 billion in January-July 2015), which was, in turn, due to a 60.8% increase in domestically financed capital expenditures in 2015.

Current expenditures increased by 3.7% from ALL 186.4 billion in January to July 2014 to ALL 193.3 billion in January to July 2015, primarily due to a 5.0% increase in social assistance expenditures and a 0.7% increase in personnel expenses (from ALL 40.9 billion in January to July 2014 to ALL 41.2 billion in January to July 2015), which was, in turn, due to a 0.7% increase in wages and a 0.5% increase in social insurance contributions. This increase was partially offset by a 21.5% decrease in other expenditures (from ALL 14.0 billion in January to July 2014 to ALL 11.0 billion in January to July 2015), which, in turn, reflected a 36.0% decrease in unemployment insurance benefit expenditures. Local budget expenditures also increased by 28.5% from ALL 14.8 billion in January to July 2014 to ALL 19.1 billion in January to July 2015.

Arrears decreased by 46.4% from ALL 25.7 billion in January to July 2014 to ALL 13.8 billion in 2015, primarily due to the elimination of tax liabilities from ALL 12.6 billion in January to July 2014 to ALL 4.5 billion in January to July 2015, which offset increases in infrastructure and other obligations.

Public Accounts

The following table sets forth an overview of the revenues, expenditure and overall balance of the budget sector public accounts for the periods indicated.

Overview of Government Fiscal Operations Budget Sector

	2010	2011	2012	2013	2014
			(ALL millions)		
TOTAL REVENUE	**324,721**	**330,469**	**330,384**	**327,178**	**366,721**
Grants	**4,605**	**3,811**	**5,559**	**5,737**	**10,186**
Tax Revenue	**288,564**	**303,927**	**300,862**	**299,888**	**335,868**
From tax office and customs	223,019	235,509	232,591	229,031	253,413
V.A.T.	*113,998*	*119,189*	*116,533*	*111,940*	*123,730*
Profit tax	*17,606*	*19,712*	*16,853*	*15,119*	*21,479*
Excise tax	*38,788*	*40,403*	*36,421*	*38,151*	*40,894*
Personal income tax	*27,058*	*27,967*	*27,989*	*29,570*	*28,852*
National taxes and others	*18,295*	*21,388*	*28,677*	*28,454*	*32,606*
Custom duties	*7,274*	*6,850*	*6,118*	*5,797*	*5,852*
Revenues from local government	11,898	11,791	10,859	10,825	12,447
Local taxes	*7,684*	*7,279*	*6,210*	*2,454*	*3,682*
Property tax (buildings)	*1,896*	*1,942*	*2,506*	*1,975*	*1,709*
Small business tax	*2,318*	*2,570*	*2,143*	*6,396*	*7,056*
Social insurance contributions	53,647	56,627	57,411	60,033	70,008
Social insurance	*45,041*	*48,839*	*49,533*	*51,064*	*61,493*
Health insurance	*6,432*	*6,152*	*6,590*	*7,410*	*8,199*
Revenue for owners compensation	*2,174*	*1,636*	*1,288*	*1,559*	*316*
Non-tax revenue	**31,552**	**22,731**	**23,963**	**21,553**	**20,667**
Profit transferred from BOA	4,936	5,710	4,693	4,628	3,012
Budgetary institutions revenue	13,884	10,336	10,276	9,987	11,150
Dividend	735	1,060	426	943	1,387
Revenue from services tariffs	2,977	3,510	3,882	3,133	3,167
Other revenue	8,910	2,115	4,797	2,862	3,012
TOTAL EXPENDITURE	**362,752**	**376,300**	**376,241**	**394,118**	**438,849**
Current expenditures	**300,878**	**305,621**	**312,585**	**328,641**	**341,012**
Personnel expenditures	65,762	67,446	69,437	70,716	71,373
Wages	*56,951*	*58,398*	*60,144*	*61,087*	*61,422*
Social insurance contributions	*8,811*	*9,048*	*9,293*	*9,629*	*9,951*
Interest	41,604	41,121	41,498	43,335	40,075
Domestic	*35,583*	*34,253*	*34,005*	*35,890*	*31,834*
Foreign	*6,021*	*6,868*	*7,492*	*7,445*	*8,241*
Operational & maintenance	34,318	32,995	31,470	32,424	33,124
Subsidies	3,535	3,301	1,884	1,574	1,599
Social insurance outlays	106,207	113,894	120,269	127,644	136,336
Social insurance	*79,316*	*85,265*	*89,860*	*85,598*	*102,794*
Health insurance	*25,141*	*26,974*	*28,828*	*30,147*	*32,225*
Compensation in value to owners	*1,750*	*1,655*	*1,581*	*1,899*	*1,317*
Local budget	30,764	28,119	27,333	29,787	32,985
Other expenditures	18,688	18,745	20,694	23,161	25,520
Unemployment insurance benefits	*982*	*876*	*984*	*800*	*912*
Social assistance	*16,706*	*16,369*	*18,011*	*19,370*	*22,849*
Compensation for the politically persecuted	*1,000*	*1,500*	*1,699*	*2,991*	*1,759*
Compensation for the poor	*0*	*0*	*0*	*0*	*0*
Reserve fund / contingency	**0**	**0**	**0**	**0**	**0**
Capital expenditures	**67,492**	**70,679**	**61,656**	**65,477**	**60,749**
Domestic financing	46,642	41,097	28,398	36,701	33,964
Foreign financing	20,850	27,982	34,257	28,776	26,785
Arrears	**0**	**0**	**0**	**0**	**33,919**
Infrastructure obligations	0	0	0	0	9,838
Tax liabilities	0	0	0	0	12,838
Others	0	0	0	0	11,243
Other transfers	**(5,618)**	**0**	**2,000**	**0**	**1,669**
Lending for energy	—	—	—	—	1,500
Expropriation fund	**—**	**—**	**—**	**—**	**1,500**

