

**FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31  
DECEMBER 2021**  
*(WITH INDEPENDENT AUDITORS' REPORT THEREON)*





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## INDEPENDENT AUDITOR'S REPORT

*To the Supervisory Council of Bank of Albania*

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### OPINION

We have audited the financial statements of the Bank of Albania (the "Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### BASIS FOR OPINION

We conducted our audit in accordance with the International Standards on Auditing ("ISA"). 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 Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") and with the Institute of Authorized Chartered Auditors of Albania Code of Ethics ("IEKA Code"), together with the ethical requirements of the Law No. 10091, dated March 5, 2009 "On the statutory audit and the organization of the statutory auditors and chartered accountants professions", amended, 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 and the IESBA Code.

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



### *Other information included in the Bank of Albania 2021 Annual Report*

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of management and those charged with governance for the financial statements*

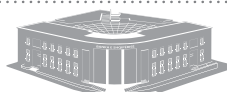
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing the Bank'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 Bank'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 Bank of Albania'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.
- 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 true and fair presentation.

We communicate with those charged with governance of the Bank of Albania 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.

Ernst & Young Statutory Auditors,  
Branch in Albania

*Ernst & Young Certified Auditors*

Mario Vangel  
Statutory Auditor

March 23, 2022  
Tirana, Albania



Nikolay Garnev  
Partner, Audit  
Ernst & Young Audit (OOD)

*Nikolay Garnev*



## STATEMENT OF FINANCIAL POSITION

In ALL million	Note	31 December 2021	31 December 2020
<b>ASSETS</b>			
Cash and balances with banks	9	274,725	200,578
Trading assets	13	14,767	14,213
Monetary gold	10	17,101	16,817
Accounts with the International Monetary Fund	11	58,141	44,720
Loans to banks	12	41,583	32,671
Investment in debt securities	14	318,478	295,201
Property, equipment, right-of-use and intangible assets	15	21,031	20,364
Other assets	16	3,683	2,836
<b>TOTAL ASSETS</b>		<b>749,509</b>	<b>627,401</b>
<b>LIABILITIES</b>			
Currency in circulation	17	378,142	355,238
Due to banks	18	186,733	178,815
Deposits and borrowings from third parties	19	2,772	2,485
Due to Government and public institutions	20	106,510	34,431
Due to the International Monetary Fund	11	43,723	23,219
Other liabilities	21	1,333	995
<b>TOTAL LIABILITIES</b>		<b>719,213</b>	<b>595,184</b>
<b>CAPITAL AND RESERVES</b>			
Capital		2,500	2,500
Reserves	22	28,092	29,716
Retained earnings / (Accumulated losses)		(296)	-
<b>TOTAL CAPITAL AND RESERVES</b>		<b>30,296</b>	<b>32,216</b>
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<b>749,509</b>	<b>627,401</b>

The notes on pages 127 to 190 are an integral part of these financial statements.

The financial statements were authorized for issuance by the Supervisory Council of the Bank of Albania and signed on 23 March 2022 on its behalf by:

  
 \_\_\_\_\_  
 Gent Sejko  
 Governor

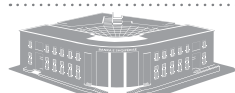

  
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 Ledia Bregu  
 Director, Payment Systems, Accounting  
 and Finance Department



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In ALL million	Note	2021	2020
Interest income calculated using the effective interest method	23	2,300	2,663
Interest expense	23	(1,125)	(960)
<b>Net interest income</b>		<b>1,175</b>	<b>1,703</b>
Fee and commission income		123	94
Fee and commission expense		(46)	(51)
<b>Net income from fees and commissions</b>		<b>77</b>	<b>43</b>
Net trading income	24	617	877
Net Income from sales of Financial assets at FVOCI	25	281	1,120
Net other income		47	44
Net gain from changes in the fair value of monetary gold	10	284	2,226
Net foreign exchange gains\losses	22	625	(2,911)
<b>Total income from banking operations</b>		<b>3,106</b>	<b>3,101</b>
Impairment losses on financial instruments, net	8(E)(vi)(b)	(1)	(10)
Employee benefit expenses	26	(1,517)	(1,420)
Depreciation and amortization	15	(380)	(370)
Other general and administrative expenses	27	(648)	(553)
<b>Net profit for year</b>		<b>560</b>	<b>749</b>
<b>Other comprehensive income:</b>			
<i>Items that cannot be reclassified to profit or loss at a future point in time</i>			-
<i>Items that can be reclassified to profit or loss at a future point in time</i>		(2,481)	1,243
Debt instruments at FVOCI – net change in fair value	22	(2,481)	1,243
<b>Other comprehensive income, loss for the year</b>		<b>(2,481)</b>	<b>1,243</b>
<b>Total comprehensive (loss)\income for the year</b>		<b>(1,921)</b>	<b>1,991</b>

The notes on pages 127 to 190 are an integral part of these financial statements.



## STATEMENT OF CHANGES IN EQUITY

In ALL million	Capital	Legal reserve	Revaluation reserve	Fair value reserve	Other reserves	Retained earnings / (Accumulated losses)	Total
As at 1 January 2020	2,500	12,500	(6,219)	865	22,065		31,712
<b>Total comprehensive income</b>							
Net profit of year	-	-	-	-	-	749	749
<b>Other comprehensive income</b>							
Fair value reserve (debt instruments FVOCI)	-	-	-	1,243	-	-	1,243
<b>Other comprehensive income, net of tax</b>	-	-	-	<b>1,243</b>	-	-	<b>1,243</b>
<b>Total comprehensive income</b>				<b>1,243</b>		<b>749</b>	<b>1,991</b>
<b>Contributions and distributions</b>							
Distribution to Government of Albania (Note 20)	-	-	-	-	(52)	(1,435)	(1,487)
<b>Total contributions and distributions</b>	-	-	-	-	<b>(52)</b>	<b>(1,435)</b>	<b>(1,487)</b>
Transfers to reserves (Note 22)			(686)	18	(18)	686	-
<b>As at 31 December 2020</b>	<b>2,500</b>	<b>12,500</b>	<b>(6,904)</b>	<b>2,126</b>	<b>21,995</b>	<b>-</b>	<b>32,216</b>
<b>Total comprehensive income</b>							
Net profit of year	-	-	-	-	-	560	560
<b>Other comprehensive income</b>							
Fair value reserve (debt instruments FVOCI)	-	-	-	(2,481)	-	-	(2,481)
<b>Other comprehensive income, net of tax</b>	-	-	-	<b>(2,481)</b>	-	<b>560</b>	<b>(1,921)</b>
<b>Total comprehensive income</b>				<b>(2,481)</b>	-	<b>560</b>	<b>(1,921)</b>
<b>Contributions and distributions</b>							
Distribution to Government of Albania (Note 20)	-	-	-	-	-	-	-
<b>Total contributions and distributions</b>	-	-	-	-	-	-	-
Transfers to reserves (Note 22)	-	-	909	-	(53)	(857)	-
<b>As at 31 December 2021</b>	<b>2,500</b>	<b>12,500</b>	<b>(5,995)</b>	<b>(355)</b>	<b>21,942</b>	<b>(296)</b>	<b>30,296</b>

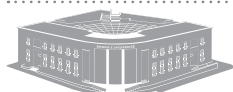
The notes on pages 127 to 190 are an integral part of these financial statements.



## STATEMENT OF CASH FLOWS

In ALL million	Note	2021	2020
<b>Cash flows from operating activities</b>			
Net profit for year		560	749
Adjustments for:			
Depreciation and amortization	15	379	370
Net impairment loss on financials instruments	8(d)vi b)	1	10
Net interest income	23	(1,175)	(1,703)
Net trading income	24	(1,411)	217
Net Gain/(Loss) on sale of investments in debt securities	25	280	(1,120)
Net loss from changes in the fair value of monetary gold	10	(284)	(2,226)
Net realized gain from foreign exchange	22	169	1,817
		<b>(1,481)</b>	<b>(1,887)</b>
Changes in:			
Trading assets		834	193
Monetary Gold	10	-	-
Accounts with the International Monetary Fund	11	(12,931)	(15,880)
Loans to and deposits with banks	12	4,047	2,908
Other assets		(847)	124
Currency in circulation		22,904	52,389
Due to banks		9,116	47,791
Deposits and borrowings from third parties		293	(830)
Due to Government and state institutions		72,750	(10,020)
Due to the International Monetary Fund		20,505	(817)
Other liabilities		272	(462)
Reserve		(54)	(47)
Other		71	(51)
		<b>115,479</b>	<b>73,411</b>
Interest received		2,875	2,864
Interest paid		(1,165)	(966)
<b>Net cash (used in)/generated from operating activities</b>		<b>117,189</b>	<b>75,310</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities		(248,558)	(221,874)
Proceeds from sold and matured investment securities		223,202	195,220
Acquisition of property, equipment and intangible assets		(1,046)	(463)
<b>Net cash generated from investing activities</b>		<b>(26,402)</b>	<b>(27,117)</b>
<b>Cash flows from financing activities</b>			
Distributions to Government	20	-	(1,398)
<b>Net cash used in financing activities</b>		<b>-</b>	<b>(1,398)</b>
<b>Increase in cash and cash equivalents</b>		<b>90,787</b>	<b>46,794</b>
Cash and cash equivalents at the beginning of the year		187,601	138,706
Effect of movements in exchange rates on cash held		(3,663)	2,101
Cash and cash equivalents at the end of the year	9	274,725	187,602

The notes on pages 127 to 190 are an integral part of these financial statements.





## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2021

*(Amounts in ALL million, unless otherwise stated)*

### 1. GENERAL

The Bank of Albania (the 'Bank') is the central bank of the Republic of Albania established pursuant to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania', as amended.

Pursuant to this Law, the Bank's main responsibilities include:

- formulating, adopting and executing the monetary policy of Albania, which shall be consistent with its primary objective;
- formulating, adopting and executing the foreign exchange arrangement and the exchange rate policy of Albania;
- issuing or revoking licenses and supervising banks that engage in the banking business in order to secure the stability of the banking system;
- holding and managing its official foreign reserves;
- acting as banker and adviser to, and as fiscal agent of, the Government of the Republic of Albania; and
- promoting an effective operation of payment systems.

Nowadays the whole world and Albania have been faced with the health crisis caused by Covid-19, which has obliged governments to undertake extreme measures and disrupt a range of activities in the public life. In this framework, the main public institutions in Albania have undertaken continuous coordinated measures, to highly coordinate the joint efforts against this extreme situation and the damages it is causing in our everyday life. In response to this situation, the Bank of Albania undertook immediate measures to support the Albanian economy which is hit by the coronavirus pandemic. The undertaken measures aim at mitigating the negative impacts on the welfare of enterprises and households, as well as establishing the premises for a very rapid recovery of economy in the following period.

Following such measures, the Albanian banking system's soundness remains valid and in more concrete terms:

- Albania enjoys a good economic and financial soundness;
  - The parameters of the economy and banking sector functioning are sound;
  - Liquidity and capital reserves of the Albanian banking sector are high.
- Refer to note 11, 12, 13, 14 and 17 for more detailed information.

The Bank is subject to the regulatory requirements of the Assembly of the Republic of Albania and the Law 'On the Bank of Albania'.



## 2. BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board (IASB).

## 3. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Albanian Lek ('Lek'), which is the Bank's functional currency. All amounts have been rounded to the nearest million, except when otherwise indicated.

