

**RESOLUTION FUND
INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

For the year ended on 31 December 2021

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Independent Auditor's Report

To the Supervisory Board of the “Albanian Deposit Insurance Agency” and the “Resolution Fund”, established by Bank of Albania according to law no. 133/2016 for the purpose of implementing emergency intervention instruments.

Opinion

We have audited the financial statements of Resolution Fund (the “Fund”), which comprise the statement of financial position as at 31 December 2021, the statement of income and expenses and other comprehensive income, the statement of changes in net assets at the discretion of the Resolution Authority and the 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 31 December 2021, and its financial performance and its cash flows for the year ended on this date in accordance with International Financial Reporting Standards (IFRSs).

Basis of 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.

This version of our report/the accompanying documents is a translation from the original, which was prepared in Albanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

Other matters

The Financial Statements of the Fund for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 26 February 2021.

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 its activity, based on the going concern principle, disclosing, as applicable, matters related to going concern of Fund's activity and using the going concern principle as a 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 it 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 based on 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.

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- 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 Organisation'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 Organization to cease to continue as a going concern.
- 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.

Grant Thornton sh.p.k.

Tirana, Albania

8 March 2022



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RESOLUTION FUND**Statement of financial position***(All amounts are in ALL unless otherwise stated)*

	Notes	As of December 31, 2021	As of December 31, 2020
ASSETS			
Short-Term Assets			
Cash and cash equivalents	8	62,803,450	26,016,761
Investments held to collect contractual cash flows	9	2,655,544,667	1,970,600,212
TOTAL ASSETS		2,718,348,117	1,996,616,973
LIABILITIES			
Other liabilities	10	2,315,381	2,365,622
TOTAL LIABILITIES		2,315,381	2,365,622
NET ASSETS AT THE DISCRETION OF THE RESOLUTION AUTHORITY			
Net Assets at the discretion of the Resolution Authority		1,994,251,351	1,303,587,643
Total comprehensive income for the period		721,781,385	690,663,708
TOTAL NET ASSETS AT THE DISCRETION OF THE RESOLUTION AUTHORITY		2,716,032,736	1,994,251,351
TOTAL LIABILITIES AND ASSETS AT THE DISCRETION OF RESOLUTION AUTHORITY		2,718,348,117	1,996,616,973

The accompanying notes on pages 5 to 33 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)*

	Notes	As of December 31, 2021	As of December 31, 2020
REVENUES			
Operating Income			
Income from annual contributions	11	664,127,540	654,202,246
Interest income	12	63,946,706	38,144,496
TOTAL REVENUES		728,074,246	692,346,742
FINANCIAL EXPENSES			
Profit/(loss) on foreign currency translation		(3,811,350)	888,001
Fee and commission expenses	13	-	(505,000)
TOTAL FINANCIAL EXPENSES		(3,811,350)	383,001
OPERATING EXPENSES			
Operational expenses from activity	14	(2,315,383)	(1,860,625)
TOTAL OPERATING EXPENSES		(2,315,383)	(1,860,625)
Impairment of financial instruments held to collect contractual cash flows	8,9	(166,128)	(205,410)
SURPLUS OF INCOME OVER EXPENDITURE FOR THE YEAR		721,781,385	690,663,708
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		721,781,385	690,663,708

The accompanying notes on pages 5 to 33 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)*

	Note	As of December 31, 2021	As of December 31, 2020
Surplus of income over expenditures for the year		721,781,385	690,663,708
Adjustment for:			
Interest income		(63,946,706)	(38,144,496)
Movement in the provision fund for financial instruments		166,128	205,410
Changes in:			
Other liabilities		(216,369)	510,194
Interest collected		36,000,251	32,356,347
Cash flows generated from operating activity		693,784,689	685,591,163
INVESTING ACTIVITY			
Purchase of financial instruments held to collect contractual flows		(656,998,000)	(914,610,000)
Cash flows used for investing activity		(656,998,000)	(914,610,000)
(Decrease)/Increase during the year		36,786,689	(229,018,837)
Cash and cash equivalents at the beginning of the year	8	26,016,761	255,035,598
Cash and cash equivalents at the end of the year	8	62,803,450	26,016,761