Overview of Government Fiscal Operations Budget Sector, cntd.

	2010	2011	2012	2013	2014
			(ALL millions)		
OVERALL DEFICIT	**(38,031)**	**(45,831)**	**(45,857)**	**(66,940)**	**(72,128)**
Deficit Financing	**38,031**	**45,831**	**45,857**	**66,940**	**72,128**
Domestic	13,155	26,073	26,495	56,129	42,237
Privatisation receipts	*411*	*438*	*1,221*	*13,230*	*35*
Domestic borrowing	*11,284*	*28,175*	*24,783*	*46,298*	*38,212*
Other	*1,460*	*(2,539)*	*490*	*(3,399)*	*3,399*
Foreign	24,876	19,758	19,362	10,811	29,891
Long-term loan (drawings)	*59,793*	*25,229*	*35,257*	*22,354*	*19,130*
Change .of stat account	*(1,705)*	*2,142*	*(2,226)*	*1,231*	*(854)*
Repayments	*(33,212)*	*(7,613)*	*(10,669)*	*(12,774)*	*(17,845)*
Budgetary support	—	—	—	—	*30,460*

Source: Ministry of Finance

The following table sets forth an overview of the revenues, expenditure and overall balance of the budget sector public accounts, in percentage terms, for the periods indicated.

