

RESOLUTION FUND

*Financial Statements as at and for the year ended
December 31, 2019 with the Independent Auditor's Report*

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INDEPENDENT AUDITOR'S REPORT

To Supervisory Board of Resolution Fund

Opinion

We have audited the financial statements of Resolution Fund (the "Fund"), which comprise statement of financial position as at December 31, 2019, statement of income and expenses and other comprehensive income, statement of changes in net assets at the discretion of the Resolution Authority and statement of cash flows for the year ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31 2019, and its financial performance and its cash flows for the year ended on this date in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other information

Management is responsible for other information. Other information includes the information provided in the Annual Report prepared by the Management of Resolution Fund in accordance with Law no.53/2014, dated 22 May 2014 "On Deposit Insurance", as amended. The Annual Report is expected to be available after the date of our audit report. Our opinion on the financial statements does not cover other information and we do not express any conclusions that provide assurance regarding this information. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Audit Albania Shpk

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Tirana, Albania
Identification number (NUIS): L41709002H



A handwritten signature in blue ink, appearing to be "Enida Cara".

Engagement Partner
Statutory Auditor
Enida Cara

Tirana, Albania
February 27, 2020

RESOLUTION FUND
Statement of Financial Position

(All amounts are in ALL unless otherwise stated)

	Note	As at December 31, 2019	As at December 31, 2018
ASSETS			
Cash and cash equivalents	8	255,035,598	66,291,242
Investments held to collect contractual cash flows	9	1,050,529,040	571,698,800
TOTAL ASSETS		1,305,564,638	637,990,042
LIABILITIES			
Other liabilities	10	1,976,995	1,314,609
TOTAL LIABILITIES		1,976,995	1,314,609
NET ASSETS AT THE DISCRETION OF THE RESOLUTION AUTHORITY			
Net Assets at the discretion of the Resolution Authority		636,675,433	-
Total comprehensive income for the period		666,912,210	636,675,433
TOTAL NET ASSETS AT THE DISCRETION OF THE RESOLUTION AUTHORITY		1,303,587,643	636,675,433
TOTAL LIABILITIES AND ASSETS AT THE DISCRETION OF RESOLUTION AUTHORITY			
		1,305,564,638	637,990,042

The accompanying notes on pages 8 to 37 are an integral part of these financial statements.

RESOLUTION FUND**Statement of Income and Expenses and Other Comprehensive Income***(All amounts are in ALL unless otherwise stated)*

			Since inception (January 1, 2018) till December 31, 2018
	Note	For the year ended December 31, 2019	
Operating income:			
Income from annual contributions	11	650,332,126	632,174,459
Interest income	12	20,203,798	8,437,388
Other operating income	13	-	5,712
		670,535,924	640,617,559
Financial expenses:			
Loss on translation of foreign currency translation		(1,543,602)	(2,270,400)
Fee and commission expenses	14	(500,000)	(500,000)
		(2,043,602)	(2,770,400)
Operating expenses:			
Operational expenses from activity	15	(1,476,995)	(1,064,425)
		(1,476,995)	(1,064,425)
Impairment of financial assets	8	(103,117)	(107,301)
NET SURPLUS FOR THE YEAR		666,912,210	636,675,433
Other comprehensive income		-	-
TOTAL OTHER COMPREHENSIVE INCOME		666,912,210	636,675,433

The accompanying notes on pages 8 to 37 are an integral part of these financial statements

RESOLUTION FUND
Statement of Cash Flow

(All amounts are in ALL unless otherwise stated)

		For the year ended December 31, 2019	Since inception (January 1, 2018) till December 31, 2018
	Note		
NET SURPLUS FOR THE YEAR		666,912,210	636,675,433
Adjustment for:			
Interest income		(20,203,798)	(8,437,388)
Changes in:			
Other liabilities		662,386	1,314,609
Interest received		19,373,558	9,738,588
Cash flows generated from operating activity		666,744,356	639,291,242
INVESTING ACTIVITY			
Increases of financial assets held to collect contractual cash flows		(478,000,000)	(573,000,000)
Cash flows used for investing activity		(478,000,000)	(573,000,000)
Increase in cash during the year		188,744,356	66,291,242
Cash and cash equivalents at the beginning of the year	8	66,291,242	-
Cash and cash equivalents at the end of the year	8	255,035,598	66,291,242

The accompanying notes on pages 8 to 37 are an integral part of these financial statements.

RESOLUTION FUND

Statement of Changes in Net Assets at the discretion of the resolution authority

(All amounts are in ALL unless otherwise stated)

	Resolution Fund	Total
Net asset at the discretion of the resolution authority at January 1, 2018	-	-
Net surplus for the year	636,675,433	636,675,433
Other comprehensive income for the year	-	-
Total other comprehensive income for the year	636,675,433	636,675,433
Net assets at the discretion of the resolution authority at December 31, 2018	636,675,433	636,675,433
Net surplus for the year	666,912,210	666,912,210
Other comprehensive income for the year	-	-
Total other comprehensive income for the year	666,912,210	666,912,210
Net assets at the discretion of the resolution authority at December 31, 2019	1,303,587,643	1,303,587,643

The accompanying notes on pages 8 to 37 are an integral part of these financial statements.