The accompanying notes on pages 5 to 33 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**

Net asset at the discretion of the resolution authority on January 1, 2020	1,303,587,643
Surplus of income over expenditure for the year	690,663,708
Comprehensive income for the year	-
Total Comprehensive income for the year	690,663,708
Net assets at the discretion of the resolution authority on December 31, 2020	1,994,251,351
Surplus of income over expenditure for the year	721,781,385
Comprehensive income for the year	-
Total Comprehensive income for the year	721,781,385
Net assets at the discretion of the resolution authority on December 31, 2021	2,716,032,736

The accompanying notes on pages 5 to 33 are an integral part of these financial statements.

These financial statements are approved by the Supervisory Board of the Agency No.11, on March 8th, 2022 and signed on behalf of Resolution Fund by:

Genci Mamani
General Director

Ornela Shqarri
Head of Finance and Investment Sector

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 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.

For the third year, banks have paid their entire contribution respectively by April 30, 2020 according to the amount calculated from the Resolution Authority.

For the third year, banks have paid their entire contribution respectively by April 30, 2021 according to the amount calculated from the Resolution Authority.

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 consist 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;

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

2. REGULATORY FRAMEWORK OF RESOLUTION FUND OPERATIONS (CONTINUED)

- 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, based on article 81 of this Law;
- 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 maintain 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 of December 31, 2021, the Supervisory Board is composed of:

Mr. Donald Duraj	Chairman of the Supervisory Board (SB)
Mr. Genci Mamani	Member
Mr. Nexhmije Cela	Member
Ms. Majlinda Demko	Member
Ms. Adelina Xhemali	Member

3. BASIS OF PREPARATION AND APPLICATION OF IFRS

a) Statement of Compliance

These financials 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.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

3. BASIS OF PREPERATION AND APPLICATION OF IFRS (CONTINUED)

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 remain in business for 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.

At the date of preparation of these financial statements, the Fund based on the above and also in accordance with the approved financial plan in the coming years, expects to increase its operational activity and has projected to achieve a positive result in the next year and to continues in a going concern basis.

4. IMPLEMENTATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS.

4.1 New and revised standards which are in force for annual periods beginning on or after 1 January 2021

Some accounting standards that have become effective as of January 1, 2021 and that have been adopted, do not have a material impact on the financial results or position of the Fund. For this reason the disclosures regarding these Standards are not provided in the Fund statements.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

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

4.2 Standards, amendments and interpretations of existing standards that are not yet effective and have not previously been approved by the Fund

Other standards and amendments that are not yet effective and have not been adopted early by the Fund include:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References in the Conceptual Framework
- Revenue before target use (Amendments to IAS 16)
- Construction contracts - Cost of fulfilling a contract (Amendments to IAS 37)
- Annual improvements to IFRS standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of liabilities as current or non-current (amendments to IAS 1)
- Deferred tax related to Assets and Liabilities from a single transaction.

These amendments are not expected to have a material impact on the financial statements in the period of the initial application and therefore the disclosure is not included.

The Fund has chosen not to adopt these new standards, changes to existing standards and new interpretations before the effective date.

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, 2021	December 31, 2020
EUR	120.76	123.7
United States Dollar (USD)	106.54	100.84

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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.

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 (continued)

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 .

Amortized cost and effective interest rate

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, 2021, and December 31, 2020 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.

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, 2021, and 2020 the Fund's financial liabilities consist only of payables to the Agency, measured at amortised cost.

(iii) Identification and measurement of impairment

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.

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) Identification and measurement of impairment (continued)

(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

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.

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) Identification and measurement of impairment (continued)

(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.