Overview of Government Fiscal Operations Budget Sector in Percentage Terms

	2010	2011	2012	2013	2014
			(%)		
TOTAL REVENUE	**26.2**	**25.4**	**24.7**	**24.0**	**25.9**
Grants	**0.4**	**0.3**	**0.4**	**0.4**	**0.7**
Tax revenue	**23.3**	**23.4**	**22.5**	**22.0**	**23.8**
From tax office and customs	18.0	18.1	17.4	16.8	17.9
V.A.T.	*9.2*	*9.2*	*8.7*	*8.2*	*8.8*
Profit tax	*1.4*	*1.5*	*1.3*	*1.1*	*1.5*
Excise tax	*3.1*	*3.1*	*2.7*	*2.8*	*2.9*
Personal income tax	*2.2*	*2.2*	*2.1*	*2.2*	*2.0*
National taxes and others	*1.5*	*1.6*	*2.1*	*2.1*	*2.3*
Custom duties	*0.6*	*0.5*	*0.5*	*0.4*	*0.4*
Revenues from local government	1.0	0.9	0.8	0.8	0.9
Local taxes	*0.6*	*0.6*	*0.5*	*0.2*	*0.3*
Property tax (buildings)	*0.2*	*0.1*	*0.2*	*0.5*	*0.5*
Small business tax	*0.2*	*0.2*	*0.2*	*0.5*	*0.5*
Social insurance contributions	4.3	4.4	4.3	4.4	5.0
Social insurance	*3.6*	*3.8*	*3.7*	*3.7*	*4.3*
Health insurance	*0.5*	*0.5*	*0.5*	*0.5*	*0.6*
Revenue for owners compensation	*0.2*	*0.1*	*0.1*	*0.1*	*0.0*
Non-tax revenue	**2.5**	**1.7**	**1.8**	**1.6**	**1.5**
Profit transferred from BOA	0.4	0.4	0.4	0.3	0.1
Budgetary institutions revenue	1.1	0.8	0.8	0.7	0.8
Dividends	0.2	0.1	0.0	0.1	0.1
Revenue from services tariffs	0.2	0.3	0.3	0.2	0.2
Other revenue	0.7	0.2	0.4	0.2	0.2
TOTAL EXPENDITURE	**39.3**	**28.9**	**28.2**	**28.9**	**31.0**
Current Expenditures	**24.3**	**23.5**	**23.4**	**24.1**	**24.1**
Personnel expenditures	5.3	5.2	5.2	5.2	5.0
Wages	*4.6*	*4.5*	*4.5*	*4.5*	*4.3*
Social Insurance Contributions	*0.7*	*0.7*	*0.7*	*0.7*	*0.7*
Interest	3.4	3.2	3.1	3.2	2.8
Domestic	*2.9*	*2.6*	*2.5*	*2.6*	*2.3*
Foreign	*0.5*	*0.5*	*0.6*	*0.5*	*0.6*
Operational & Maintenance	2.8	2.5	2.4	2.4	2.3
Subsidies	0.3	0.3	0.1	0.1	0.1
Support for Energy	0.0	0.0	0.0	0.0	0.0
Social Insurance Outlays	8.6	8.8	9.0	9.4	9.6
Social Insurance	*6.4*	*6.6*	*6.7*	*7.0*	*7.3*
Health Insurance	*2.0*	*2.1*	*2.2*	*2.2*	*2.3*
Compensation in Value to Owners	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Local Budget	2.5	2.2	2.0	2.2	2.3
Other Expenditures	1.5	1.4	1.5	1.7	1.8
Unemployment Insurance Benefits	*0.1*	*0..1*	*0.1*	*0.1*	*0.1*
Social Assistance	*1.3*	*1.3*	*1.3*	*1.4*	*1.6*
Compensation for the Politically Persecuted	*0.1*	*0.1*	*0.1*	*0.2*	*0.1*
Compensation for the poor	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Reserve Fund/Contingency	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital Expenditures	**5.4**	**5.4**	**4.6**	**4.8**	**4.3**
Domestic financing	3.8	3.2	2.1	2.7	2.4
Foreign financing	1.7	2.2	2.6	2.1	1.9
Arrears	**0.0**	**0.0**	**0.0**	**0.0**	**9.2**
Infrastructure obligations	0.0	0.0	0.0	0.0	96.6
Tax liabilities	0.0	0.0	0.0	0.0	3.8
Others	0.0	0.0	0.0	0.0	4.4
Other transfers	**(1.5)**	**0.0**	**0.1**	**0.0**	**0.1**
Lending for energy	0.0	0.0	0.0	0.0	0.6
Expropriation fund	**0.0**	**0.0**	**0.0**	**0.0**	**1.2**

Overview of Government Fiscal Operations Budget Sector in Percentage Terms, cntd.