## 4. BASIS OF MEASUREMENT

These financial statements have been prepared on a historical cost basis, except for the following items:

Items	Basis of measurement
Monetary gold	Fair value
Financial instruments at FVTPL	Fair value
Financial assets at FVOCI	Fair value

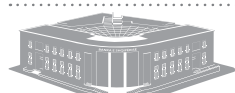
## 5. USE OF ESTIMATES AND JUDGMENTS

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's 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 estimates are recognized prospectively.

### A. Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Applicable to 2021 and 2020:
  - Note 7(A)(ii) and Note 8(A)– classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding;
  - Note 8(E) (vi) (a): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and



- approval of models used to measure ECL.
- Note 7(B) – currency in circulation: classification of cash in circulation as a financial liability; and
- Note 7(G) – monetary gold: measurement of monetary gold at fair value with changes in fair value recognized in profit or loss.
- Note 7(V) - The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

## **B. Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2021 is included in the following notes:

- Applicable to 2021 and 2020:
  - Note 8(E)(vi)(a) and Note 7(A)(vii) – impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information and key assumptions used in estimating recoverable cash flows;
  - Note 7(A)(vi) – determination of the fair value of financial instruments with significant unobservable inputs; and use of fair value models.
  - Note 7(V) - The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of the interest that the Bank would have to pay to borrow over a similar term, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, which requires estimation when no observable rate is available, or when they need to be adjusted to reflect the terms and condition of the lease (e.g. when leases are not in functional currency). The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain adjustments to reflect term and conditions of the lease.

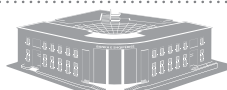
## **6. CHANGES IN ACCOUNTING POLICIES**

The following standards were issued and effective for the annual period starting from 1 January 2021, but do not have an impact on the Bank’s financial statements. The Bank has consistently applied the accounting policies as set out in Note 7 to all periods presented in these financial statements.

### *Other standards and amendments*

#### ***Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)***

- Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7,



IFRS 4 and IFRS 16 (Amendments) - In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, Bank is not required to restate prior periods.

The Bank generally invests in instruments with applicable fixed rates and has limited financial assets and liabilities with interest rates based on Euribor and Libor benchmarks so the amendment has no significant impact on the Bank.

- Investments in securities are with fixed interest rates.
- Current accounts and deposits generally have fixed interest rates with no reference to EURIBOR and LIBOR
- Accounts with IMF are remunerated with interest rate that have no reference to EURIBOR and LIBOR

#### ***Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)***

IASB amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. The Bank did not negotiate any Covid-19 related rent concessions with its lessors and has no impact from this amendment.

## **7. SIGNIFICANT ACCOUNTING POLICIES**

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

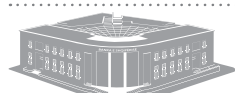
The Bank may recognise a financial asset or liability in its balance sheet if, and only if it becomes a party to the contractual terms of the financial instruments used. The Bank derecognises a financial asset from its balance sheet:

- when it loses control over the contractual rights that constitute the financial asset;
- when the obligation stated in the contract is extinguished, cancelled or expired.

### **A. Financial instruments**

#### ***(i) Recognition and initial measurement***

The Bank initially recognises loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way



purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets and liabilities are recognised in off-balance-sheet accounts from the trade date to the date of their settlement and are recorded in the Bank of Albania's balance sheet at the settlement date (value date). The initial recognition is at acquisition cost, i.e. the fair price paid on acquisition. Transaction costs are included in the acquisition cost of all assets and liabilities, except for financial assets and financial liabilities recorded at FVPL where transaction costs are added to, or subtracted from, this amount. From that moment on, any changes in their fair value are recognised by the Bank as income or expense.

### (ii) Classification

On initial recognition, a financial asset is classified as measured at either one of the following categories:

- amortised cost (AC),
- fair value through other comprehensive income (FVOCI), or
- fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets 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 (SPPI) on the principal amount outstanding.

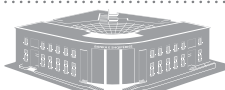
The business model of financial assets held to collect contractual cash flows includes all current accounts and deposits of the Bank with foreign correspondents, and the cash flows under the model used for these assets represent only principal and interest payments.

These financial assets are measured at amortised cost.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

### *Business model assessment*

- the asset is held within a business model whose objective is achieved



- by both collecting contractual cash flows and selling 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 (SPPI) on the principal amount outstanding.

The business model of financial assets held to collect contractual cash flows and for sale includes: securities and investment. Assets in this group are measured, as follows:

- debt securities: at fair value in other comprehensive income.

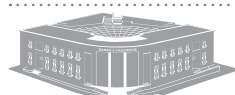
*All other financial assets are classified as measured at FVTPL.*

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how future cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL, because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

*Assessment whether contractual cash flows are solely payments of principal and interest ("SPPI")*



For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

### *Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

### **Financial liabilities**

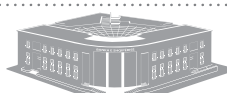
The Bank classifies its financial liabilities as measured at amortised cost. For details, refer to (B), (D) and (H).

### *(iii) Derecognition*

#### **Financial assets**

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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 derecognised) 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 ('OCI'), is recognised in profit or loss.



Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them.

In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

### ***Financial liabilities***

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

#### *(iv) Modifications of financial assets and financial liabilities*

### ***Financial assets***

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different.

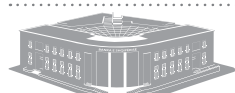
If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (refer to (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as a separate line as a "modification profit or loss" (refer to Note 7(L)).

### ***Financial liabilities***

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new

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financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

(v) *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

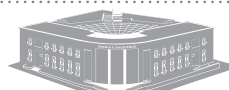
(vi) *Fair value measurement*

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

When available, the Bank 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 on-going basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence 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 Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is neither evidenced 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, then 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 recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is



wholly supported 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, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period, during which the change has occurred.

#### *(vii) Impairment*

The Bank recognizes loss allowances for expected credit losses "ECL" for financial assets that are debt instruments and are not measured at FVTPL.

The Bank measures loss allowances at an amount equal to lifetime ECL except for the following for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

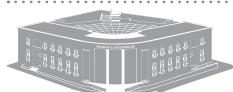
The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'. 12-month ECL are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

#### *Measurement of ECL*

ECL are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the



difference between the gross carrying amount and the present value of estimated future cash flows.

For more details, refer to Note 8(D)(vi)(b).

#### *Credit impaired financial assets*

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- the disappearance of an active market for a security because of financial difficulties.

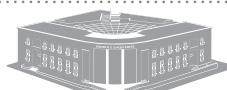
In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

#### *Presentation of allowance for ECL in the statement of financial position*

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of



these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

#### *Write-off*

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

#### **B. *Currency in circulation***

Currency in circulation includes banknotes and coins in circulation and is presented under liabilities as a net of nominal value of all the banknotes and coins issued and the nominal value of the banknotes and coins on hand as at the reporting date.

#### **C. *Cash and cash equivalent***

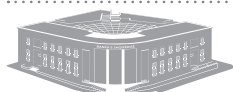
Cash and cash equivalents include banknotes and coins on hand in foreign currency and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

#### **D. *Financial assets and liabilities at fair value through profit or loss (Trading assets and liabilities)***

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.



### **E. Financial assets and liabilities at fair value through other comprehensive income**

Financial assets and liabilities at fair value through other comprehensive income represent those for which the Bank expects to collect contractual cash flows by either holding or selling the instrument. Investment securities include debt securities measured at FVOCI; gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

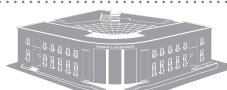
### **F. Loans and receivables**

Loans and receivables include loans measured at amortised cost (refer to Note 7(A)(ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method. When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

### **G. Monetary Gold**

The Bank of Albania as a central bank maintains particular volumes of gold as part of Albania's international reserves. In compliance with the requirements of the Law on the Bank of Albania, the Bank may take any necessary action in connection with the acquisition, possession and sale of gross international reserves, including monetary gold. Consequently, monetary gold as part of international reserves may be immediately used by the Bank without further constraints which determines it as a monetary asset. Pursuant to the requirements of the 'General Provisions for Defining the Valuation Basis in the Financial Statements' to the IFRS, the Bank defines the recognition and valuation of the monetary gold as an asset reported at fair value through profit or loss as the most reliable and appropriate base for a subsequent valuation of this monetary asset. Gold is measured at market value based on the London Bullion Market fixing in US dollar at the reporting date. Gold in standard form (monetary gold) is initially recognised at acquisition cost.

Monetary gold is valued at its fair value being the market value based on the official London Bullion Market price at the reporting date. Changes in the fair



value are recognized in profit or loss and accumulated in the "Revaluation Reserve" in Capital and Reserves in accordance with Article 64 (a) of the Law 'On the Bank of Albania'. Unrealised gains and losses on the revaluation of the monetary gold and other gold instruments of the Bank are recognised in the income statement.

#### **H. Deposits and borrowings**

Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

#### **I. Printing and minting costs**

The costs of printing banknotes and minting coins, which have not yet been put into circulation, are initially recognized as assets at acquisition cost and subsequently amortized on a straight-line basis over 5 years and 10 years, respectively.

#### **J. Intangible assets**

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are comprised of computer software and licenses.

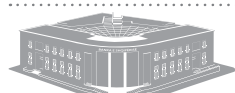
Intangible assets acquired by the Bank are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use. Work in progress is not amortized.

The estimated useful lives are as follows:

- Software and licenses	4 years
- Other intangible asset	6.6 years



## K. *Property and equipment*

### (i) *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of certain items of property and equipment was determined by reference to fair value at 31 December 2014, which the Bank elected to apply as deemed cost as part of the transition to IFRS. Adjustments to the accounting records, as well as the relevant recognition records in the revaluation reserve are reported in accordance with International Financial Reporting Standards.

### (ii) *Subsequent costs*

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the maintenance of property and equipment are recognised in profit or loss as incurred.

### (iii) *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land, work in progress, and numismatic coins and objects are not depreciated.

The estimated useful lives are as follows:

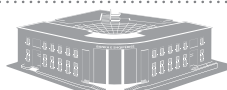
– Buildings	25 - 70 years
– Installations	4 – 20 years
– Vehicles	5 - 10 years
– Furniture and equipment	4 - 20 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

## L. *Interest*

### *Effective interest rate*

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to:



- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

#### *Amortised cost and gross carrying amount*

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount recognized and the maturity amount and for, financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

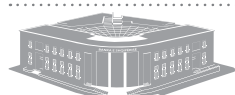
#### *Calculation of interest income and expense*

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, refer to Note 7(A) (vii).





As at 31 December 2021 and 31 December 2020 there are no credit-impaired financial assets.

#### *Presentation*

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on debt instruments measured at FVOCI calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (refer to Note 7(O)). Profits and losses arising from changes in the fair value of financial instruments reported at fair value through profit or loss are recognised in the income statement.

Interest income and expense are recognised on an accrual basis in accordance with the Bank's interest rate policy and concluded agreements with international financial institutions and customers of the Bank. Interest income and expense are recognised in the income statement. Interest income and expense also include the amortisation of the discount and premium calculated on the basis of the effective interest rate.

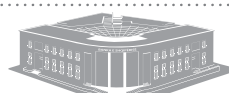
Interest income on foreign securities held in the Bank of Albania's portfolio includes interest rates on interest coupons of securities issued. Interest income on deposits includes interest income on deposits in foreign currency and in gold.

Other financial income/expenses include income and expenses from sales and changes in the fair value of financial assets and liabilities held for trading and assets available for sale.