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.

(iv) 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.

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) Identification and measurement of impairment (continued)

(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.

(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 at which an asset would be exchanged, or a liability settled, for a voluntary transaction between willing parties, well informed and unrelated, on the date of measurement.

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.

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) Identification and measurement of impairment (continued)

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.
- 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.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

5.8 Comparability

Some comparative values in the statement of cash flows and the statement of changes in deposit insurance funds have been reclassified or restated as a result of a change in classification to reflect a better effect.

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").

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

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).

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, based on decision no 17 date 28.07.2016. 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, 2021</i>		
Neither past due nor impaired	2,558,855,011	2,558,855,011
Neither past due nor impaired according to IFRS 9	96,689,656	96,689,656
TOTAL	2,655,544,667	2,655,544,667

Investment securities	Government of Albania	Total
<i>As of December 31, 2020</i>		
Neither past due nor impaired	1,871,525,387	1,871,525,387
Neither past due nor impaired according to IFRS 9	99,074,825	99,074,825
TOTAL	1,970,600,212	1,970,600,212

Cash and Cash equivalents	Bank of Albania	Total
<i>As of December 31, 2021</i>		
Neither past due nor impaired	400,000	400,000
Neither past due nor impaired according to IFRS 9	62,403,450	62,403,450
TOTAL	62,803,450	62,803,450

Cash and Cash equivalents	Bank of Albania	Total
<i>As of December 31, 2020</i>		
Neither past due nor impaired	395,000	395,000
Neither past due nor impaired according to IFRS 9	25,621,761	25,621,761
TOTAL	26,016,761	26,016,761

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)**

The table below presents the financial instruments for 2021 and 2020 according to IFRS 9 scales.

	2021			
	Stages according to Expected Loss from Financial Assets			Total
	Stage 1	Stage 2	Stage 3	
Financial instruments held to collect contractual flows	2,655,894,317	-	-	2,655,894,317
Cash and cash equivalents	63,035,757	-	-	63,035,757
Gross amount	2,718,930,074	-	-	2,718,930,074
Impairment	(581,957)	-	-	(581,957)
Net amount	2,718,348,117	-	-	2,718,348,117

	2020			
	Stages according to Expected Loss from Financial Assets			Total
	Stage 1	Stage 2	Stage 3	
Financial instruments held to collect contractual flows	1,970,927,188	-	-	1,970,927,188
Cash and cash equivalents	26,105,614	-	-	26,105,614
Gross amount	1,997,032,802	-	-	1,997,032,802
Impairment	(415,829)	-	-	(415,829)
Net amount	1,996,616,973	-	-	1,996,616,973

The Fund had no outstanding contingent financial commitments as of December 31, 2021 and December 31, 2020.

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 2021	Institution	Probability of default
B+	Albanian Government	0.70%
B+	Bank of Albania	0.70%
Rating according to S&P 2020	Institution	Probability of default
B+	Albanian Government	0.72%
B+	Bank of Albania	0.72%

6.2 Market risk

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) Exposures 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 risk (continued)

(ii) *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, 2021	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	62,803,450	62,803,450	-	-	-	-	-
Investments held to collect contractual cash flows	2,655,544,667	-	322,955,988	652,591,947	-	859,705,251	820,291,480
TOTAL	2,718,348,117	62,803,450	322,955,988	652,591,947	-	859,705,251	820,291,480

As of December 31, 2020	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	26,016,761	26,016,761	-	-	-	-	-
Investments held to collect contractual cash flows	1,970,600,212	-	246,355,925	450,240,136	171,158,810	751,955,564	350,889,777
TOTAL	1,996,616,973	26,016,761	246,355,925	450,240,136	171,158,810	751,955,564	350,889,777

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.2 Market risk (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 rate	As of December 31,2021
+100bp	27,183,481
-100bp	(27,183,481)

Change in rates	As of December 31,2020
+100bp	19,966,170
-100bp	(19,966,170)