These financial statements are approved by the Supervisory Board of the Agency with decision No. 06 on February 21st, 2020 and signed on behalf of Resolution Fund by:

Genci Mamani
General Director



Eneida Ruci
Chief Finance Officer

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

1. GENERAL INFORMATION ON THE REPORTING ENTITY

The resolution fund was established on January 1, 2018 pursuant to Law 133/2016 "On the recovery and resolution in banks, in the Republic of Albania" (Law). The Resolution Fund is managed by the Albanian Deposit Insurance Agency (the "Agency" or "DIA") in accordance with the provisions of this Law and sub-legal acts approved for this purpose by the Bank of Albania. The "Resolution Fund" does not have a legal personality. Bank of Albania is the Resolution Authority that exercises the resolution powers defined in the law. Any claim in relation to the "Resolution Fund" shall be addressed to the Resolution Authority as determined by the law.

The subject matter of this law is:

- a) the determination of rules, procedures and tools for the recovery and resolution of banks and branches of foreign banks;
- b) the determination of powers and tasks of the Resolution Authority and the Supervisory Authority;
- c) the establishment, financing and use of the Resolution Fund, and also its management thereof.

The bank resolution fund pools together regular (annual) contributions from banks, whose level is set by the Bank of Albania so that the target level of 0.5% of the all banks' liabilities might be reached by July 11, 2027. The Bank of Albania in the position of Resolution Authority calculates annually the contribution paid by the banking sector for gradual build-up of the Resolution Fund.

The Resolution Fund shall be used for the implementation of the emergency intervention instruments provided by law.

For the first year, based on the Law and regulation no.56 dated 03.10.2017 "On the resolution fund and procedures for its management", amended, the target level, the annual level of the Fund and the annual contribution for each bank is based on the financial statements as of December 31, 2016. The fund's targeted level is distributed in relation to the share that each bank has in the liabilities of the banking sector.

- By January 10, 2018, banks have paid 10% of the annual contribution to the Fund for the first year.
- By April 30, 2018, banks have paid the remaining 90% of the annual contribution to the Fund for the first year.

For the second year, banks have paid their entire contribution by April 30, 2019 according to the amount calculated from the Resolution Authority.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

2. REGULATORY FRAMEWORK OF RESOLUTION FUND OPERATIONS

Fund activity is regulated from the Law 133/2016 "On the recovery and resolution in banks, in the Republic of Albania", sub-legal acts approved from Bank of Albania and regulations prepared from the Agency and approved from Resolution Authority.

Financial resources of the Resolution Fund consists of the following:

- a) annual contributions paid by the banks;
- b) extraordinary contributions paid by the banks;
- c) loans, subsidies and donations. The Loans may be guaranteed by using actual and/or future assets of the Resolution Fund;
- d) incomes from managing the financial resources of the Resolution Fund;
- e) incomes from the repayment of the funds used during the implementation of powers and tools provided in this law;
- f) incomes from fines collected pursuant to the penalties;
- g) other financial instruments provided by the Resolution Authority.

Bank of Albania, as the Resolution Authority, approves the uses of Fund, whilst the Agency determines the way of investment and the instruments at which the funds may be invested, pursuant to the investment policy in place approved by the Resolution Authority. The administration of the Resolution Fund must guarantee the safety of the financial means, through investments highly liquidity and low risk profile. The investment policy defines the procedures, criteria, maturity and benchmarks.

The financial means of the Fund must be invested in debt securities issued by the Government of Albania, the Bank of Albania, foreign governments, central banks and international financial institutions that are highly rated by reputable international credit rating agencies (AAA/AA-). According to the Law, the Agency should maintains separate financial accounts for the Resolution Fund. At the end of each financial year, the Agency prepares a report on investment activity of the Funds and submit it to the Resolution Authority.

The highest governing body of the Fund is the Supervisory Board of the Agency. The Supervisory Board is composed by five members appointed by the Supervising Authority. Two members are proposed by the Supervising Authority, two members are proposed by the Minister of Finance and Economy of the Republic of Albania, and one member is proposed by the Institute of Authorized Chartered Auditors of Albania.

The members of Supervisory Board are non-executive, with exception of the member appointed to the position of the General Director. The Law on deposit insurance, amended, stipulates that the term of office for each member of the Supervisory Board is five years, with the right to be re-elected, based on the performance indicators of their activity.

As at December 31, 2019 and as at December 31, 2018 the Supervisory Board is composed of:

Mr. Donald Duro	Chairman
Mr. Genci Mamani	Member
Mr. Ervin Mete	Member
Mr. Erjon Luçi	Member
Mrs. Nexhmije Cela	Member

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

3. BASIS OF PREPARATION AND APPLICATION OF IFRS

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis. The accounting policies set out below have been consistently applied to all periods presented in these financial statements.

(c) Functional and presentation currency

These financial statements are presented in ALL, which is the Fund's functional currency.

(d) Use of estimates and judgments

The preparation of the financial statements in accordance with IFRS requires for the management body to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in Notes 6 and 7.