Net gains/losses from financial assets and liabilities at fair value through profit or loss include net gains from operations in securities, net gains from operations in foreign currency, net revaluation gains on securities, net gains from gold revaluation, net gains from revaluation of futures, and net gains from revaluation of assets and liabilities denominated in foreign currency.

#### **M. Fees and commissions**

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.



Other fees and commission income, including account servicing fees, fund transfer fees, placement fees and credit registry fees are recognised at the moment the related services are performed.

In accordance with IFRS 15, revenue from contracts with customers is recognised when the Bank has fulfilled its performance obligations by transferring the promised services to the customer. Revenue is recognised at an amount reflecting the consideration expected to be received in return. No changes in the valuation and recognition of fees and commissions have occurred as a result of the entry into effect of IFRS 15. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

#### **N. Transactions in foreign currency**

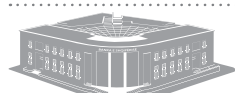
Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions. The exchange rates of the major foreign currencies as of 31 December 2021 and 31 December 2020 are disclosed in Note 8 F(ii).

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation and those arising from available-for-sale investments are recognised in profit or loss.

According to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania' and the Decision No. 104 dated 27 December 2006 of the Supervisory Council, the net gains/(losses) from foreign exchange that are recognised in profit or loss in the period are accumulated to the 'Revaluation reserve' included in Capital and Reserves. According to Article 64 (b) in the above mentioned law, the Government of Albania issues debt securities at market interest rates to cover any negative balance of the revaluation reserve arising from the Bank's activity.



## **O. Net trading income**

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

## **P. Taxation and profit distribution policy of the Bank**

Based on the Law 'On the Bank of Albania', the Bank is not subject to income tax. The Bank's policy of distribution of profit from banking operations is defined in the Law 'On the Bank of Albania'. According to Article 10(2) of this Law, the Bank allocates all the realised profit to the State Budget after having fulfilled its requirement for the reserve fund pursuant to the Law and as determined by the Supervisory Council of the Bank.

According to Article 11 of the Law 'On the Bank of Albania', no transfer, redemption or payment under Articles 8, 9 or 10 of this Law shall be made if the assets of the Bank are less than the sum of its liabilities and paid-up capital. If such conditions arise, based on Article 7 of the Law 'On the Bank of Albania', the Ministry of Finance and Economy shall transfer interest bearing negotiable government securities to the Bank, in such amount as would be necessary to remedy the deficiency.

## **Q. Employee benefits**

### *(i) Defined contribution plans*

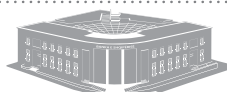
Obligations for contributions to defined contribution plans are recognized in profit or loss as the related service is provided and included in personnel expenses.

### *(ii) Social and health contributions*

The Bank makes compulsory social security and health contributions in a fund operated by the Albanian state that provide pension, health and other social benefits for employees. Obligations for such contributions are recognized in profit or loss when they are due and included in personnel expenses. The Albanian state provides the legally set minimum threshold for such contributions.

### *(iii) Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.



## **R. Leases**

The Bank assesses at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank applies a single recognition and measurement approach for all leases, except for the short term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and Right-of-use assets representing the right to use the underlying assets.

### *Right-of-use asset*

The Bank recognises right-of-use assets at the commencement date of the lease. Right-of use assets are measured of cost, less any depreciation or impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of the right-of-use assets include the amount of the lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated in a straight-line basis over the lease term.

The right-of-use assets are presented within Note 15 Property, equipment, right-of-use and intangible assets.

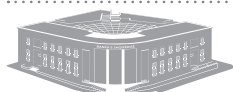
### *Lease liabilities*

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any incentive receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalty for terminating the lease, if the lease reflects exercising the option to terminate.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

## **S. Impairment of non-financial assets**

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.



The recoverable amount of an asset is the highest of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if a change has occurred in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### **T. Provisions**

A provision is recognised if, as a result of a past event, the Bank 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. The amount recognised as a provision is measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

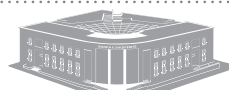
#### **U. Grants**

Grants are recognized initially as deferred income when there is reasonable assurance that they will be received and that the Bank will comply with the conditions associated with the grant. Grants that compensate the Bank for expenses incurred are recognized in profit or loss on a systematic basis over the period in which the related expenses are recognized. Grants that compensate the Bank for the cost of an asset are recognized in profit or loss on a systematic basis over the expected life of the asset.

#### **V. Standards issued and not yet adopted**

A number of new Standards and amendments to Standards are issued and become effective for annual periods beginning on or after 1 January 2022 and earlier application is permitted; however the Bank has not early adopted them in preparing these financial statements. The following amendments are not expected to have a significant impact on the Bank's financial statement:

- **Amendment in 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** – The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale



or contribution of assets between an investor and its associate or joint venture. The Bank is neither a parent nor it has any associates.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)** - The amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. However, in response to the Covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendment may impact the Bank only in terms of disclosures of maturities of liabilities, because it presents the financial statements in order of liquidity.
- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)** - The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1. First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

Management has assessed that these standards will not have an impact to the financial statements.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)** - The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty.
- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities**



**arising from a Single Transaction (Amendments)** - The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations

- **IFRS 17 Insurance contracts**, effective on or after 1 January 2023 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied.
- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)** - The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted.

## 8. FINANCIAL INSTRUMENTS: CLASSIFICATION, RISK MANAGEMENT AND FAIR VALUES

### A. *Classification of financial assets and financial liabilities*

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in note 7(A)(ii).

- On the adoption of IFRS 9, the Bank has classified the exposures with IMF as debt instruments measured at amortised cost, given the long-term strategic objective of the Bank to hold these instruments and their contractual cash flows meeting the SPPI criteria.
- Investment debt securities are held by the Bank in separate portfolios to meet everyday liquidity needs. The Bank seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Bank considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. See accounting policies in Note 7(A)(ii).

The following table provides reconciliation between line items in the statement of financial position and categories of financial instruments.



31 December 2021	FVTPL	FVOCI – debt instru- ments	Amortised cost	Total car- rying Amount
<b>ASSETS</b>				
Cash and balances with banks	-	-	274,725	274,725
Trading assets	14,767	-	-	14,767
Accounts with the International Monetary Fund	-	-	58,141	58,141
Loans to banks	-	-	41,583	41,583
Investment securities FVOCI	-	318,478	-	318,478
Other assets	-	-	2,180	2,180
<b>Total financial assets</b>	<b>14,767</b>	<b>318,478</b>	<b>376,629</b>	<b>709,874</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	378,142	378,142
Due to banks	-	-	186,733	186,733
Deposits and borrowings from third parties	-	-	2,772	2,772
Due to Government and state institutions	-	-	106,510	106,510
Due to the International Monetary Fund	-	-	43,723	43,723
Other liabilities	-	-	1,207	1,207
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>719,087</b>	<b>719,087</b>

31 December 2020	FVTPL	FVOCI – debt instru- ments	Amortised cost	Total car- rying Amount
<b>ASSETS</b>				
Cash and balances with banks	-	-	200,578	200,578
Trading assets	14,213	-	-	14,213
Accounts with the International Monetary Fund	-	-	44,720	44,720
Loans to banks	-	-	32,671	32,671
Investment securities at FVOCI	-	295,201	-	295,201
Other assets	-	-	2,039	2,039
<b>Total financial assets</b>	<b>14,213</b>	<b>295,201</b>	<b>280,008</b>	<b>589,422</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	355,238	355,238
Due to banks	-	-	178,815	178,815
Deposits and borrowings from third parties	-	-	2,485	2,485
Due to Government and state institutions	-	-	34,431	34,431
Due to the International Monetary Fund	-	-	23,219	23,219
Other liabilities	-	-	864	864
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>595,052</b>	<b>595,052</b>

## B. Risk management framework

The financial instruments of the Bank are mainly used for the purposes of the foreign reserve management and monetary policy implementation. The Bank has exposure to the liquidity risk, credit risk, market risk, legal risk and operational risk from investments in financial instruments.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk.

Pursuant to the legal requirements, the Bank holds and manages the foreign reserves of the Republic of Albania. The Supervisory Council has the overall





responsibility for the establishment of the risk management framework and reserve management policies.

The Supervisory Council has approved the regulation 'On the functions of the management structure in the decision-making process of the management of the reserves'. This regulation defines the responsibilities of : the management; the Supervisory Council; the Governor; the Investment Committee; and the Monetary Operations Department, in managing the foreign reserves.

The Supervisory Council is responsible for approving the regulation 'On the policy and management of the foreign reserve', the Investment Committee is responsible for approving the document 'Operational Guidelines for Investment', while the Governor approves other guidelines to ensure a more comprehensive regulation of the reserve management function.

The regulation 'On the policy and management of the foreign reserve' defines the objectives of the portfolio management ranked by priority, and the principles and qualitative criteria used as the basis of the risk management.

The Investment Committee approves the quantitative criteria based on the limits set forth by the Supervisory Council and monitors the compliance with the restrictions for permitted level of risk and foreign reserve investment portfolio performance.

In accordance with the decisions of the Supervisory Council on the eligible instruments, the reserve is invested in fixed or floating income securities, in deposits or certificates of deposit, and in derivative instruments related with these instruments.

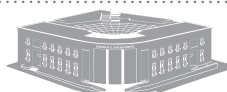
The remaining foreign reserves are held in Special Drawing Rights ("SDR") and in monetary gold. Monetary gold is managed in accordance with the regulation 'On the policy and the management of gold', approved by the Supervisory Council.

Following the review of the accounting policy for monetary gold (see Notes 5(A) and 7(G)) in 2016, the Bank concluded that monetary gold is not a financial instrument.

### **C. *Liquidity risk***

Liquidity risk is the risk that:

- a) the Bank will encounter difficulty in meeting obligations associated with its financial liabilities in due time; and
- b) the Bank will not be able to sell a financial instrument within a specific time frame without causing significant loss compared to the market value.



Liquidity is amongst the primary objectives of the foreign reserve management and is defined as the goal to insure the availability at all times of sufficient funds to meet the liquidity needs associated with:

- implementing the monetary policy and the exchange rate policy of the Bank; and
- maintaining financial stability and meeting the needs of the country in periods of crisis.

The implementation of these objectives is performed through the breakdown of the foreign reserve in certain tranches that, within the context of a prudent management of the liquidity risk, serve specific purposes and carry specific features.

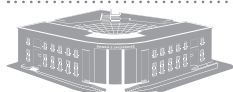
The foreign currency liability tranche represents investments in assets that are financed by the liabilities in foreign currency, which are mainly composed by the funds deposited by commercial banks as part of the reserve requirement and by the government.

The net reserve is composed of:

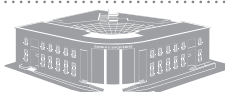
1. the working capital tranche: designed to meet the monthly liquidity needs arising within one month;
2. the liquidity tranche: designed to meet the liquidity needs arising within one year;
3. the investment tranche: it represents the remaining balance as surplus and is designed to meet the liquidity needs arising beyond the timeframes described in the first two tranches.

The selection of the financial instruments in which the majority of each tranche is invested, (the 'benchmark portfolios') and the duration of each benchmark portfolio are determined in line with the use of each tranche to meet the liquidity needs of the Bank and with the objectives determined by the Supervisory Council.

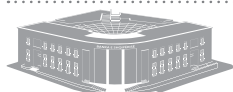
The tables below set out the remaining contractual maturities of the Bank's financial liabilities and financial assets. The Bank's expected cash flows on these instruments may vary from the contractual cash flows.