	2010	2011	2012	2013	2014
			(%)		
OVERALL DEFICIT	**(3.1)**	**(3.5)**	**(3.4)**	**(4.9)**	**(5.1)**
Deficit Financing	**3.1**	**3.5**	**3.4**	**4.9**	**5.1**
Domestic	1.1	2.0	2.0	4.1	3.0
Privatisation Receipts	*0.0*	*0.0*	*0.1*	*1.0*	*0.0*
Domestic Borrowing	*0.9*	*2.2*	*1.9*	*3.4*	*2.7*
Other	*0.1*	*(0.2)*	*0.0*	*(0.2)*	*0.3*
Foreign	2.0	1.5	1.4	0.8	2.1
Long-term Loans (Drawings)	*4.8*	*1.9*	*2.4*	*1.6*	*1.4*
Change of Stat. Account	*(0.1)*	*0.2*	*(0.2)*	*0.1*	*(0.1)*
Repayments	*(2.7)*	*(0.6)*	*(0.8)*	*(0.9)*	*(1.3)*
Budgetary Support	*0.0*	*0.0*	*0.0*	*0.0*	*2.2*

Source: Ministry of Finance

Overview

With the exception of a decline of ALL 206 million between 2012-2013, resulting primarily from a decline in non-tax revenue over the period (due to decreasing revenues collected from service tariffs, budgetary institutions and other revenue sources), total budget sector revenues have grown each of the past five years from ALL 324.5 billion in 2010 to ALL 366.7 billion in 2014, an aggregate increase of 13.0% over the period.

Principal factors in the overall growth of revenues since 2010 include the growth of (i) tax revenue, which grew from ALL 223.0 million in 2010 to ALL 335.9 million in 2014, an increase of 50.7%, primarily due to increases in revenue from tax offices and customs and social insurance contributions; and (ii) grants, which increased 121.7% from ALL 4.6 billion in 2010 to ALL 10.2 billion in 2014. Total budget sector tax revenues increased by 5.3% and 12.0% between 2010-2011 and 2013-2014, respectively, which offset declines of 1.0% and 0.3% between 2011-2012 and 2012-2013, respectively.

Increases in tax revenue and grants offset decreases in non-tax revenue over the same time period, which declined each year from ALL 31.6 in 2010 to ALL 20.7 in 2014, representing a decrease of 47.7%, primarily due to declines in profits transferred from the Bank of Albania and other revenue sources.

Total budget sector expenditures have also grown over the past five years, from ALL 300.9 in 2010 to ALL 341.0 in 2014. Total budget sector expenditures increased by 3.7%, 4.8% and 11.3% between 2010-2011, 2012-2013 and 2013-2014, respectively, which offset a minimal 0.01% decrease between 2011-2012. Principal factors in the overall growth of expenditures since 2010 include the growth of arrears, wages and other expenditures (of which expenditures on social assistance represented the most significant area of growth).

The overall fiscal deficit was ALL 72.1 billion in 2014 (5.1% of GDP), as compared to ALL 66.9 billion in 2013 (4.9% of GDP), ALL 45.9 in 2012 (3.4% of GDP), ALL 45.8 billion in 2011 (3.5% of GDP), and ALL 38.0 billion in 2010 (3.1% of GDP).

In 2013, the production sector, comprising industry, agriculture and construction, contributed the most to growth. In 2014, however, private consumption and investment were the main growth generators. Exports of goods and services, particularly tourism, performed well in the medium term, supporting in 2014. Real GDP is estimated to have grown by 2% in 2014, supported by increased private demand and the expansion of the services sector. Improved financing conditions, higher confidence and continued arrears clearance boosted household consumption and private investment in 2014.

Budget Deficits

The budget deficit in 2010 represented 3.1% of GDP, as compared to 3.5% in 2011, 3.4% in 2012, 4.9% in 2013 and 5.1% in 2014.

According to the strategy of paying down arrears in the budget for 2014, ALL 34 billion in arrears have been paid, which amounts to 97% of the planned allocated funds (from a planned fund of ALL 35 billion). The payment of arrears increased the deficit for 2014 by the amount paid for arrears.

Real growth rates slowed to less than 3.0% in the period 2009 to 2012 and to less than 1.0% in 2013. The failure to adjust expenditures to account for the decrease in government revenue led to higher than planned budget deficits and an increase in Albania's public debt, partly in the form of arrears. As a result, the legal ceiling of 60% for the debt-to-GDP ratio had to be removed and the ratio reached over 72% in 2014. In addition, optimistic GDP and revenue forecasts, as well as a general failure of relevant Governmental personnel to adjust to a reduction in available funding, has undermined the planning and budget process in recent years.