(e) Going concern principle

Financial Statements of the Fund has been prepared on the going concern principle, which is based on the assumption that the Fund will pursue its operational existence the foreseeable future. Pursuant to the Law, the Fund will increase gradually and reach the level of 0.5% of liabilities of all banks by July 11, 2027. To meet the target level of the fund, the banking sector pays annually an annual contribution commensurate with the years remaining until 2027.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

4.1 Initial application of new amendments to the existing standards effective for the current reporting period

The following new standards, amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 “Financial Instruments”** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (CONTINUED)

4.1 Initial application of new amendments to the existing standards effective for the current reporting period (continued)

- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Funds financial statements.

4.2 New standards and amendments to existing standards in issue not yet adopted

At the date of authorisation of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 “Business Combinations”** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”** - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Fund has elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Transactions in foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are retranslated to the functional currency at the exchange rate ruling at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

Official exchange rates used for main foreign currencies to convert balance sheet items in ALL are as follows:

	December 31, 2019	December 31, 2018
EUR	121.77	123.42
United States Dollar (USD)	108.64	107.82
Swiss Franc (CHF)	112.30	109.60

5.2 Interest

Interest income and expense are recognised in the profit or loss statement by using the effective interest method. For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts and payments excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the of the financial asset or liability on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

For financial assets of the Fund which are financial instruments with no increased credit risk, effective interest rate is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or liability to the gross carrying amount at initial recognition.

5.3 Fees and commission

The calculation of the effective interest rate also includes fees and commission income and expenses that are integral to the effective interest rate of a financial asset or liability.

5.4 Financial assets and liabilities

(i) Recognition

The Fund initially recognises investment in securities, deposits, borrowings and other subordinated liabilities on the date that they are originated. Frequent purchases and sales of financial assets are recognised on the trade date at which the Fund commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Fund becomes a party to the contractual provisions of the instrument.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4 Financial assets and liabilities (continued)

(ii) Classification

Financial assets

When a financial asset or a financial liability is not defined at fair value through profit or loss, it is measured at fair value plus the transaction costs that are directly attributable to its acquisition or issuing.

Classification of financial instruments

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income:

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

By default, all other financial assets are measured subsequently at fair value through profit or loss.

(i) Amortised cost and effective interest

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Foreign exchange gain or loss

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically, for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item; (note 11)

As of December 31, 2019 and December 31, 2018 the Fund's financial assets consist of cash and cash equivalent and investment securities classified as held-to-collect. See Notes 5.6, 5.7 and 5.8.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4 Financial assets and liabilities (continued)

Financial liabilities

The Fund classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss. As of December 31, 2019 and 2018 the Fund's financial liabilities consist only of payables to the Agency, measured at amortised cost.

(iii) Impairment of financial assets

The Fund recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at fair value through other comprehensive. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Fund always recognises lifetime ECL for its financial assets when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Fund measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Fund compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Fund considers both quantitative and qualitative information that is reasonable and supportable, including and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the sector in which the Fund operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Fund's core operations. In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument,
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4 Financial assets and liabilities (continued)

(iii) Impairment of financial assets (continued)

Despite the foregoing, the Fund assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Fund considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Fund regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Fund considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Fund.

Irrespective of the above analysis, the Fund considers that default has occurred when a financial asset is more than 90 days past due unless the Fund has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4 Financial assets and liabilities (continued)

(iii) Impairment of financial assets (continued)

The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date. For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Fund in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at the original effective interest rate. The Fund recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through comprehensive income, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position

(iii) Derecognition

Financial assets

The Fund derecognises a financial asset when the contractual rights to the cash flows generated from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Fund neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Fund is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The Fund derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) Offsetting

Financial assets and liabilities are offset and presented with their net balance in the statement of financial position only when the Fund has the legal right to do so. The Fund intends to either settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from similar transactions.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4 Financial assets and liabilities (continued)

(iii) Impairment of financial assets (continued)

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method for any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value is the price that would be received when selling an asset or paying a liability in an orderly transaction between market participants at the measurement date of the principal, or in the market's absence, the most advantageous market to which the Fund has access to that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best benchmark of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Fund determines that the fair value at initial recognition differs from the transaction price, and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Fund measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Fund's accounting policy on fair value measurements is set out in Note 7.1.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4 Financial assets and liabilities (continued)

(iii) Impairment of financial assets (continued)

(vii) Fair value measurement (continued)

- Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Fund determines fair values using other valuation techniques.

Other valuation techniques include the net present value and discounted cash flow models, using similar instruments for which market observable prices exist.

The objective of valuation techniques is to obtain a fair value measurement that reflects the price that would be received when selling the asset, or paid when transferring the liability through orderly transactions between market participants at the measurement date.

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in financial markets.

The Fund recognizes transfers between categories in the fair value order at the end of the reporting period during which the change occurred

5.5 Cash and cash equivalents

Cash and cash equivalents include current accounts and highly liquid deposits in the Bank of Albania, with original maturities of 7 days, subject to insignificant risk of changes in their fair value, and are used by the Fund in the management of its activity. Cash equivalents are carried at amortised cost in the statement of financial position, which approximates fair value due to their short term nature.