31 December 2021	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
<b>Financial assets</b>								
<b>Non-derivative assets</b>								
Cash and balances with banks	264,463	10,262	-	-	-	-	-	274,725
Trading assets	37,378	371	54	797	13,521	-	-	14,743
Account with the IMF	33,816	-	-	-	-	-	20,763	58,141
Loans to banks	5,495	7,767	-	-	-	-	-	41,583
Investment securities	2	17,807	8,378	33,588	216,200	37,010	-	318,478
Other assets (note 1c)	341,155	36,207	8,432	34,385	229,739	39,170	20,763	709,851
<b>Derivative assets</b>								
Exchange rate future contracts	-	18	2	2	-	-	-	22
Interest rate future contracts	-	1	-	-	-	-	-	1
<b>Total financial assets</b>	<b>341,155</b>	<b>36,226</b>	<b>8,434</b>	<b>34,387</b>	<b>229,739</b>	<b>39,170</b>	<b>20,763</b>	<b>709,874</b>
<b>Financial liabilities</b>								
<b>Non-derivative liabilities</b>								
Currency in circulation	-	-	-	-	-	-	378,142	378,142
Due to banks	186,733	-	-	-	-	-	-	186,733
Deposits and borrowings from third parties	2,772	-	-	-	-	-	-	2,772
Due to Government and state institutions	106,010	-	-	-	-	-	500	106,510
Due to the IMF	16,887	-	-	-	-	-	26,836	43,723
Other liabilities	1,207	-	-	-	-	-	-	1,207
<b>Total financial liabilities</b>	<b>313,609</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>405,478</b>	<b>719,087</b>
<b>Asset-liability maturity mismatch as at 31 December 2021</b>	<b>27,546</b>	<b>36,226</b>	<b>8,434</b>	<b>34,387</b>	<b>229,739</b>	<b>39,170</b>	<b>(384,715)</b>	<b>(9,213)</b>



31 December 2020	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
<b>Financial assets</b>								
<b>Non-derivative assets</b>								
Cash and balances with banks	182,190	5,413	12,975	-	-	-	-	200,578
Trading assets	743	348	387	961	11,592	-	-	14,031
Account with the IMF	24,473	-	-	-	-	-	20,248	44,720
Loans to banks	22,610	10,061	-	-	-	-	-	32,671
Investment securities	2,539	17,999	23,675	22,992	198,105	29,891	-	295,201
Other assets (note 16)	2	-	-	1	3	2,033	-	2,039
<b>Derivative assets</b>	<b>232,557</b>	<b>33,820</b>	<b>37,037</b>	<b>23,953</b>	<b>209,700</b>	<b>31,924</b>	<b>20,248</b>	<b>589,240</b>
Exchange rate future contracts	-	133	48	2	-	-	-	183
<b>Total financial assets</b>	<b>232,557</b>	<b>33,954</b>	<b>37,085</b>	<b>23,955</b>	<b>209,700</b>	<b>31,924</b>	<b>20,248</b>	<b>589,422</b>
<b>Financial liabilities</b>								
<b>Non-derivative liabilities</b>								
Currency in circulation	-	-	-	-	-	-	355,238	355,238
Due to banks	178,815	-	-	-	-	-	-	178,815
Deposits and borrowings from third parties	2,485	-	-	-	-	-	-	2,485
Due to Government and state institutions	32,445	-	1,486	-	-	-	500	34,431
Due to the IMF	16,473	-	-	-	-	-	6,746	23,219
Other liabilities	829	-	-	35	-	-	-	864
<b>Total financial liabilities</b>	<b>231,047</b>	<b>-</b>	<b>1,486</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>362,484</b>	<b>595,052</b>
<b>Asset-liability maturity mismatch as at 31 December 2020</b>	<b>1,510</b>	<b>33,954</b>	<b>35,598</b>	<b>23,920</b>	<b>209,700</b>	<b>31,924</b>	<b>(342,236)</b>	<b>(5,630)</b>



## D. Credit risk

Credit risk is the risk of financial loss to the Bank, if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector's risks).

The risk in respect of changes in value in trading assets arising from changes in market spreads applied to debt securities and derivatives is managed as a component of market risk (see (D) below).

### (i) Settlement risk

Foreign reserve management activity may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. The Bank minimizes settlement risk through implementation of best practices for the recognition and ongoing monitoring of settlement procedures and conditions.

### (ii) Custody risk

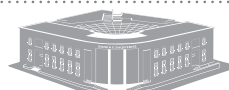
Custody risk is the risk of a loss of assets placed in custody in the case of insolvency, negligence, fraud, mismanagement or inadequate portfolio maintenance practices by the custodian. The Bank minimizes this risk by selecting for securities' custody services reputable international financial institutions with a minimum of USD 1,000 billion in assets under custody.

### (iii) Management of credit risk

The following table sets out the carrying amounts of the financial assets that are exposed to credit risk as at 31 December 2021 and 31 December 2020:

	31 December 2021	31 December 2020
<b>Assets</b>		
Cash and balances with banks (excluding cash on hand -Note 9)	274,698	200,549
Accounts with the IMF (Note 11)	58,141	44,720
Loans to banks (Note 12)	41,583	32,671
Trading assets (Note 13)	14,767	14,213
Investment securities (Note 14)	318,478	295,201
Other financial assets (loans to employees) (Note 16)	2,180	2,039
<b>Total</b>	<b>709,847</b>	<b>589,393</b>

*Assets denominated in foreign currencies* - For the management of credit risk related to foreign exchange reserve exposures the Supervisory Council has established base criteria of exposure to counterparties, and by type of



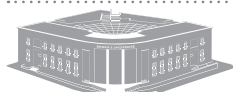
investment, issuer, credit rating band, market liquidity, with the governments and central banks issues prioritized. The evaluation and monitoring process of the credit rating of the eligible issuers is based on the analysis and the rating determined by the principal rating agencies, including Standard & Poor's, Moody's and Fitch, as well as in the reviewing processes, on a daily basis, of the performance of several market indicators of the quality of the credit rating of the issuer. In accordance with the limits imposed by the Supervisory Council, the Investment Committee and then the Director of the Monetary Operations Department are authorized to establish other qualitative and/or quantitative limits on the exposure level for the issuer/financial institution on an individual basis, category, or combined category and instrument basis. Depending on the market environment and conditions, the Bank may decide to adapt even more conservative limits for an issuer/financial institution.

Assets denominated in foreign currency that are part of the foreign exchange reserve, include cash and balances with banks (excluding cash on hand), trading assets, account with the IMF and investment securities denominated in foreign currency. The investment of the foreign exchange reserve is limited to: government/central bank issues with minimum credit ratings of A- ( BBB- for governments of the euro area); sovereign agencies, multilateral institutions and public entities with a minimum credit rating of AA-; and banks and other financial institutions with a minimum credit rating of A-.

The credit rating refers to the credit rating of an issuer/financial institution, and if such rating is not provided, the credit rating of the long-term debt of the financial institution is used. For the purpose of the reserve management implementation operations and for payments, the Bank may operate through current accounts opened with banks with a minimum credit rating of BBB.

For the purpose of the management of foreign reserves portfolio, as a first step the Bank monitors economic developments in the economies in which Bank is exposed through investments in securities. The extent of monitoring and the level of management input vary. For the major currencies, the Bank considers that the rating agencies' credit ratings and other public information are reflected in the prices and data for Expected Credit Loss (ECL). In addition, the portfolio manager and the risk unit monitor the creditworthiness of each borrower using market research and other sources such as public financial statements. The PDs associated with each grade are determined based on long time historical realized default rates updated on an annual basis, as published by the rating agency.

Due to the prompt fiscal and monetary intervention from major governments and central banks, the economies of most advanced countries are showing signs of recovery from the recession as a result of Covid-19 pandemic. The vaccination process has continued on a strong pace in most developed countries. As a result of a stronger than expected growth in GDP and inflation many central banks have started to gradually reduce monetary support. This has resulted in higher interest rates and financial conditions becoming tighter in developed economies.



By end of 2021 the overall effect of the pandemic on Bank of Albania's well diversified and high quality portfolio has been neutral in terms of potential losses from credit risk. Risk management processes and the tools and methodologies applied for this purpose, especially as related to the portfolio of forex reserves, have proved well suited to ensure compliance with the risk budget approved by the Supervisory Council of the Bank of Albania, even during events characterized by a significant degree of volatility in the financial markets.

#### *Assets denominated in domestic currency*

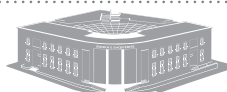
Assets denominated in domestic currency include loans to banks, investment debt securities issued by the Albanian Government and loans to employees included in other financial assets.

The Bank does not actively manage the credit risk for assets denominated in domestic currency, as they are largely originated for the purposes of the monetary policy implementation operations. For the monitoring of credit risk for these assets the Bank uses both external and internally developed analysis and information, which includes also information available to the Bank due to its role as regulator and Central Bank.

For loans to domestic commercial banks (overnight loans and reverse repo transactions), the Bank mitigates the credit risk through the collateral, which consists of debt securities issued by the Albanian Government. The collateral value for each transaction is not lower than the value of the granted loan plus a certain margin. If the value of the security placed as collateral drops under a defined level, Bank of Albania asks commercial banks to place additional collateral, based on the revaluation of the securities.

The risk grading model used by the Bank for the assessment of ECLs for loans to domestic commercial banks is based on criteria that are similar to those used for supervisory purposes, such as the capital adequacy, credit growth, liquidity and profitability of the counterparties. The risk grades and the methodology are subject to regular reviews by the Bank. Investment securities denominated in domestic currency consist of Treasury Bills issued by the Albanian Government, with maturity of up to one year. This portfolio is originated as the Bank of Albania intervenes in the money market through outright transactions, intended to manage the liquidity structure of the banking system with potential impact in the short-term interest rates in this market.

The credit risk of the portfolio of investment securities denominated in domestic currency is assessed based on historical data and assessment of the ability of the Albanian Government to meet its contractual cash flows obligations in domestic currency in the near term. For loans to employees the Bank assesses ECLs based on historic loss ratios, adjusted for forward-looking macroeconomic information.



(iv) Credit quality analysis

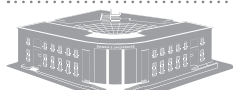
The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' are included in Note 7(A)(vii). The credit ratings show the second best rating amongst Standard & Poor's, Moody's and Fitch.