Reversing these trends is an overarching priority for the Government, particularly through the control of budget expenditures. Safeguards against arrears have been put in place, such as adoption of an Arrears Prevention and Clearance Strategy in 2014, which sets a goal of clearing existing arrears by the end of 2017 and specifies measures to prevent the build-up of new arrears.

The 2015 budget provides for a deficit of 3.9% of GDP.

The following table sets forth an overview of the overall deficit and deficit financing for the periods indicated:

Overall Deficit and Deficit Financing

	As at 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(ALL millions, unless otherwise stated)				
OVERALL DEFICIT	**38,031**	**45,831**	**45,857**	**66,940**	**72,134**
Overall Deficit in % of GDP	**(3.1)**	**(3.5)**	**(3.4)**	**(4.9)**	**(5.1)**
Deficit Financing	**38,031**	**45,831**	**45,857**	**66,940**	**72,134**
Domestic	13,155	26,073	26,495	56,129	42,222
Privatisation Receipts	*411*	*438*	*1,221*	*13,230*	*35*
Domestic Borrowing	*11,284*	*28,175*	*24,783*	*46,298*	*38,212*
Other	*1,460*	*(2,539)*	*490*	*(3,399)*	*3,975*
Foreign	24,876	19,758	19,362	10,811	29,912
Long-term Loans (Drawings)	*59,793*	*25,229*	*32,257*	*22,354*	*19,148*
Chang. of Stat. Account	*(1,705)*	*2,142*	*(2,226)*	*1,231*	*(1,851)*
Repayments	*33,212*	*(7,613)*	*(10,669)*	*(12,774)*	*(17,845)*
Budgetary Support	*0*	*0*	*0*	*0*	*30,460*

Source: Ministry of Finance

Descriptions of Principal Budgetary Components

Tax Revenue

Taxes are the principal source of revenues for the consolidated budget. The tax system in Albania consists of three main categories of taxes: (i) direct taxes on income; (ii) social and health contributions; and (iii) indirect taxes on consumption. Tax on personal income is the most important direct tax. Budget revenues in Albania rely heavily on indirect taxation, namely VAT and excise duties, which accounted for 36.9% of total tax revenues in 2014 and 33.8% of total consolidated budget revenues. In 2014, taxes on personal income accounted for 8.6% of tax revenues and revenues from social and health contributions accounted for 20.7% of total tax revenues. Other taxes levied in Albania are profit tax, small business tax (local), customs duties, property tax (local), taxes on vehicles, and other local and national taxes, such as environmental taxes.

With the exception of duties levied on imports (*e.g.*, customs duties, VAT on imported goods and excise duties), which are collected by the Customs Administration, central government taxes are collected by the Tax Administration.

VAT

VAT was introduced in Albania in 1995. With effect from 1 January 2015, VAT is regulated by Law № 92 of 2014 "On Value Added Tax". This new law is aimed at aligning Albania's domestic law with EU VAT rules, as set out in EU Council Directive 2006/112/EC of 28 November 2006 "On the common system of value added tax". Persons and companies involved in any economic activity, including exporting and importing, but excluding farming, must be VAT-registered if they have an annual turnover of ALL 5 million or more per calendar year. The VAT rate is 20% for both domestically produced and imported goods and services. VAT is levied on the ex-factory price of domestic products and on the Cost, Insurance and Freight ("**CIF**") value of imports plus the sum of import duties and other charges, including excise taxes. Exports and international transport services are zero-rated.

Certain exemptions to VAT apply, including medicines; the supply of private and public educational services; the supply of financial services (except non-life insurance premiums, which are taxable at the standard rate of 20%); gold, bank notes or currencies supplied to the Bank of Albania; postal services; the sale of buildings; certain operations of non-profit organisations; research and development for hydrocarbon operations; both imported and domestically-printed materials of any kind; promotional and advertising services from electronic and printed media; gambling; goods in transit; and imports of goods under the active processing regime for export purposes.

VAT is applied on a national treatment basis, in the sense that the normal standard rate of 20% is applied equally on imported and domestic products and services. Special VAT schemes apply in certain cases. For example, payment of VAT may be postponed for 12 months (or for a longer period, following specific approval by the Minister of Finance) on the importation of investment goods used in the economic activity of a taxable person and on imported machinery for re-sale. Farmers, who are not subject to VAT, may benefit from compensation for certain eligible products sold to VAT-taxable subjects.