5.6 Investments held to collect contractual cash flows

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, adding incremental direct transaction costs. Fund' financial assets are classified as held to collect because considering their business model they are hold in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal amount.

5.7 Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT

In the ordinary course of its operations, the Fund is exposed to a variety of financial risks, the most important of which are market risk (including currency risk, risk of changes in fair value and interest rates), credit risk and liquidity risk. General risk management is focused on identifying the risks that might affect the financial results and position of the Fund and minimising the potential negative effects arising from such risks.

Financial risks are currently identified, measured, and monitored through various control mechanisms introduced to adequately assess the market circumstances of its investments, and the ways for maintaining liquid assets in order to prevent undue risk concentration.

The administration of funds of the Fund are governed by the law no.133/2016 "On the Recovery and Resolution of Banks in the Republic of Albania" and the Policy on the administration of financial resources of the Resolution Fund" ("Investment Policy"), approved by the Resolution Authority.

Investment Policy of the Fund defines the structure of the Fund portfolio, the criteria for minimizing the risks in the administration, and the conditions for decision-making procedures and implementation of financial management tools. The management of funds of the Fund are carried out by following these principles: a) the principle of liquidity, according to the titles in which funds are invested must be returned in ALL quickly and with less cost; b) the principle of security, according to which the Fund diversifies its portfolios by investing in different titles depending on the type and / or maturity and, while keeping credit risk as low as possible; and c) the principle of the return rate, according to which the actual return rate of the financial instruments in which the tools are invested should be as high as possible.

The Resolution Authority shall immediately notify the Agency of adjusting the distribution of the tranche according to its needs or the termination of the investment activity in case of need for liquidity or other urgent needs, pursuant to Law 133/2016 "On the Recovery and Resolution of Banks in the Republic of Albania ". The financial instruments allowed are regulated by Law 133/2016" On the Recovery and Resolution of Banks in the Republic of Albania "and the Policy on the Management of the Resolution Fund's Financial Assets" ("Fund's Management Policy").

Under these acts, financial means are invested in securities issued by governments or foreign central banks, or international financial institutions rated as safe by reputable credit rating agencies (ratings not lower than AA- / Aa3) or securities issued by the Government of Albania or the Bank of Albania. Financial assets can also be placed in short-term deposits / current accounts with the Bank of Albania or international financial institutions rated as safe by reputable credit rating agencies (rating not lower than AA- / Aa3).

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

For management purposes, the funds are organized in two tranches. The liquidity tranche covers the needs in case of a possible resolution event, insurance event and the expenses for the annual activities of the Fund. This tranche includes balances held in current accounts, deposits, and securities with a remaining maturity of 0-3 months. The size of this tranche can never be less than 10 % of the total financial assets for each of the funds managed by the Fund. The tranche of investment represents the financial assets after the liquidity tranche is deducted. This tranche includes securities with remaining maturities of up to 10 years. Titles with remaining maturity over 2 years cannot have a value greater than 30% of total financial assets for each of the funds. In order to minimize the risks of investment, the tranche should target a scalable distribution of maturities. The transition of this tranche to the liquidity tranche is carried out accordingly to the Fund's need for liquidity. The sizes of the tranches of liquidity and investment are determined by the Investment Committee in order to ensure a scalable distribution of maturities. Resolution Authority as stipulated by the Law, announces immediately the Agency for adoption of tranches or suspension of investing activity in case of liquidity needs or other urgent needs.

To manage currency and exchange rate risk, financial assets are held in ALL and foreign currency. Allowed foreign currencies are USD and EUR. The amount of each currency held is determined at the annual financial assets investment strategy. Financial assets in foreign currency part of the bank deposit insurance fund should not be less than 5 % of the total financial assets of this fund.

Furthermore, in order to guarantee the ability to meet obligations in case of a resolution event, upon the request of Resolution Authority, the resources and financial means may be complemented by a debt guarantee from the state budget pursuant to the legislation into force.

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.1 Credit risk**

Credit risk is the risk of a financial loss to the Fund if the counterparty to a financial instrument fails to meet its contractual obligations, and the risk arises mainly from the Fund's investment securities and balances with Central Bank. For risk management reporting purposes, the Fund considers and consolidates all elements of credit risk exposure such as individual obligor default risk and country risk.

The Investment Committee is responsible for the oversight of credit risk, including review and assessment of credit risk, as well as ensuring compliance with established boundaries on the amount of exposure to counterparties/countries and other relevant policies set in the regulatory framework.