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Cash and balances with banks at amortised cost</b>					
Rated AAA	82,789	-	-	82,789	31,483
Rated AA- to AA+	145,402	-	-	145,402	140,512
Rated A- to A+	42,031	-	-	42,031	23,739
Rated BBB+ and below	-	-	-	-	662
Albanian Government B+*	9	-	-	9	8
BIS Basel	4,482	-	-	4,482	4,158
	<b>274,713</b>			<b>274,713</b>	<b>200,561</b>
Loss allowance	(15)	-	-	(15)	(12)
<b>Carrying amount</b>	<b>274,698</b>	-	-	<b>274,698</b>	<b>200,549</b>
<b>Accounts with IMF**</b>					
Unrated	58,141	-	-	58,141	44,720
	<b>58,141</b>	-	-	<b>58,141</b>	<b>44,720</b>
Loss allowance	-	-	-	-	-
<b>Carrying amount</b>	<b>58,141</b>	-	-	<b>58,141</b>	<b>44,720</b>
<b>Loans to banks at amortised cost</b>					
Grade: Low-fair risk	-	-	-	-	-
Grade: Low risk	41,583	-	-	41,583	32,671
Grade: Average risk	-	-	-	-	-
Grade: Moderately high risk	-	-	-	-	-
Grade: High risk	-	-	-	-	-
	<b>41,583</b>	-	-	<b>41,583</b>	<b>32,671</b>
Loss allowance	-	-	-	-	-
<b>Carrying amount</b>	<b>41,583</b>	-	-	<b>41,583</b>	<b>32,671</b>
<b>Debt investment securities at FVOCI</b>					
Rated AAA	106,666	-	-	106,666	93,732
Rated AA- to AA+	89,841	-	-	89,841	89,480
Rated A- to A+	24,088	-	-	24,088	29,320
Rated BBB+ and below	17,452	-	-	17,452	8,842
Albanian Government (B+)*	65,268	-	-	65,268	67,205
BIS Basel	15,163	-	-	15,163	6,622
<b>Carrying amount – fair value</b>	<b>318,478</b>	-	-	<b>318,478</b>	<b>295,201</b>
Loss allowance	(22)	-	-	(22)	(24)
<b>Carrying amount – fair value</b>	<b>318,478</b>	-	-	<b>318,478</b>	<b>295,201</b>
<b>Other financial assets at amortised cost</b>					
Unrated	2,185	-	-	2,185	2,044
	<b>2,185</b>	-	-	<b>2,185</b>	<b>2,044</b>
Loss allowance	(6)	-	-	(6)	(6)
<b>Carrying amount</b>	<b>2,180</b>	-	-	<b>2,180</b>	<b>2,039</b>

\* The Albanian Government is rated as B+, stable, based on the credit rating of Standard & Poor's and B1, stable, based on the credit rating of Moody's.

\*\* The currency value of the SDR is determined by summing the values in the US dollar, based on market exchange rates, of a basket of major currencies (US dollar, Euro, Pound sterling, Chinese yuan and Japanese yen). The SDR currency value is calculated daily and the valuation basket is reviewed and adjusted every five years.





The following table sets out the credit quality of trading debt securities. The analysis has been based on the second best rating amongst Standard & Poor's, Moody's and Fitch ratings.

	2021	2020
<b>Bonds of foreign agencies</b>		
Rated AAA	828	1,925
Rated AA- to AA+	2,821	1,711
	<b>3,649</b>	<b>3,636</b>
<b>Bonds of foreign governments and multilateral institutions</b>		
Rated AAA	9,548	9,579
Rated AA- to AA+	1,546	816
	<b>11,094</b>	<b>10,395</b>
<b>Total trading debt securities</b>	<b>14,743</b>	<b>14,031</b>

(v) *Collateral held and other credit enhancements*

The Bank holds collateral and other credit enhancements against certain credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	Note	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
		31 December 2021	31 December 2020	
<b>Loans to banks</b> Reverse repurchase agreements and overnight loans	12	100	100	Albanian Government debt securities
<b>Other financial assets</b> Loans to employees	16	100	100	Mortgage or contract guarantees

At 31 December 2021, the Bank held loans to banks of ALL 41,583 million (31 December 2020: ALL 32,671 million), for which no loss allowance is recognised because of full collateral coverage.

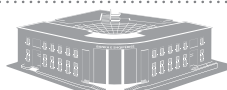
(vi) *Amounts arising from ECL*

(a) *Inputs, assumptions and techniques used for estimating impairment*

For more details refer to accounting policy in Note 7(A)(vii).

**Significant increase in credit risk**

When determining whether the risk of default of the invested amount on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and credit risk specialists assessment and including forward-looking information.



The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

*Credit risk grades/ratings*

For assessing the risk of default, at initial recognition, the Bank assigns to each exposure in foreign currency the second best rating amongst Standard & Poor’s, Moody’s and Fitch for that particular counterparty.

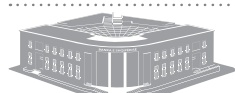
The Bank, at initial recognition, allocates each exposure to banks to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade/rating. The monitoring typically involves use of the following data.

Foreign currency exposures	Domestic currency exposures	Other assets
– Data from credit rating agencies, press articles, changes in external credit ratings	– Internally collected data on banks and supervisory indicators	– Repayment history – this includes overdue status and financial situation of the borrower.
– Quoted bond prices for the counterparty, where available	– Existing and forecast changes in business, financial and economic conditions	– Existing and forecast changes in financial and economic conditions
– Actual and expected significant changes in the political, regulatory and technological environment of the counterparty or in its business activities	– Affordability metrics	

*Generating the term structure of probability of default “PD”*

Credit risk grades/ratings are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by counterparty as well as by credit risk grading/ratings.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected



to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors. Key macro-economic indicators include: GDP growth, exchange rates, benchmark interest rates and credit growth. The methodology for determining PDs for domestic commercial banks is based on the Risk Assessment System (RAS) used for supervisory purposes. Factors considered by this system include the capital adequacy, credit risk, liquidity and profitability of the counterparty. The PDs are calculated as the average weighted PDs for each factor, where the weights are determined based on the importance of the factor. For the assets denominated in foreign currency, Bank uses 12-month PDs for sovereign and non-sovereign issuances, estimated based on transition matrices published by S&P which indicate a possibility of bankruptcy over 12 months for issuers per each respective rating category. For the sovereign issuance, a long-term transition matrix is used.

For non-sovereign issuance, two matrices are used, a long-term transition matrix of financial institutions (base scenario) and the transition matrix of a financial crisis year (alternative recession scenario), weighted against respective probabilities of the different scenarios happening in the future.

For exposures to the Albanian Government in domestic currency, the estimated PD considers the short-term maturity of such exposures, the absence of historical defaults and detailed assessments of the ability of the Albanian Government to fulfil its contractual cash flow obligations in the short-term which consider also the macroeconomic indicators over the assessment period.

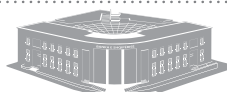
#### *Determining whether credit risk has increased significantly*

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure in foreign currency is deemed to have increased significantly since initial recognition if:

- the credit rating from all the three rating agencies (Standard & Poor's, Moody's and Fitch) falls below BBB- (or its' equivalent); or
- the credit rating from one of the above agencies is downgraded to BB-; or
- there is a delay in the repayment of an obligation to the Bank by more than or equal to 30 days. In this case the credit risk will be deemed to have significantly increased for all exposures to that issuer.

The credit risk of a particular exposure in domestic currency for commercial banks is deemed to have increased significantly since initial recognition if one of the following criteria is met:



- a commercial bank receives Emergency Liquidity Assistance (ELA) loan and the PD is over 30%;
- the PD is higher than 40% in the reporting period;
- the PD is higher than 25%, and it has increased by more than 5 percentage points in the reporting period compared to the initial recognition period; or
- there is a delay in the repayment of an obligation (excluding ELA) to the Bank by more than or equal to 30 days. In this case the credit risk will be deemed to have significantly increased for all exposures to that counterparty.

Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which due instalment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

For exposures toward Albanian government the credit risk is considered to be increased significantly since initial recognition if there is delay of 30 days or more in the repayment of an obligation to the Bank.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is in default.

### ***Definition of default***

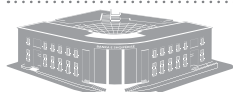
The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenants;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.



### *Incorporation of forward-looking information*

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

For exposures in domestic currency, the Bank formulates a 'baseline scenario' view of the future direction of relevant economic variables (GDP growth, exchange rates, benchmark interest rates and credit growth) as well as a representative range of other possible forecast scenarios "moderate scenario", considering the relative probabilities of each outcome by comparing the results of previous stress tests with financial agents' economic indicators during the reference period. The base scenario represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and forecasting. The other scenarios "moderate scenario" represents more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

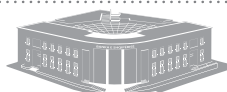
For non-sovereign issuances in foreign currency, forward-looking information is incorporated in the assessment of the probability of defaults, as the probability of the normal scenario and alternative scenario is calculated based on the probability of recession of major economies (as one of the main indicators of increased probability of default for non-sovereign issuers), to which additional quality factors may be applied. For sovereign issuances in foreign currency forward-looking economic variable are incorporated in the determination of the PD through respective rating in transition matrices published by external rating agencies. These variables are reviewed periodically and in case of significant market changes by the credit rating agencies.

### *Modified financial assets*

The contractual terms of a financial asset may be modified for a number of reasons, including changing market conditions and other factors not related to a current or potential credit deterioration of the counterparty. An existing asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new one at fair value in accordance with the accounting policy set out in Note 7(A)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.



The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

### *Measurement of ECL*

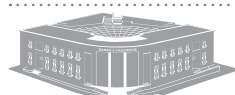
These parameters are derived from internally developed statistical models, globally recognized external developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Transition matrixes data are used to derive the PD for foreign counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates, or parameters calculated by rating agencies and regulatory institutions such as BIS Basel, of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. EAD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:



- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

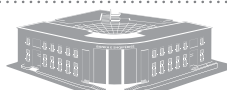
For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL comprise financial assets in foreign currency as follows:

In ALL Million	Exposure	External benchmarks used	
		PD	LGD
Cash and balances with banks (current accounts and deposits)	274,027	2nd Best Rating (from: S&P, Moody's and Fitch)	Moody's recovery studies
Investment securities in foreign currency	253,210	2nd Best Rating (from: S&P, Moody's and Fitch)	Moody's recovery studies

#### (b) Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' and credit-impaired assets are included in Note 7(A)(vii).

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Cash and balances with banks</b>					
Balance at 1 January	12	-	-	12	8
Net remeasurement of loss allowance	3	-	-	3	4
<b>Balance at end of the period</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>15</b>	<b>12</b>
<b>Other assets at amortised cost</b>					
Balance at 1 January	6	-	-	6	6
Net remeasurement of loss allowance	-	-	-	-	-
<b>Balance at end of the period</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>6</b>
<b>Investment debt securities at FVOCI</b>					
Balance at the beginning of the period	24	-	-	24	18
Net remeasurement of loss allowance	(2)	-	-	(2)	6
<b>Balance at end of the period</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>24</b>
<b>Total</b>					
Balance at the beginning of the period	43	-	-	43	33
Net remeasurement of loss allowance	1	-	-	1	10
<b>Balance at end of the period</b>	<b>44</b>	<b>-</b>	<b>-</b>	<b>44</b>	<b>43</b>



The above loss allowance for debt investment securities at FVOCI is not recognized in the statement of financial position because the carrying amount of these assets is their fair value.

**(c) Credit-impaired financial assets**

For more details refer to accounting policy in Note 7(A)(vii).

As at 31 December 2021 and 31 December 2020, the Bank had no credit-impaired financial assets.