VAT reimbursements have increased annually from 2004 through 2014.

Excise Tax

The current excise tax regime was adopted in 2002 upon the enactment of Law № 8976 of 12 December 2002 "On excise duties in Albania", as amended. Excise taxes are levied on coffee; beer, wine, alcohol, and other spirits; tobacco and tobacco products; petroleum by-products; incandescent bulbs; tires; plastic and glass packaging; firewalls; piles; and batteries. All excise duties are expressed in ALL per unit of product, with the exception of cosmetics and incandescent lamps, which are levied as a percentage, and rates differ among and within product groups. Exemptions to excise taxes apply on exports and approved customs or tax suspension regimes, as well as gas, oil and oil-by products used in oil research activities.

Excise tax is refundable on exports; approved suspension regimes; gas oil used for fishing boats; and fuel used by producers of electricity resources of 5 MW or more for each energy resource, as well as fuel used in the production of agriculture products in heated greenhouses.

Income Tax

Law № 8438 of 28 December 1998, as amended, governs income tax for natural and legal persons. Personal income tax applies to several income sources of individuals, such as wages and salaries and income from interest payments, dividends, intellectual property rights, the sale of immovable property and additional minor categories. In 2008, the personal income tax rate was reduced from 23% to 10%, and currently all personal income is taxed at a rate of 10%. For wages and salaries only, an exemption threshold applies, which specifies that, for incomes lower than ALL 30,000, the first ALL 10,000 is tax-free.

Profit tax

All of the sources of income from domestic and foreign companies engaging in economic activities in Albania are subject to profit tax. Foreign companies based abroad but with activities in Albania are taxed only on the basis of their Albanian operations. The profit tax rate was reduced from 20% to 10% in 2008 and, since 2014, all corporate revenues are currently taxed at a rate of 15%. Taxable income includes corporate earnings, distributed stock dividends, income from the lease and transfer of real property and interest on bank deposits and securities. In accordance with Law № 8438, there is a withholding tax of 10% on dividends, royalties, interest and technical service and management fees paid to both residents and non-residents. For non-Albanian residents, the withholding tax rate may be reduced by an applicable double tax treaty.

Small Business Tax

Law № 9632 of 30 October 2006 provides for the application of a tax on small businesses, defined as those with an annual turnover of less than ALL 8 million (approximately €58,400). This tax is applied instead of income tax on profits and is divided into two categories: a fixed amount on turnover of up to ALL 2 million (approximately €15,000), plus a proportional tax of 1.5% on income of between ALL 2 and 8 million.

Social Contributions

Employers pay a rate of 15% on gross wages as social contribution on behalf of employees, reduced in 2009 from 19%. The total contributions rates for health and social protection are: 16.7% of gross wage paid by employers and 11.2% of gross wage paid by the employees. The Government also applies a reference wage system for the purpose of determining the level of social contributions, which differ by economic sector, level of qualification and region.

National taxes are regulated by Law № 9975 of 28 July 2008, as amended. This law brought substantial changes in the system of national taxes, reducing the tax mix from the then-existing 23 different types of national taxes to seven. The 14 previous additional taxes were either transformed in to tariffs or abolished. The new group of national taxes includes road circulation tax, carbon tax, packages tax, tax on transactions of used motor vehicles, port tax, mineral rent tax, stamp tax, tax for registration of casinos and gambling and tax for fishing activities.

Expenditures

Special Funds

While Albania's public finance system does not include extra-budgetary funds, the Organic Budget Law includes a concept of special funds, which are consolidated in the budget. A special fund has its own revenues and expenditures, but is not self-funding. Local government special funds are proposed to the Minister of Finance by the council of the relevant local government. The law for the establishment of a central or local government special fund defines:

- the purpose of the creation of the special fund;
- the administrative unit of the special fund, which could be from central or local government, independent or a subordinate of another unit;
- the sources of financing and balancing of the special fund;
- the consolidation approach with the central or local government accounts; and
- the timeline and closure procedures of the special fund.

As at the date of this Prospectus, there are three such specific funds: the Social Insurance Fund, Health Care Fund and the Property Compensation Fund.