The table below presents credit risk exposure by counterparty (country) and related delinquency or impairment, if any:

Investment securities	Government of Albania	Total
<i>As of December 31, 2019</i>		
Neither past due nor impaired	1,050,529,040	1,050,529,040
Total	1,050,529,040	1,050,529,040

Investment securities	Government of Albania	Total
<i>As of December 31, 2018</i>		
Neither past due nor impaired	571,698,800	571,698,800
Total	571,698,800	571,698,800

Cash and Cash equivalents	Bank of Albania	Total
<i>As of December 31, 2019</i>		
Neither past due nor impaired	182,184,016	182,184,016
Not past due but impaired as per requirements of IFRS 9	72,851,582	72,851,582
Total	255,035,598	255,035,598

Cash and Cash equivalents	Bank of Albania	Total
<i>As of December 31, 2018</i>		
Neither past due nor impaired	31,840,942	31,840,942
Not past due but impaired as per requirements of IFRS 9	34,450,300	34,450,300
Total	66,291,242	66,291,242

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.1 Credit risk (continued)**

2019				
Stages according to Expected Loss from Financial Assets				
	Stage 1	Stage 2	Stage 3	Total
Investments	1,050,529,040	-	-	1,050,529,040
Cash and cash equivalents	255,246,016	-	-	255,246,016
Gross amount	1,305,775,056	-	-	1,305,775,056
Impairment	(210,418)	-	-	(210,418)
Net amount	1,305,564,638	-	-	1,305,564,638

2018				
Stages according to Expected Loss from Financial Assets				
	Stage 1	Stage 2	Stage 3	Total
Investments	571,698,800	-	-	571,698,800
Cash and cash equivalents	66,398,542	-	-	66,398,542
Gross amount	638,097,342	-	-	638,097,342
Impairment	(107,300)	-	-	(107,300)
Net amount	637,990,042	-	-	637,990,042

The Fund had no outstanding contingent financial commitments as of December 31, 2019 and December 31, 2018.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

Fund use credit ratings published from international ratings agencies for assesment of propabilities of default of financial assets and liabilities as detailed below:

Rating according to S&P 2019	Institution	Probability of default
B+	Albanian Government	0.64%
B+	Bank of Albania	0.64%
Rating according to S&P 2018		Probability of default
B+	Albanian Government	0.69%
B+	Bank of Albania	0.69%

6.2 Market risks

Market risk is the risk arising from changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) which will affect the Fund's income or the value of its holdings of financial instruments. The objective of the Fund's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Fund's solvency, while maximizing the return on risk.

(i) Exposure to interest rate risk – held-to-collect contractual cash flows investments

The main risk to which non-trading portfolios are exposed to, is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments as a result of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Investment Committee is the monitoring body for compliance within these limits.

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.2 Market risks (continued)***(i) Exposure to interest rate risk – held-to- collect contractual cash flows investments (continued)*

A summary of the Fund's interest rate gap position on non-trading portfolios as per remained maturity is as follows:

As of December 31, 2019	Carrying amount	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 – 24 months	Over 24 months
Cash and cash equivalents	255,035,598	255,035,598	-	-	-	-	-
Investments held to collect contractual cash flows	1,050,529,040	-	149,678,548	155,128,633	131,000,000	468,658,547	146,063,312
TOTAL	1,305,564,638	255,035,598	149,678,548	155,128,633	131,000,000	468,658,547	146,063,312

As of December 31, 2018	Carrying amount	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 – 24 months	Over 24 months
Cash and cash equivalents	66,291,242	66,291,242	-	-	-	-	-
Investments held to collect contractual cash flows	571,698,800	-	142,210,164	-	148,488,636	281,000,000	-
TOTAL	637,990,042	66,291,242	142,210,164	-	148,488,636	281,000,000	-

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.2 Market risks (continued)***(i) Exposure to interest rate risk – held-to-collect contractual cash flows investments (continued)*

Management considered a standard scenario that includes a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Fund's sensitivity to an increase or decrease in market interest rates is as follows:

Change in rates	As of December 31, 2019
+100bp	13,055,646
-100bp	(13,055,646)

Change in rates	As of December 31, 2018
+100bp	6,379,900
-100bp	(6,379,900)

(ii) Exposure to currency risk

Currency risk is defined as the risk related to movements in exchange rates which may cause significant changes, positive or negative, in the statement of financial position. The Fund is mainly exposed to risk of changes in the exchange rate of the EUR to the Albanian ALL. The existing exposures and limits on such exposures are set and monitored in accordance with the Investment Policy of the Fund.

A summary of the Fund's currency exposure position is as follows (amounts in ALL):

As of December 31, 2019	ALL	EUR
ASSETS		
Cash and cash equivalents	182,184,017	72,851,581
Investments held to collect contractual cash flows	1,050,529,040	-
TOTAL	1,232,713,057	72,851,581
LIABILITIES		
Other liabilities	(1,976,995)	-
TOTAL LIABILITIES	(1,976,995)	-
NET CURRENCY EXPOSURE	1,230,736,062	72,851,581

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.2 Market risks (continued)***(ii) Exposure to currency risk (continued)*

As of December 31, 2018	ALL	EUR
ASSETS		
Cash and cash equivalents	31,840,942	34,450,300
Investments held to collect contractual cash flows	571,698,800	-
TOTAL	603,539,742	34,450,300
LIABILITIES		
Other liabilities	(1,314,609)	-
TOTAL LIABILITIES	(1,314,609)	-
NET CURRENCY EXPOSURE	602,225,133	34,450,300

Foreign currency sensitivity analysis

The table below demonstrates the sensitivity to a 1,500 basis points increase/decrease in the spot rates of ALL against EUR based on the structure of foreign currency denominated assets and liabilities of the Fund as of December 31, assuming that all other variables remain constant. The effect is measured and presented as an impact on the result and directly on the net assets, holding everything else constant.