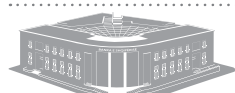
**(vii) Concentrations of credit risk**

The Bank monitors concentrations of credit risk by geographic location and by counterparty type. An analysis of concentrations of credit risk is shown below. Concentration by location for investment securities is based on the country of domicile of the issuer of the security. Concentration by counterparty type is based on the customer's country of domicile

A segregation of the financial assets by geography is set out below:

31 December 2021	Germany	France	Other EU countries	Switzerland	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	68,998	130,612	29,899	4,481	15,173	9	25,526	274,698
Trading assets	1,308	1,307	1,854	-	8,413	22	1,863	14,767
Accounts with the IMF	-	-	-	-	-	-	58,141	58,141
Loans to banks	-	-	-	-	-	41,583	-	41,583
Investment securities	23,648	17,776	104,977	27,309	51,080	65,268	28,420	318,478
Other assets (Note 16)	-	-	-	-	-	2,180	-	2,180
<b>Total</b>	<b>93,954</b>	<b>149,695</b>	<b>136,730</b>	<b>31,790</b>	<b>74,666</b>	<b>109,062</b>	<b>113,950</b>	<b>709,847</b>

31 December 2020	Germany	France	Other EU countries	Switzerland	United States of America	Republic of Albania	Other	Total
Accounts and deposits with financial institutions (Note 9)	12,670	130,090	14,211	7,864	15,765	8	19,941	200,549
Trading assets	1,343	1,577	2,220	51	7,483	183	1,357	14,213
Accounts with the IMF	-	-	-	-	-	-	44,720	44,720
Loans to banks	-	-	-	-	-	32,671	-	32,671
Investment securities	24,248	15,534	102,821	12,829	42,776	67,205	29,787	295,201
Other assets (Note 16)	-	-	-	-	-	2,039	-	2,039
<b>Total</b>	<b>38,262</b>	<b>147,201</b>	<b>119,252</b>	<b>20,744</b>	<b>66,024</b>	<b>102,106</b>	<b>95,806</b>	<b>589,394</b>





A segregation of the financial assets by counterparty type is set out below:

31 December 2021	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investment securities	Other assets	Total
Central Banks	259,248	8,349	58,141	-	-	-	325,738
Bank for International Settlements ("BIS Basel")	4,481	-	-	-	15,163	-	19,644
Foreign governments and multilateral institutions	-	1,785	-	-	154,381	-	156,166
Foreign agencies	-	3,790	-	-	50,659	-	54,449
Commercial Banks	10,969	820	-	41,583	30,666	-	84,038
Albanian Government	-	23	-	-	65,268	-	65,291
Other	-	-	-	-	2,341	2,180	4,521
<b>Total</b>	<b>274,698</b>	<b>14,767</b>	<b>58,141</b>	<b>41,583</b>	<b>318,478</b>	<b>2,180</b>	<b>709,847</b>

31 December 2020	Accounts and deposits with financial institutions	Trading assets	Accounts with the IMF	Loans to banks	Investments securities	Other assets	Total
Central Banks	171,191	7,301	44,720	-	-	-	223,212
Bank for International Settlements ("BIS Basel")	4,157	-	-	-	12,829	-	16,986
Foreign governments and multilateral institutions	-	2,235	-	-	130,734	-	132,969
Foreign agencies	-	4,081	-	-	42,814	-	46,895
Commercial Banks	25,201	414	-	32,671	41,618	-	99,905
Albanian Government	-	183	-	-	67,205	-	67,388
Other	-	-	-	-	-	2,038	2,038
<b>Total</b>	<b>200,549</b>	<b>14,213</b>	<b>44,720</b>	<b>32,671</b>	<b>295,201</b>	<b>2,038</b>	<b>589,394</b>

## E. Market risk

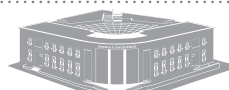
Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank of Albania's income or the value of its holdings of financial instruments.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

The key elements of price risk affecting the Bank are:

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

The Bank's exposure to currency risk is monitored on a continuous basis. Financial assets and liabilities denominated in foreign currencies are disclosed in the relevant notes of the financial statements.

For the purpose of foreign reserve management, function performed by the Monetary Operations Department, Supervisory Council has established a set of criteria for the currency composition of the foreign reserve, in accordance



with the objectives of holding the reserves. This serves as a reference for the management of the exchange rate risk. As a result, the Bank is passive in the management of the exchange rate risk. The Investment Committee defines a set of narrow ranges of the currency composition of some of the tranches of the foreign exchange reserve. The limits are monitored by the Monetary Operations Department, which carries out the necessary rebalancing operations in order to preserve the required weights of the currencies' composition.

**(i) Interest rate risk**

The Bank's operations are subject to the risk of interest rate fluctuations, which affect the prices of interest-earning assets (including investments) and interest-bearing liabilities.

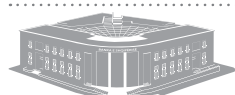
The Monetary Operations Department of the Bank monitors the interest rate risk. The Bank mitigates such risks by maintaining a significant excess of interest-bearing assets over liabilities. The Bank maintains a portfolio of interest-bearing financial assets and liabilities, in such a manner, that the net interest income is significantly higher than operating needs, in order to minimize the potential adverse effects of interest rate fluctuations. Interest rates applicable to financial assets and liabilities are disclosed in the relevant notes to the financial statements.

The interest rate risk management, for the purpose of foreign reserve management, in its core process includes the selection of the portfolio/duration benchmark for each market (currency) in which the foreign reserves are held. The benchmark selection is reviewed at least annually or whenever changes in market conditions require a reassessment. Besides determining the benchmark portfolio, the Investment Committee, in accordance with the limits imposed by the Supervisory Council, determines limits for active management at the tranche level. The limits for active management at portfolio level are established by the Director of the Monetary Operations Department.

The principal tools used to measure the interest rate risk for individual portfolios within the foreign exchange reserve are Duration and Value at Risk ("VaR").

- Duration measures the sensitivity of the price of a fixed-income security due to the volatility of the interest rates in the market.
- The VaR is defined as the estimated maximum loss that will arise on a portfolio over a specified time horizon due to its exposure to the risk factors with a specified confidence interval.

For the purposes of foreign reserve management, the calculated VaR includes only the exposure to the risk of changes in interest rates for all positions, including benchmark instruments and non-benchmark instruments.



For benchmark instruments, the data used encompasses changes in interest rates for treasury issues or high quality agency issues, depending on the specific benchmark for each currency and for non-benchmark instruments the data used encompasses changes in interest rates for issues rated as AA, given that this rating constitutes the major share of non-benchmark instruments of the reserve portfolios.

The following is a summary of the VaR (95%) position of the Bank's portfolios at 31 December 2021 and 2020:

	31 December 2021	31 December 2020
VaR (95%) in ALL million	(2,680)	(1,868)

Furthermore, an important method to measure market risk is the sensitivity analysis of the value of the reserve to hypothetical changes in market factors. The data used in the sensitivity analysis calculations include the duration of portfolios and weight of each currency. The duration of the portfolio shows the degree of change in the market value of the portfolio, assuming a parallel shift of the yield curve based on interest rates for all the instruments within the portfolio.

Assuming an immediate parallel increase (decrease) in interest rates by 50 basis points and 100 basis points and a correlation equal to 1 between the curves, and based on the duration of the aggregate foreign exchange reserves, the estimated loss (gain) for each scenario is as follows:

Estimated effect on Profit/(loss) ALL million	2021		2020	
	100 bp	50 bp	100 bp	50 bp
Increase	(6,012)	(3,006)	(4,591)	(2,295)
Decrease	6,012	3,006	4,591	2,295

Assets and liabilities with variable interest rates carry the risk of changing the base that serves to determine interest rates.

The position of the Bank's sensitivity to interest rate by contractual repricing is presented in the following table, showing the carrying amounts of financial instruments classified by contractual repricing or maturity date.



31 December 2021	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
<b>Interest-earning assets</b>						
Cash and balances with banks	274,725	249,288	14,478	10,262	-	697
Trading assets	14,767	-	41	219	14,484	23
Accounts with the IMF	58,141	37,378	-	-	-	20,763
Loans to banks	41,583	-	33,816	7,767	-	-
Investment securities	318,478	1,449	9,019	29,074	278,936	-
Other assets (Note 16)	2,180	-	2	-	2,178	-
<b>Total</b>	<b>709,874</b>	<b>288,115</b>	<b>57,356</b>	<b>47,322</b>	<b>295,598</b>	<b>21,483</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	378,142	-	-	-	-	378,142
Due to banks	186,733	-	186,733	-	-	-
Deposits and borrowings from third parties	2,772	-	2,772	-	-	-
Due to Government and state institutions	106,510	500	-	-	-	106,010
Due to the IMF	43,723	26,837	-	-	-	16,886
Other liabilities	1,207	-	-	-	-	1,207
<b>Total</b>	<b>719,087</b>	<b>27,337</b>	<b>189,505</b>	<b>-</b>	<b>-</b>	<b>502,245</b>
<b>Interest-bearing financial instruments gap</b>	<b>(9,213)</b>	<b>260,778</b>	<b>(132,149)</b>	<b>47,322</b>	<b>295,598</b>	<b>(480,762)</b>

31 December 2020	Total	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments
			Up to 1 month	From 1 to 3 months	Over 3 months	
<b>Interest-earning assets</b>						
Cash and balances with banks	200,578	165,167	15,345	5,413	12,975	1,678
Trading assets	14,213	202	743	247	12,839	183
Accounts with the IMF	44,720	24,473	-	-	-	20,248
Loans to banks	32,671	-	22,610	10,061	-	-
Investment securities	295,201	2,129	2,539	17,999	272,533	-
Other assets (Note 16)	2,039	-	2	-	2,037	-
<b>Total</b>	<b>589,422</b>	<b>191,971</b>	<b>41,239</b>	<b>33,720</b>	<b>300,384</b>	<b>22,109</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	355,238	-	-	-	-	355,238
Due to banks	178,815	-	178,815	-	-	-
Deposits and borrowings from third parties	2,485	-	2,409	-	-	77
Due to Government and state institutions	34,431	500	-	-	-	33,931
Due to the IMF	23,219	6,748	-	-	-	16,472
Other liabilities	864	-	-	-	35	829
<b>Total</b>	<b>595,053</b>	<b>7,248</b>	<b>181,224</b>	<b>-</b>	<b>35</b>	<b>406,546</b>
<b>Interest-bearing financial instruments gap</b>	<b>(5,631)</b>	<b>184,723</b>	<b>(139,985)</b>	<b>33,720</b>	<b>300,349</b>	<b>(384,438)</b>

### Future contracts

A future contract is a standardized contract to buy or sell a financial or non-financial asset, at a certain date in the future and at a market determined price. To minimize the credit risk, depending on the type of instrument, the investor should post a margin to the clearing house. This margin or performance bond is valued every day according to the prices in the market (mark to market), which means that every change in value is shown in the account of investor at the end of each trading day until the expiry day.



The net fair value of future contracts as at 31 December 2021 is ALL 1 million (2020: ALL 0 million) (see Note 13).

The nominal value of these contracts as at 31 December 2021 is composed by the following:

- buy contracts in the amount of ALL 666 million (2020: ALL 478 million); and
- sell contracts in the amount of ALL 512 million (2020: ALL 1,504 million).

## (ii) Exchange rate risk

Exchange rate risk results from the difference between the currency structure of assets and liabilities. From an accounting point of view, the Bank is exposed to currency risk due to its principal central bank functions.

This risk can affect the size of its capital. In order to manage this type of exposure, over the years, action is taken to increase capital, inflow of funds and, in exceptional cases, when the balance of the revaluation reserve is negative, debt instruments of the Republic of Albania were issued in compliance with the provisions of the law 'On the Bank of Albania' (Note (7(N) and 22).

### Forward contracts

Trading derivatives include forward exchange contracts that are entered into by the Bank with the Albanian Government. These instruments are not usually closed out before contractual maturity.

The fair value of foreign exchange forward contracts at 31 December 2021 is ALL 22 million (2020: 183 million) (see Note 13).

The following significant exchange rates have been applied.