International Tax Agreements

Albania has signed 40 double tax treaties with the following countries: Poland, Romania, Malaysia, Hungary, Turkey, Czech Republic, Russia, Macedonia, Croatia, Italy, Bulgaria, Sweden, Norway, Hellenic Rep., Malta, Switzerland, Moldavia, Belgium, China, France, Egypt, the Netherlands, the United Nations Mission in Kosovo ("**Umnik**"), Serbia and Montenegro, Austria, Slovenia, Latvia, South Korea, Bosnia-Herzegovina, Luxembourg, Ireland, Estonia, Germany, Kuwait, Spain, Singapore, India, the United Kingdom, the United Arabian Emirates, Saudi Arabia, Morocco and the Sultanate of Oman.

TAXATION

The following is a summary of certain income tax consequences resulting from the purchase, ownership and disposition of the Notes and is not intended to reflect the individual tax position of any beneficial owner.

Persons considering the purchase of the Notes should consult their own tax advisers concerning the application of Albanian tax laws to their particular situations, as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of Albanian legislation, tax law and practice in Albania is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or, that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to Noteholders could become subject to taxation, or that tax rates currently in effect could be increased, in ways that cannot be anticipated as at the date of this Prospectus.

Albanian Taxation

This section summarises the basic Albanian tax consequences of issue and redemption of the Notes for both non-residents and residents of the Republic of Albania pursuant to applicable Albanian tax legislation. The following summary is included for general information only.

Tax on Issue of the Notes

No stamp, registration or state duty or similar tax will be payable in the Republic of Albania upon the issue or transfer of the Notes.

Tax exemption under Law № 67/2015 of 2 July 2015 "On the Eurobond that will be issued by the Minister of Finance, approval of exemptions from taxes and fees and of the provisions for waiver of immunity in the agreements that will be signed by the Minister of Finance"

The Assembly has enacted Law № 67/2015 of 2 July 2015 "On the Eurobond that will be issued by the Minister of Finance, approval of exemptions from taxes and fees and of the provisions for waiver of immunity in the agreements that will be signed by the Minister of Finance". Pursuant to Article 2 of this law, payments in respect of the Notes are exempt from Albanian income tax, Albanian value added tax and all and any other taxes in the Republic of Albania that may arise as a result of all transactions and activities in relation to the issue, management, holding and trading of the Notes. Accordingly, there will be no withholding tax chargeable in respect of the Notes.

Gross-Up Obligation

Pursuant to Condition 8 of the Conditions, all payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Albania or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law, in circumstances where the tax exemption provision under Law № 67/2015 of 2 July 2015 "On the Eurobond that will be issued by the Minister of Finance, approval of exemptions from taxes and fees and of the provisions for waiver of immunity in the agreements that will be signed by the Minister of Finance" is for some reason no longer valid (*e.g.*, due to a change in legislation). In such an event, the gross-up provisions in Condition 8 of the Conditions will apply.

EU Savings Directive

Under the Savings Directive, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments. The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the Council of the European Union adopted the Amending Directive amending and broadening the scope of the requirements described above. The Amending Directive requires Member States to apply these new requirements from 1 January 2017 and if they were to take effect the changes would expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. They would also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU.

The European Commission has, however, proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

The FTT proposal, however, remains subject to negotiation between the participating Member States, and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, in a subscription agreement dated 10 November 2015 (the "**Subscription Agreement**") between the Republic and the Joint Lead Managers, jointly and severally agreed to subscribe and pay for, or procure the subscription and payment for, the Notes at their issue price of 99.472% of their principal amount, less a combined management, underwriting and selling commission.