	EUR	
	+15%	-15%
As of December 31, 2019	10,927,737	(10,927,737)
	EUR	
	+15%	-15%
As of December 31, 2018	5,167,545	(5,167,545)

On a 15 per cent increase in the spot rate of EUR against ALL, the overall impact on the financial result and net assets of the Fund would be an increase as per table above.

On a 15 per cent decrease in the spot rate of EUR against ALL, the overall impact on the financial result and net assets of the Fund would be equal but in opposite direction to the increase described above.

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.3 Liquidity risk**

Liquidity risk is the risk that the Fund will not be able to meet its obligations associated with financial liabilities that are settled by delivering cash or another liquid financial asset. The liquidity management policy of the Fund is conservative, maintaining a constant optimal liquid cash reserve to secure an adequate capability for funding its activities. For more information on the policy of the additional financial recourses and assets refer to the beginning of Note 6.

The table below includes the Fund's financial instruments classified by their residual term to maturity on the basis of undiscounted contractual cash flows:

As at December 31, 2019	Carrying amount	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	Over 24 months	Total contractual cash flows
ASSETS								
Cash and cash equivalents	255,035,598	255,035,598	-	-	-	-	-	255,035,598
Investments held to collect contractual cash flows	1,050,529,040	-	149,678,548	155,128,633	131,000,000	468,658,547	146,063,312	1,050,529,040
TOTAL	1,305,564,638	255,035,598	149,678,548	155,128,633	131,000,000	468,658,547	146,063,312	1,305,564,638
LIABILITIES								
Other liabilities	(1,976,995)	-	(1,976,995)	-	-	-	-	(1,976,995)
TOTAL	(1,976,995)	-	(1,976,995)	-	-	-	-	(1,976,995)
CUMULATIVE LIQUIDITY GAP								
	1,303,587,643	255,035,598	147,701,553	155,128,633	131,000,000	468,658,547	146,063,312	1,303,587,643

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)*

As at December 31, 2018	Carrying amount	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	Total contractual cash flows
ASSETS							
Cash and cash equivalents	66,291,242	66,291,242	-	-	-	-	66,291,242
Investments held to collect contractual cash flows	571,698,800	-	142,210,164	-	148,488,636	281,000,000	571,698,800
TOTAL	637,990,042	66,291,242	142,210,164	-	148,488,636	281,000,000	637,990,042
LIABILITIES							
Other liabilities	(1,314,609)	-	(1,314,609)	-	-	-	(1,314,609)
TOTAL	(1,314,609)	-	(1,314,609)	-	-	-	(1,314,609)
CUMULATIVE LIQUIDITY GAP	636,675,433	66,291,242	140,895,555	-	148,488,636	281,000,000	636,675,433

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

7. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Management discusses with the Fund's Supervisory Board the on development, selection, and disclosure of critical accounting policies and their application, and assumptions made related to major estimation uncertainties. Information about assumptions and estimation uncertainties, that have a significant risk of resulting in a material adjustment within the next financial year, and information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is disclosed below.

Management has considered a standard scenario that include increase or decrease of 10% in the probability of default (PD). The sensitivity analyse of Fund' possible losses as a result of increase or decrease of credit loss indicators is presented in the table below:

	PD	
	+10%	-10%
Impairment as at December 31, 2019 for cash and cash equivalents	21,042	(21,042)
	PD	
	+10%	-10%
Impairment as at December 31, 2018 for cash and cash equivalents	10,730	(10,730)

These disclosures supplement the commentary on financial risk management (see Note 6).

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***7. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)****7.1 Valuation of financial instruments**

Accounting classifications and fair values for the financial instruments is presented below:

As at December 31, 2019	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income (FVOCI)	Financial assets at fair value through profit and loss (FVPL)	Other held at amortised cost	Carrying amount	Fair value
ASSETS						
Cash and cash equivalents	255,035,598	-	-	-	255,035,598	255,035,598
Investments held to collect contractual cash flows	1,050,529,040	-	-	-	1,050,529,040	1,050,529,040
TOTAL	1,305,564,638		-	-	1,305,564,638	1,305,564,638
LIABILITIES						
Other liabilities	-	-	-	(1,976,995)	-	(1,976,995)
TOTAL	-	-	-	(1,976,995)	-	(1,976,995)

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***7. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)****7.1 Valuation of financial instruments (continued)**

As at December 31, 2018	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income (FVOCI)	Financial assets at fair value through profit and loss (FVPL)	Other held at amortised cost	Carrying amount	Fair value
ASSETS						
Cash and cash equivalents	66,291,242	-	-	-	66,291,242	66,291,242
Investments held to maturity	571,698,800	-	-	-	571,698,800	563,887,055
TOTAL	637,990,042		-	-	637,990,042	630,178,297
LIABILITIES						
Other liabilities	-	-	-	(1,314,609)	-	(1,314,609)
TOTAL	-	-	-	(1,314,609)	-	(1,314,609)

Due to their short-term maturity, Management estimates the fair values of the cash and cash equivalents and other similar liabilities to be equal to their carrying amounts at the end of December 31, 2019 and December 31, 2018. Management estimated the fair value of held- to- collect investments in treasury securities using observable market rates (level 2) for similar securities with similar maturity based on their remaining maturity as of December 31, 2019 and December 31, 2018.