ALL	Average		Year-end spot rate	
	2021	2020	2021	2020
United States Dollar (USD)	103.52	101.84	106.54	100.84
European Union Currency Unit (EUR)	122.46	123.89	120.76	123.70
British Pound (GBP)	142.41	139.61	143.95	137.93
Special Drawing Rights (SDR)	147.48	151.42	149.11	145.24
Japanese Yen (JPY)	0.94	1.02	0.92	0.98
Chinese Yuan (offshore) (CNH)	16.05	15.76	16.8	15.50

### Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR, USD, GBP or other currencies by 10% against ALL at 31 December 2021 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below.





## F. Fair value of financial instruments

### i) Determination of fair values

The determination of fair values of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in the accounting policy. For financial instruments that are traded infrequently and whose price is not transparent, the fair value is less objective and requires an expert's judgement depending on liquidity, concentration, market factors uncertainty, pricing assumptions, and other risks affecting the particular instrument.

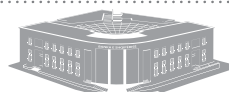
### ii) Valuation of financial instruments

The Bank measures the fair value of financial instruments using the following hierarchy of methods:

- Level 1: Quoted market price or closing price for positions for which there is a reliable market.
- Level 2: Valuation techniques based on observable market information about the yield curve. This category of methods is used to measure debt securities for which there is no reliable market.
- Level 3: Valuation techniques, where inputs on financial assets and liabilities are not based on observable market data.

The fair values of financial assets and liabilities traded in international financial markets for which there is available market information are based on market quotations or closing market prices. The use of observable market prices and information reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of actual market prices and information varies depending on products and markets and changes because of specific events and the general conditions of financial markets.

The Bank determines the fair values of all other financial instruments for which there are no current market quotes by using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The net present value is computed by means of market yield curves and credit spreads, where necessary, for the relevant instrument. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.



The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and yields ranges of possible inputs and estimates of fair value, and management judgment is required to select the most appropriate point in the range. For all other financial instruments, the Bank determines fair values using valuation techniques.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. 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 the financial markets.

### *Financial instruments measured at fair value – Fair value hierarchy*

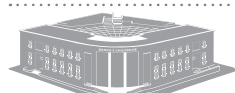
The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position.

31 December 2021	Note	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Non-derivative trading assets	13	14,744	-	-	14,744
Derivative trading assets	13	1	-	22	23
Investments in securities	14	231,952	86,526	-	318,478
<b>Total</b>		<b>246,697</b>	<b>86,526</b>	<b>22</b>	<b>333,245</b>

31 December 2020	Note	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Non-derivative trading assets	13	14,031	-	-	14,031
Derivative trading assets	13	-	-	183	183
Investments in securities	14	196,761	98,440	-	295,201
<b>Total</b>		<b>210,792</b>	<b>98,440</b>	<b>183</b>	<b>309,414</b>

### *Financial instruments not measured at fair value*

The fair value of balances with/due to banks balances with/due to the IMF, liabilities to banks and other financial institutions and of liabilities to government institutions is approximately equal to the reporting value as they are short-term. The following table sets out the fair values of certain financial instruments not





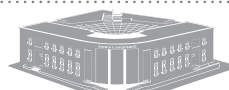
measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised. Other financial assets consist of loans granted to employees (see note 16) pursuant to Article 4 point (b) of the Law No. 8269 "On the Bank of Albania" as amended.

	Note	31 December 2021		31 December 2020	
		Fair value Level 2	Carrying amount	Fair value Level 2	Carrying amount
<b>Assets</b>					
Cash and balances with banks	9	274,725	274,725	200,578	200,578
Loans to banks	12	41,583	41,583	32,671	32,671
Accounts with the IMF	11	58,141	58,141	44,720	44,720
<b>Liabilities</b>					
Due to the IMF	11	43,723	43,723	23,219	23,219
Due to banks	18	186,733	186,733	178,815	178,815
Deposits and borrowings from third parties	19	2,772	2,772	2,485	2,485
Due to Government and state institutions	20	106,510	106,510	34,431	34,431
Other liabilities	21	1,207	1,207	864	864

### G. Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations. Operational risk management is supported by the internal control systems on several activities of the Bank of Albania and standards for the management of operational risk and a wide range of common policies, staff management regulations and obligatory requirements.

In response to the situation created from COVID-19 pandemic, the Bank of Albania has been implementing its Business Continuity Management Policy of the Bank of Albania, which has been adopted by the Supervisory Council in 2019. In this framework, the Bank of Albania has undertaken a set of necessary measures in line with the decisions of the Government and the Ministry of Health to face the situation created from the spread of coronavirus in Albania, which aims at safeguarding the health of the employees, and at the same time, to carry out of its main functions, as the central monetary authority, in supporting the economy in Albania. During 2021, the Bank of Albania has worked with reduced staff within its physical premises, and complete staff from home. The Bank of Albania is implementing the protocols on the distant communication and work safely and efficiently of the employees, which support them to contribute with their expertise and professionalism in the decision taking of the Bank of Albania, notwithstanding the physical obstacles. All the core activities of the Bank of Albania has continued normally, with no disruption, by providing to it the possibility to continue to be a responsible institution, able to successfully deal with this type of situation, for the good of public health and social welfare.

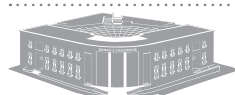


## H. Maturity structure of assets and liabilities

The Bank's assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity, are as follows:

31 December 2021	< 12 months	>12 months	Undefined maturity	Total
<b>ASSETS</b>				
Cash and balances with banks	274,725	-	-	274,725
Trading assets	1,134	13,633	-	14,767
Monetary gold	-	-	17,101	17,101
Accounts with the International Monetary Fund	37,378	-	20,763	58,141
Loans to banks	41,583	-	-	41,583
Investment securities	159,008	159,470	-	318,478
Property, equipment, right-of-use and intangible assets	-	-	21,031	21,031
Other assets	2	2,178	1,503	3,683
<b>TOTAL ASSETS</b>	<b>513,830</b>	<b>175,281</b>	<b>60,398</b>	<b>749,509</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	378,142	378,142
Due to banks	186,733	-	-	186,733
Deposits and borrowings from third parties	2,772	-	-	2,772
Due to Government and state institutions	106,010	-	500	106,510
Due to the International Monetary Fund	16,886	-	26,837	43,723
Other liabilities	1,333	-	-	1,333
<b>TOTAL LIABILITIES</b>	<b>313,734</b>	<b>-</b>	<b>405,479</b>	<b>719,213</b>
<b>Assets – Liabilities maturity mismatch</b>	<b>200,096</b>	<b>175,281</b>	<b>(345,081)</b>	<b>30,296</b>

31 December 2020	< 12 months	>12 months	Undefined maturity	Total
<b>ASSETS</b>				
Cash and balances with banks	200,578	-	-	200,578
Trading assets	2,622	11,592	-	14,213
Monetary gold	-	-	16,817	16,817
Accounts with the International Monetary Fund	24,473	-	20,248	44,720
Loans to banks	32,671	-	-	32,671
Investment securities	67,205	227,996	-	295,201
Property, equipment, right-of-use and intangible assets	-	-	20,364	20,364
Other assets	193	2,299	344	2,836
<b>TOTAL ASSETS</b>	<b>327,742</b>	<b>241,887</b>	<b>57,773</b>	<b>627,401</b>
<b>LIABILITIES</b>				
Currency in circulation	-	-	355,238	355,238
Due to banks	178,815	-	-	178,815
Deposits and borrowings from third parties	2,485	-	-	2,485
Due to Government and state institutions	33,931	-	500	34,431
Due to the International Monetary Fund	16,473	-	6,746	23,219
Other liabilities	995	-	-	995
<b>TOTAL LIABILITIES</b>	<b>232,699</b>	<b>-</b>	<b>362,484</b>	<b>595,184</b>
<b>Assets – Liabilities maturity mismatch</b>	<b>95,043</b>	<b>241,887</b>	<b>(304,711)</b>	<b>32,216</b>



## 9. CASH AND BALANCES WITH BANKS

	31 December 2021	31 December 2020
Cash	27	29
Current accounts	249,971	166,827
Deposits maturing within three months	24,741	20,758
Less impairment loss allowance	(15)	(12)
<b>Cash and cash equivalent</b>	<b>274,725</b>	<b>187,602</b>
Deposits maturing after more than three months	-	12,976
<b>Total</b>	<b>274,725</b>	<b>200,578</b>

The interest rates for current accounts are as follows:

In %	EUR	USD	GBP	AUD	JPY	CNY	CNH
31 December 2021	0.00 - (0.67)	0.00 - 0.05	0.00 - 0.00	0.00 - 0.00	0.00 - (0.35)	0.00 - 2.1	0.00 - 2.1
31 December 2020	(0.23) - (0.67)	0.00 - 0.00	0.00 - 0.00	0.00 - 0.00	(0.3) - (0.35)	0.00 - 2.00	0.00 - 1.9

The annual interest rates for short-term deposits are as follows:

In %	EUR	USD	CNH
31 December 2021	(0.53)	0.05	-
31 December 2020	(0.52) - (0.50)	0	1.68 - 2.58

## 10. MONETARY GOLD

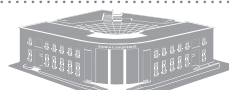
	31 December 2021	31 December 2020
Monetary gold	17,101	16,817
<b>Total</b>	<b>17,101</b>	<b>16,817</b>

The monetary gold is placed in current account (2020: current account) with foreign banks. The increase of ALL 284 million compared to the previous year is a result of the monetary gold revaluating at the market price at the reporting date, and is recognized in profit or loss, and accumulated to the revaluation reserve (refer to Note 22).

## 11. ACCOUNTS WITH/DUE TO THE INTERNATIONAL MONETARY FUND (IMF)

<i>Accounts with the IMF</i>	31 December 2021	31 December 2020
Quotas with IMF	20,763	20,248
Special Drawing Rights ("SDR") held	37,378	24,473
<b>Total assets</b>	<b>58,141</b>	<b>44,720</b>
<i>Due to the IMF</i>	31 December 2021	31 December 2020
SDR allocations	26,834	6,746
IMF securities account	14,703	14,341
IMF account No.1	2,184	2,130
IMF account No.2	1	1
Accrued interest	2	1
<b>Total liabilities</b>	<b>43,723</b>	<b>23,219</b>

Quotas with the IMF of ALL 20,763 million or SDR 139 million (2020: ALL 20,248 million or SDR 139 million) originate from the membership of the



Republic of Albania in the IMF, according to the Law No.8269, dated 23 December 1997 'On the Bank of Albania', as amended. The SDR holdings of ALL 37,378 million or SDR 251 million (2020: ALL 24,473 million or SDR 168 million) represent deposits with the IMF. During 2020, in response to the two events, the earthquake that hit the country and the Covid – 19 pandemic situation, the government of Albania requested and obtained an emergency financing from the IMF in the amount of SDR 139 million, corresponding to the purchase of 100% of Albania's quota under the Rapid Financing Instrument (RFI). The SDR holdings bear interest, which is determined on a weekly basis. The interest rate at 31 December 2021 is 0.077% p.a. (2020: 0.072% p.a.).