(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 31,2021	ALL	EUR
ASSETS		
Cash and cash equivalents	419,282	62,384,168
Investments held to collect contractual cash flows	2,559,286,317	96,258,350
TOTAL	2,559,705,599	158,642,518
LIABILITIES		
Other liabilities	2,315,382	-
TOTAL LIABILITIES	2,315,382	-
NET CURRENCY EXPOSURE	2,562,020,981	158,642,518

RESOLUTION FUND**Notes to the Financial Statements***(All amounts are in ALL unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.2 Market risk (continued)****(ii) Exposure to currency risk (continued)****As of December 31, 2021**

	ALL	EUR
ASSETS		
Cash and cash equivalents	395,805	25,620,956
Investments held to collect contractual cash flows	1,871,525,387	99,074,825
TOTAL	1,871,921,192	124,695,781
LIABILITIES		
Other liabilities	(2,365,622)	-
TOTAL LIABILITIES	(2,365,622)	-
NET CURRENCY EXPOSURE	1,869,555,570	124,695,781

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, 2021	23,796,378	(23,796,378)
	EUR	
	+15%	-15%
As of December 31, 2020	18,704,367	(18,704,367)

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 (continued)

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 of December 31, 2021	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	62,803,450	62,803,450	-	-	-	-	-	62,803,450
Investments held to collect contractual cash flows	2,655,544,667	-	322,955,988	652,591,948	-	859,705,251	820,291,480	2,655,544,667
TOTAL	2,718,348,117	62,803,450	322,955,988	652,591,948	-	859,705,251	820,291,480	2,718,348,117
LIABILITIES								
Other liabilities	(2,315,381)	-	(2,315,381)	-	-	-	-	(2,315,381)
TOTAL	(2,315,381)	-	(2,315,381)	-	-	-	-	(2,315,381)
CUMULATIVE LIQUIDITY GAP	2,716,032,736	62,803,450	320,640,607	652,591,948	-	859,705,251	820,291,480	2,716,032,736

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3 Liquidity risk (continued)

As of December 31, 2020	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	26,016,761	26,016,761	-	-	-	-	-	26,016,761
Investments held to collect contractual cash flows	1,970,600,212	-	246,355,925	450,240,136	171,158,810	751,955,564	350,889,777	1,970,600,212
TOTAL	1,996,616,973	26,016,761	246,355,925	450,240,136	171,158,810	751,955,564	350,889,777	1,996,616,973
LIABILITIES								
Other liabilities	(2,365,622)	-	(2,365,622)	-	-	-	-	(2,365,623)
TOTAL	(2,365,622)	-	(2,365,622)	-	-	-	-	(2,365,623)
CUMULATIVE LIQUIDITY GAP	1,994,251,351	26,016,761	243,990,303	450,240,136	171,158,810	751,955,564	350,889,777	1,994,251,351

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 analyses 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 of December 31, 2021 for cash and cash equivalents	232,307	(232,307)

	PD	
	+10%	-10%
Impairment as of December 31, 2020 for cash and cash equivalents	8,885	(8,885)

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 Fair value of financial instruments

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

As of December 31, 2021	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	62,803,450	-	-	62,803,450	62,803,450
Investments held to collect contractual cash flows	2,655,544,667	-	-	2,655,544,667	2,678,426,046
TOTAL	2,718,348,117	-	-	2,718,348,117	2,741,229,496
LIABILITIES					
Other liabilities	-	-	(2,315,381)	-	(2,315,381)
TOTAL	-	-	(2,315,381)	-	(2,315,381)

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

	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
As of December 31, 2020					
ASSETS					
Cash and cash equivalents	-	-	-	26,016,761	26,016,761
Investments held to collect contractual cash flows	-	-	-	1,970,600,212	1,980,309,059
TOTAL				1,996,616,973	2,006,325,820
LIABILITIES					
Other liabilities	-	-	(2,365,622)	-	(2,365,622)
TOTAL				(2,365,622)	(2,365,622)

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, 2021 and December 31, 2020. 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, 2021 and December 31, 2020.