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***8. CASH AND CASH EQUIVALENTS**

Cash and cash equivalent balances as of December 31, 2019 and December 31, 2018 are detailed as follows:

	December 31, 2019	December 31, 2018
<i>Balances with banks</i>		
Short-term deposits at Bank of Albania (7 days)	182,184,000	31,840,000
Current accounts at Bank of Albania	73,062,016	34,558,542
<i>Minus impairment of current accounts in foreign currency</i>	(210,418)	(107,300)
Total	255,035,598	66,291,242

Policy “On the administration of financial assets of the Resolution Fund”, approved on January 10, 2018 from Resolution Authority, requires that the liquidity tranche should not be less than 10% of the total financial assets of the Fund. This tranche includes the balances held in current accounts, deposits, and securities with a remaining maturity of 0-3 months. (Note 9). Short-term deposits at Bank of Albania are invested in compliance with Bank of Albania’s Supervisory Board decision no. 39 dated 18.07.2007 with a maturity of 7-days with an interest rate of 10 basis point less than base interest rate. The estimates of the institution in which the Fund maintains its current accounts and deposits in ALL and foreign currency are given in note 6.1.

Fund has assessed the credit risk related to bank accounts held in foreign currency and has calculated expected credit loss in accordance with the model raised for the implementation of IFRS 9, using the probability of default, exposure at default, and probability of loss. As at December 31, 2019 and December 31, 2018 movement of provision expense recognised for bank accounts held in foreign currency at Bank of Albania is detailed as below:

	2019	2018
Balance as at January 1,	107,300	-
Provision expenses recognised during the year	103,118	107,300
Reversal of provision during the year	-	-
Closing balance as at December 31	210,418	107,300

9. INVESTMENT SECURITIES – HELD TO COLLECT CONTRACTUAL CASH FLOWS

	December 31, 2019	December 31, 2018
Investments in Albanian Government securities in nominal value	1,051,000,000	573,000,000
Accrued interest for Albanian Government bonds	5,128,633	963,442
Discount of Albanian Government bonds	(5,278,141)	-
Discount of T- Bills of Albanian Government	(321,452)	(2,264,642)
Total	1,050,529,040	571,698,800

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***9.1 Albanian Government Treasury Securities**

Investment in Albanian Government securities are detailed as follows:

	December 31, 2019	December 31, 2018
Treasury Securities in ALL	1,050,529,040	571,698,800
Treasury Securities in EUR	-	-
Total	1,050,529,040	571,698,800

Moody's Rating

	December 31, 2019	December 31, 2018
Albanian Government rated B+	1,050,529,040	571,698,800
Total	1,050,529,040	571,698,800

Albanian Government securities by contractual maturity are presented as follows:

	December 31, 2019	weighted average yield	December 31, 2018	Weighted average yield
<i>Treasuries in ALL</i>				
12 months	149,678,548	1.583%	289,735,358	2.012%
24 months	753,115,305	2.111%	281,963,442	2.580%
7 years	147,735,187	4.040%		
Total	1,050,529,040		571,698,800	

Fund has assessed the credit risk using the probability of default, exposure at default, and probability of loss. Management of the Fund, considers historical analyses and other information related to the future to assess any possible expected loss. As at December 31, 2019 and December 31, 2018, the investment portfolio of the Fund include only Albanian Government securities. Management of the Fund assess that Albanian Government securities held in LEK, have a credit risk almost zero, thus the respective impairment is immaterial to the users of the financial information. Management has calculated but not recognised any impairment loss or these securities in financial statements.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

10. OTHER LIABILITIES

	December 31, 2019	December 31, 2018
Liabilities to Agency for administration fee	1,976,995	1,064,425
Annual contribution received in advance	-	250,184
Total	1,976,995	1,314,609

Liabilities to the Agency for administration fee, relate to the amount the Fund should reimburse to the Agency for direct and indirect costs on fund administration, for the year 2019 and 2018. This amount consists of ALL 932,000 as direct expense for external audit of the Fund and for commission expenses for securities accounts (2018: ALL 932,000) and ALL 1,044,995 (2018: ALL 632,425) for indirect cost reimbursement (note 15).

Annual contribution received in advance for the year 2018, relate to the amount of annual contribution paid more during the first year from a bank of the banking sector. This amount will be deducted from the annual contribution payable for the second year of the Fund.

11. INCOME FROM ANNUAL CONTRIBUTIONS

For the year ended December 31, 2019, income from annual contributions of banks for Resolution Fund was in the amount of ALL 650,332,126 (2018: ALL 632,174,459).

In accordance with the Law on Resolution Fund no. 133/2016 date 10.01.2018 and regulation no.56 date 03.10.2017, amended, the target level, the size of the Fund in the first year and the annual contribution for each bank are based on the financial statements for 2016. The bank resolution fund pools together regular (annual) contributions from banks, whose level is set by the Bank of Albania so that the target level of 0.5% of the all banks 'liabilities might be reached by 11 July 2027. Annual contributions of banks for the first year of the Fund was ALL 632,174,459.