The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes. The Republic will also reimburse the Joint Lead Managers for certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain losses, incurred in connection with the issue of the Notes.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers or their respective affiliates may have performed investment banking and advisory services for the Republic from time to time for which they may have received fees, expenses, reimbursements and/or other compensation. The Joint Lead Managers and their respective affiliates may, from time to time, engage in transactions with the Republic in the ordinary course of their banking business and the Joint Lead Managers may, from time to time, perform various investment banking, financial advisory and other services for the Republic, for which they receive customary fees, and the Joint Lead Managers and their respective affiliates may provide such services in the future.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and/or instruments of the Republic. In addition, certain of the Joint Lead Managers and/or their respective affiliates may hedge their credit exposure to the Republic pursuant to their customary risk management policies. These hedging activities could have an adverse effect on the future trading prices of the Notes. The Joint Lead Managers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

United States

The Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered or sold within the United States. Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell any Notes within the United States.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not it is participating in the offering of the Notes) may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Republic; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Republic of Albania

In accordance with Article 41 of Law № 9879 of 21 February 2008 (the "**Law on Securities**") (Official Journal № 36 of 12 March 2008, page 1629), the issuance of securities by the Albanian state, which would include the issue of the Notes by the Republic, is exempted/excluded from the application of the rules set forth in section two, of the first chapter entitled "On the Issuance of Securities" of the Law on Securities.

In accordance with Article 42 of the Law on Securities, a "reverse inquiry" shall not be considered as an activity related to the sale and distribution of the Notes. The Joint Lead Managers may, therefore, accept "reverse inquiry" offers from Albanian investors without any need for licencing or any other permission of whatever nature from the Albanian Financial Supervisory Authority (the "**Authority**").

In respect of the sale and distribution of the Notes by the Joint Lead Managers within the territory of the Republic of Albania, this may be performed without any licencing or any other permission of whatever nature from the Authority, provided that the Joint Lead Managers engage an authorised Albanian commissioning company or bank to operate within the territory of the Republic of Albania as agents of the Joint Lead Managers in order to conduct marketing and selling activities in connection with the Notes within the territory of the Republic of Albania, which, pursuant to Article 42, point 4 of the Law on Securities, is considered as an activity with transactions in securities and as such must be carried out by commissioning companies or banks that are licenced for such activities by the Authority.

In respect of any such marketing and selling activities carried out in connection with the Notes within the territory of the Republic of Albania, the Joint Lead Managers must inform the Authority on the manner of the issuance and sale, as well as on the method of clearing and rules governing the Notes.

General

No action has been or will be taken in any jurisdiction by the Republic or either Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in the Republic of Albania in connection with the issue and performance of the Notes. The issue of the Notes is authorised pursuant to Law № 9665 of 18 December 2006 "On state borrowing, public debt and state guaranteed loans in the Republic of Albania", as amended, and Law № 67/2015 of 2 July 2015 "On the Eurobond that will be issued by the Minister of Finance, approval of exemptions from taxes and fees and of the provisions for waiver of immunity in the agreements that will be signed by the Minister of Finance".

Listing of Notes

An application has been made to the Irish Stock Exchange to admit the Notes to listing on the Official List and to have the Notes admitted to trading on the Market; however, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or around the Issue Date, subject only to the issue of the Notes.

The expenses in connection with the admission of the Notes to the Official List and to trading on the Market are expected to amount to approximately €6,540.

Listing Agent

Deutsche Bank Luxembourg S.A. is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Market for the purposes of the Prospectus Directive.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg.

The ISIN is XS1300502041 and the common code is 130050204.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L 1855 Luxembourg.

Legal and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position of the Issuer.

No Significant Change

There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2014.

Documents on Display

Copies of the following documents (together with English translations thereof, where applicable) may be inspected, in physical form, during normal business hours at the offices of Deutsche Bank AG, London Branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom for 12 months from the date of this Prospectus:

(a) this Prospectus;

(b) the Agency Agreement (which includes the form of the Global Certificate and the definitive Certificates);

(c) the Deed of Covenant;

(d) English translations of Law № 9665 of 18 December 2006 "On state borrowing, public debt and state guaranteed loans in the Republic of Albania", as amended, and Law № 67/2015 of 2 July 2015 "On the Eurobond that will be issued by the Minister of Finance, approval of exemptions from taxes and fees and of the provisions for waiver of immunity in the agreements that will be signed by the Minister of Finance";

(e) the budget of the Issuer for the current fiscal year; and

(f) budgetary review bulletins for the last 3 fiscal years.

Yield

As at the Issue Date and on the basis of the issue price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes, as calculated on the pricing date, the yield to maturity of the Notes is 5.875%. This is not an indication of future yield.

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