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, 2021 and December 31, 2020 are detailed as follows:

	December 31, 2021	December 31, 2020
Balances with banks		
Short-term deposits at Bank of Albania (7 days)	400,000	395,000
Current accounts at Bank of Albania EUR	62,616,475	25,709,808
Current accounts at Bank of Albania ALL	19,282	805
Minus impairment of current accounts in foreign currency	(232,307)	(88,853)
TOTALI	62,803,450	26,016,761

The "Policy of administration of financial assets of the Emergency Intervention Fund", approved on March 27, 2020 by the Emergency Intervention Authority, stipulates that the liquidity tranche in any case can not be less than 10% of the total assets financial. 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, 2021 and December 31, 2020 movement of provision expense recognised for bank accounts held in foreign currency at Bank of Albania is detailed as below:

	2021	2020
Balance as of January 1	88,853	210,419
Provision expenses recognised during the year	143,454	-
Reversal of provision during the year	-	(121,566)
Closing balance as of December 31	232,307	88,853

9. INVESTMENT HELD TO COLLECT CONTRACTUAL CASH FLOW

The securities according to their contractual value are presented as follows:

	December 31, 2021	December 31,
Investments in Albanian Government securities in nominal value	2,622,608,000	1,965,610,000
Accrued interest for Albanian Government bonds	24,358,070	10,878,487
Discount of Albanian Government bonds	9,106,304	(4,647,589)
Discount of T- Bills of Albanian Government	(178,057)	(913,710)
Minus impairment of investments in foreign currency	(349,650)	(326,976)
TOTAL	2,655,544,667	1,970,600,212

	2021	2020
Balance as of January 1	326,976	-
Provision expenses recognised during the year	22,674	326,976
Closing balance as of December 31	349,650	326,976

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 31,2021	December 31,2020
Treasury Securities in ALL	2,558,855,011	1,871,525,387
Treasury Securities in EUR	96,689,656	99,074,825
TOTAL	2,655,544,667	1,970,600,212

<i>S&P Rating</i>	December 31,2021	December 31,2020
Albanian Government rated B+	2,655,544,667	1,970,600,212
TOTAL	2,655,544,667	1,970,600,212

Albanian Government securities by contractual maturity are presented as follows:

	December 31,2021	weighted average yield	December 31,2020	weighted average yield
<i>Treasuries in ALL</i>				
0-12 months	975,547,935	0.85%	867,754,871	1.56%
24 months	763,015,596	2.22%	652,553,762	2.31%
7 years	820,291,480	4.06%	350,889,777	3.73%
<i>Treasuries in EUR</i>				
3 months	96,689,656	1.96%	99,401,802	1.96%
TOTAL	2,655,544,667		1,970,600,212	

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, 2021 and December 31, 2020, 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 31,2021	December 31,2020
Liabilities to Agency for administration fee	2,315,382	2,365,622
TOTAL	2,315,382	2,365,622

Liabilities to the Agency for the administration fee are related to the amount that the Fund will reimburse to the Deposit Insurance Agency for direct and indirect costs related to the administration of the Fund for 2021 and 2020. This amount consists of Lek 576,000 as direct costs for external audit of the Fund (2020: Lek 915,000) and from the amount of Lek 1,739,382 (2020: Lek 1,450,625) for the reimbursement of indirect costs (note 14). Also, with decision no. 58/2018 approved at the meeting of 7.10.2020 by the Supervisory Council of the Bank of Albania, the Extraordinary Intervention Fund is exempted from holding commissions for accounts opened in the payment systems of the Bank of Albania.

11. INCOME FROM ANNUAL CONTRIBUTIONS

For the year ended 31 December 2021, the income from the annual contribution of banks to the Extraordinary Intervention Fund was in the amount of Lek 664,127,540 (2020: Lek 654,202,246).