Based on the audited banks 'balance sheets for the period December 2017, from the calculations carried out by the Resolution Authority, the banks' annual contribution for the second year was ALL 650,332,126 which was fully paid up to April 30, 2019 from all the banks.

	For the year ended December 31, 2019	Since inception (January 1, 2018) till December 31, 2018
Income from annual contributions	650,332,126	632,174,459
Total	650,332,126	632,174,459

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

12. INTEREST INCOME

Interest income for the year ended on December 31, 2019 and December 31, 2018 are generated from the following activities:

	For the year ended December 31, 2019	Since inception (January 1, 2018) till December 31, 2018
Income from investments in Treasury Bills	3,424,310	3,653,979
Income from investments in Bonds	15,197,077	3,138,442
Short term deposits at Bank of Albania	1,582,411	1,644,967
Total	20,203,798	8,437,388

13. OTHER OPERATING INCOME

	For the year ended December 31, 2019	Since inception (January 1, 2018) till December 31, 2018
Income from penalties	-	5,712
Total	-	5,712

The Fund received penalties income for delayed payments of the annual contribution of resolution fund performed by two banks. In accordance with the Law 133/2016 "On Resolution and Intervention in the banks of Republic of Albania", the bank pays interests equal to the interest rate of liquidity supporting loan of the Bank of Albania, for the entire period until the payment of the contribution has taken place. The contribution for the second year has been fully paid by all banks by April 30, 2019 as required by law.

14. FEES AND COMMISSION EXPENSES

	For the year ended December 31, 2019	Since inception (January 1, 2018) till December 31, 2018
Commission for maintenance of securities accounts AFISaR	500,000	500,000
Total	500,000	500,000

15. OTHER OPERATIONAL EXPENSES

Article 16 of the Regulation "For Resolution Fund and procedures for its administration" approved by Supervisory Council of Bank of Albania no. 56 dated 03.10.2017, stipulate that Fund should pay an annual fee to the Agency for reimbursement of costs related to the Fund administration.

Reimbursement include direct and indirect costs. Direct costs include expenses for commissions of securities accounts at Central Bank (note 14) and audit expenses in the amount of ALL 432,000, while indirect cost relate to costs of Agency personnel involved in the administration process of the Fund in the amount of ALL 1,044,995 (2018: ALL 632,425).

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

16. RELATIONS AND TRANSACTIONS WITH GOVERNMENTAL INSTITUTIONS, BODIES AND ENTERPRISES

The Agency considers transactions with related parties to the Fund in accordance with International Accounting Standard 24 (IAS 24), detailed as follows:

-State institution with which the Fund has relations based on its legal functions;

-Members of the Agency's Supervisory Board, and other key executives assigned as persons having authority and responsibility for planning, directing and controlling the activity of the Fund, directly or indirectly, including any management (whether executive or otherwise) of the Agency.

The Albanian Deposit Insurance Agency, the Bank of Albania and the Ministry of Finance are the governmental institutions with which the Fund has established regular relations in accordance with its legal status and functions and in line with relevant legal requirements (Note 6).

The Fund is governed by the Supervisory Board of the Agency. The members of the Supervisory board are appointed in accordance with the Law "On Deposit Insurance No.53 / 2014" (Note 2).

Financial assets of the Funds are invested in debt instruments issued by the Government of Albania or placed into short deposits or current accounts with Bank of Albania (Notes 8 and 9). Investment securities are acquired only in the primary market through participation in auctions.

A summary of related parties' transactions is presented below:

Statement of Financial Position

	December 31, 2019	December 31, 2018
Current accounts at Bank of Albania (note 8)	73,062,016	34,558,542
Short term deposits at Bank of Albania (note 8)	182,184,000	31,840,000
Albanian Government securities (note 9.1)	1,050,529,040	571,698,800
Other liabilities to the Agency (note 10)	(1,976,995)	(1,064,425)
Total	1,303,798,061	637,032,917

Statement of Income and Expenditures

	For the year ended December 31, 2019	Since Inception (January 1, 2018) till December 31, 2018
Interest income from Albanian Government securities (note 12)	18,621,387	6,792,421
Interest income from short term deposits with Bank of Albania (note 12)	1,582,411	1,644,967
Administration fee (note 15)	(1,044,995)	(632,425)
Fees for the current accounts held at Bank of Albanian AFISaR (note 14)	(500,000)	(500,000)
Total	18,658,803	7,304,963

RESOLUTION FUND**Notes to the Financial Statements**

(All amounts are in ALL unless otherwise stated)

17. LITIGATION AND CLAIM

During its normal operating activity for the year 2019, the Fund is not involved in legal claims or third parties actions which might have impact on the financial position of the Fund or neither will impact changes in total assets.

18. CONTINGENT LIABILITIES

During its normal operating activity, the Fund has no contingent liabilities made or established.

19. EVENTS AFTER THE REPORTING DATE

There are no significant subsequent events after the reporting date which require either adjustment or disclosure to these financial statements.