For the first year based on Law 133/2016 "On Extraordinary Recovery and Intervention in Banks, in the Republic of Albania" and regulation no. 56 dated 03.10.2017 "On the Emergency Intervention Fund and procedures for its administration", e changed, the target level, the size of the Fund in the first year and the annual contribution for each bank is based on the financial statements for 2016. The Fund should be gradually supplemented and reach the level of 0.5% of the liabilities of all banks, by July 11 of 2027.

Based on the data of audited balance sheets of banks, for the period December 2018, from the calculations made by the Emergency Intervention Authority, the annual contribution of banks for the third year was 654,202,246 Lek which was paid in full by April 30, 2020 by all banks.

Based on the data of audited balance sheets of banks, for the period December 2019, from the calculations made by the Emergency Intervention Authority, the annual contribution of banks for the fourth year is 664,127,540 Lek which has been paid in full by April 30, 2021 by all banks.

	For the year ended December 31, 2021	For the year ended December 31, 2020
Income from annual contributions	664,127,540	654,202,246
TOTAL	664,127,540	654,202,246

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, 2021 and December 31, 2020 are generated from the following activities:

	December 31,2021	December 31,2020
Income from investments in Treasury Bills	2,021,692	3,763,620
Income from investments in Bonds	61,663,407	33,753,190
Short term deposits at Bank of Albania	261,607	627,686
TOTAL	63,946,706	38,144,496

13. FEES AND BANKING COMMISSIONS

	December 31,2021	December 31,2020
AFISaR Securities Account Maintenance Commission	-	500,000
Other Commissions	-	5,000
TOTAL	-	505,000

During 2021, the Bank of Albania has decided not to apply a commission for the use of the AFISaR system for the Fund.

14. OTHER OPERATING EXPENSES

	December 31,2021	December 31,2020
Direct costs	576,000	410,000
In-direct costs	1,739,383	1,450,625
TOTAL	2,315,383	1,860,625

Pursuant to Article 16, of the Regulation "On the Extraordinary Intervention Fund and Procedures for its Administration" approved by DCM no. 56 dated 03.10.2017, the Fund must pay to the Agency an annual payment for the reimbursement of costs for the administration of the Fund's financial resources.

Reimbursement includes direct costs and indirect costs. Direct costs consist of financial consulting costs in the amount of Lek 576,000 (2020: Lek 410,000), while indirect costs are related to the cost of the Agency staff involved in the fund management process in the amount of Lek 1,739,382 (2020: Lek 1,450,625). For 2021 the Agency does not pay maintenance expenses of the AFISaR securities account.

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

15. 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 31,2021	December 31,2020
Current accounts at Bank of Albania (note 8)	62,635,757	25,710,614
Short term deposits at Bank of Albania (note 8)	400,000	395,000
Albanian Government securities (note 9.1)	2,655,894,317	1,970,927,188
Other liabilities to the Agency (note 10)	(2,315,381)	(2,365,624)
TOTAL	2,716,614,693	1,994,667,178

Statement of Income and Expenditures	December 31,2021	December 31,2020
Interest income from Albanian Government securities (note 12)	63,685,099	37,516,810
Interest income from short term deposits with Bank of Albania (note 12)	261,607	627,686
Administration fee (note 15)	(1,739,383)	(1,450,625)
Fees for the current accounts held at Bank of Albanian AFISaR (note 14)	-	(505,000)
TOTAL	62,207,323	36,188,871

RESOLUTION FUND

Notes to the Financial Statements

(All amounts are in ALL unless otherwise stated)

16 LITIGATION AND CLAIM

During its normal operating activity for the year 2021, the Fund is not involved in legal claims or third-party actions which might have impact on the financial position of the Fund or neither will impact changes in total assets.

17 CONTINGENT LIABILITIES

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

18. 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.