SDR Allocations of ALL 26,834 million or SDR 180 million (2020: ALL 6,746 million or SDR 46 million) represent amounts borrowed from the IMF with two tranches in August and September 2009, whose purpose is to provide immediate response to the short-term and long-term liquidity needs of the member countries. The SDR Allocations bear interest, which is determined on a weekly basis and is payable on a quarterly basis. As at 31 December 2021, the interest rate is 0.077% p.a. (2020: 0.072% p.a.). The IMF pays remuneration to members with remunerated reserve tranche positions, at 0.077% p.a. (2020: 0.738% p.a.). The reserve tranche position is calculated as the difference between Quotas in the IMF and the currency holdings in the IMF accounts, excluding holdings acquired as a result of the use of the Fund credit and holdings in the IMF account No.2. In August 2021, the IMF decided to have a SDR allocation to all Fund members to help build reserve buffers, smooth adjustments, and mitigate the risks of economic stagnation in global growth. The allocation of SDRs was distributed in proportion to members' paid Fund quota shares. To Albania, were allocated an amount of SDR 133 million or ALL 19,640 million. Based on the concept of SDR allocation the member has a high degree of flexibility of using it. If the member decide to use (Bank of Albania or the Ministry of Finance and Economy), will bear the cost of using it (normally interest rate and not principal).

### ***Direct budget support provided by the IMF***

Funds provided for direct budget support by the IMF to the Government of Albania which are initially deposited in the Government accounts at the Bank, are not recognised as a liability of the Bank to the IMF. The Government assumes the obligation to repay the funds to IMF whereas the Bank processes such repayments on behalf of the Government. The IMF disbursed such funds in tranches during the years 2014 - 2017, as part of the EFF facility program approved by the IMF in favour of Albania and in the year 2020 in one payment, as part of RFI facility due to the Covid-19 pandemic situation. These tranches are used to provide direct budget financing to the Government of Albania represented by the Ministry of Finance and Economy. The borrowing is repayable within 3 years, by the Albanian Government through the accounts of the Bank with the IMF. The Albanian Government shall deposit in its accounts at the Bank sufficient funds to repay all principal, interest and any other expenses associated with the above tranches as such repayments fall due. In relation to this borrowing, the Ministry



of Finance and Economy issued promissory notes in favour of the IMF. The Government started to repay the facility in October 2018. As at 31 December 2021, the facility amounted to ALL 51,336 million (2020: ALL 56,538 million).

## 12. LOANS TO BANKS

The measures taken by the Bank in response to the health crisis caused by the Covid-19 pandemic in the field of monetary policy aims at reducing the borrowing cost and the continuous lending to economy. In strengthening the accommodative monetary policy stance, so far implemented by the Bank, starting from middle of March 2020, the auction for the weekly injection of liquidity has changed from limited amount to fixed price auction. This change provides room to commercial banks to take from the Bank of Albania liquidity with no limit, at the cost of the policy rate set out by the Bank. Also, the Bank of Albania has increased the size of liquidity injection beyond the one-week period. No overnight loans to Banks as at 31 December 2021 and 2020.

	31 December 2021	31 December 2020
Reverse repurchase agreements	41,583	32,671
<b>Total</b>	<b>41,583</b>	<b>32,671</b>

At 31 December 2021, reverse repurchase agreements between the Bank and commercial banks have original maturities from one week to three months (2020: from one week to three months).

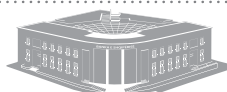
## 13. TRADING ASSETS

Trading assets	31 December 2021	31 December 2020
<i>Non-derivatives:</i>		
Bonds of foreign agencies	3,649	3,636
Bonds of foreign governments and multilateral institutions	11,094	10,395
<i>Derivatives:</i>		
Interest rate future contracts	1	-
Foreign exchange forwards	22	182
<b>Total</b>	<b>14,767</b>	<b>14,213</b>

Trading assets are administrated by the International Bank for Reconstruction and Development ('IBRD') as stated in the agreement 'On the administration and technical assistance on investing the foreign reserve of the Bank of Albania' (Reserves and Advisory Management Program) signed between the Bank of Albania and IBRD on 23 September 2005. Investments in this portfolio are denominated in USD.

The annual interest rates for non-derivative assets as at 31 December 2021 and 31 December 2020 are as follows:

In %	31 December 2021	31 December 2020
USD	0.125-3.375	0.125- 3.125



## 14. INVESTMENT SECURITIES

	31 December 2021	31 December 2020
Investment securities measured at FVOCI	318,478	295,201
<b>Total</b>	<b>318,478</b>	<b>295,201</b>
<b>Expected Credit Losses (ECL)</b>	<b>(22)</b>	<b>(24)</b>

Investment securities by type of issuer and security are presented as follows:

	31 December 2021	31 December 2020
Treasury Bills of foreign governments and multi-lateral institutions	967	8,064
Certificate of Deposit	21,718	6,206
Bonds of banks and other institutions	24,476	41,619
Bonds of foreign agencies	41,922	42,814
Bonds of foreign governments and multilateral institutions	164,127	129,293
Treasury Bills of the Albanian Government	65,268	67,205
<b>Total</b>	<b>318,478</b>	<b>295,201</b>

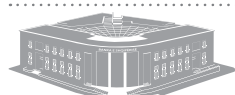
Expected Credit Losses (ECL) by type of issuer and security are presented below:

	31 December 2021	31 December 2020
Treasury Bills of foreign governments and multi-lateral institutions		-
Certificate of Deposit	(3)	(1)
Bonds of banks and other institutions	(5)	(10)
Bonds of foreign agencies	(6)	(6)
Bonds of foreign governments and multilateral institutions	(9)	(7)
Treasury Bills of the Albanian Government	-	-
<b>Total</b>	<b>(22)</b>	<b>(24)</b>

The annual yields for each currency at 31 December 2021 and 2020 are as follows:

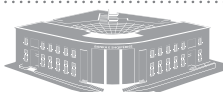
In %	ALL	USD	GBP	AUD	CNH	EUR
31 December 2021	0.50-1.56	0.12-1.45	0.59-1.07	0.22-1.33	2.46-2.8	(0.85-1.96)
31 December 2020	0.51-1.77	0.03-1.31	(0.11)-0.68	0.95-0.98	2.17-2.51	(0.76)-0.64

Investment securities in ALL at 31 December 2021, represent Albanian Government treasury bills with a maturity period up to 12 months (2020: up to 12 months). As a result of further relaxing monetary policies of certain central banks during 2015 and onward, the return rates of the main part of foreign reserve portfolio in EUR are negative.



## 15. PROPERTY, EQUIPMENT, RIGHT-OF-USE AND INTANGIBLE ASSETS

	Land, buildings and installations	Furniture and equipment	Vehicles	Work in progress	Numismatic coins and objects	Total property and equipment	Right of Use			Computer software	Work in progress	Total intangible assets	Total
							Buildings	Repeater	Total Right-of-use				
Cost or deemed cost													
At 1 January 2020	9,406	2,563	282	454	10,532	23,237	93	7	100	711	3	714	24,051
Additions	3	122	9	226	-	360	-	-	-	43	73	116	476
Transfers	6	12	-	(6)	-	12	-	-	-	64	(76)	(12)	-
Disposal	-	(25)	-	-	-	(25)	-	-	-	-	-	-	(25)
At 31 December 2020	9,415	2,672	291	674	10,532	23,584	93	7	100	818	-	818	24,502
Additions	-	41	-	1,005	-	1,046	-	-	-	1	-	1	1,047
Transfers	1	186	-	(187)	-	-	-	-	-	-	-	-	-
Disposal	-	(31)	-	-	-	(31)	-	-	-	-	-	-	(31)
At 31 December 2021	9,416	2,868	291	1,492	10,532	24,599	93	7	100	819	-	819	25,518
Accumulated depreciation/amortization													
At 1 January 2020	725	2,160	234	-	-	3,119	31	2	33	628	-	628	3,780
Depreciation/amortization	145	144	18	-	-	307	31	2	33	42	-	42	382
Disposal	-	(24)	-	-	-	(24)	-	-	-	-	-	-	(24)
At 31 December 2020	870	2,280	252	-	-	3,402	62	4	66	670	-	670	4,138
Depreciation/amortization	145	129	14	-	-	288	31	3	34	58	-	58	379
Disposal	-	(31)	-	-	-	(31)	-	-	-	-	-	-	(31)
At 31 December 2021	1,015	2,378	266	-	-	3,659	93	7	100	728	-	728	4,487
Carrying amounts													
At 31 December 2020	8,545	392	39	674	10,532	20,182	31	3	34	148	-	148	20,364
At 31 December 2021	8,401	490	25	1,492	10,532	20,940	-	-	-	91	-	91	21,031



## 16. OTHER ASSETS

	31 December 2021	31 December 2020
<b>Financial assets</b>		
Loans to employees, net	2,180	2,039
	<b>2,180</b>	<b>2,039</b>
<b>Non-financial –assets</b>		
Numismatics (banknotes and coins)	352	348
Printing and minting costs	1,035	390
Inventory	21	22
Other	95	38
	<b>1,503</b>	<b>797</b>
<b>Total</b>	<b>3,683</b>	<b>2,836</b>

Loans to employees at 31 December 2021 are net of allowance for impairment of ALL 6 million (2020: ALL 6 million) (see Note 8(E)(vi)(b)).

## 17. CURRENCY IN CIRCULATION

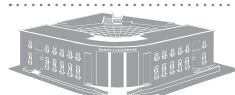
The Bank is vested with the exclusive right of issuing Albanian currency. Currency in circulation comprises domestic banknotes and coins in circulation issued by the Bank.

The Bank has increased the operating capacities to guarantee the uninterrupted supply with coins and banknotes to economy. It has taken all the necessary decisions and has engaged all its structures to meet the market requests for cash, by simultaneously providing a sufficient stock with the purpose to counter the increasing needs of the economy. The following banknotes and coins were in circulation as at 31 December 2021 and 2020:

Nominal value ALL	31 December 2021		31 December 2020	
	Number in thousand	Total ALL (million)	Number in thousand	Total ALL (million)
<b>Notes:</b>				
100	3,399	340	3,400	340
200	15,560	3,112	15,656	3,131
500	18,969	9,485	21,924	10,962
1,000	31,202	31,202	33,009	33,009
2,000	34,105	68,210	35,838	71,677
5,000	49,079	245,395	46,107	230,535
10,000	1,444	14,440	-	-
Coins (1-100)		5,958		5,585
		<b>378,142</b>		<b>355,238</b>

## 18. DUE TO BANKS

	31 December 2021	31 December 2020
Reserve requirement and current accounts	174,198	172,635
Deposits	12,535	6,180
<b>Total</b>	<b>186,733</b>	<b>178,815</b>





In accordance with the Decision of the Supervisory Council No. 39, dated 25.06.2014, amended with Decision No. 11, dated 07.02.2018, the remuneration rate for the reserve requirement in ALL is 100% of the rate of the repurchase and reverse repurchase agreements, approved by the Supervisory Council as on the last day of the base period.

In response to the health crisis caused by Covid-19 and on fulfilling her mission, the Bank during the year 2021 has continued to apply the reduced policy, repurchase and reverse repurchase agreements rates set on 2020.

As at 31 December 2021, the interest rate is 0.5% (2020: 100% of the base rate or 0.5%).

Based on the Decision No. 11, dated 07.02.2018 the remuneration rate for the reserve requirement in EUR held in EUR is equal to the deposit rate defined by the European Central Bank (ECB). As at 31 December 2021, the remuneration rate is negative at 0,5% (2020: negative at 0.4%). The reserve requirement in EUR held in ALL is not remunerated.

As at 31 December 2021 the reserve requirement in USD held in USD and in ALL is not remunerated (2020: not remunerated). Based on the Decision of the Supervisory Council, No. 29, dated 16 May 2012, 'On the minimum reserve requirement held at the Bank of Albania by commercial banks', amended by the Decision No. 75, dated 06 July 2016, the Bank allows the commercial banks to maintain the reserve requirement in the form of cash in custody with the Bank.

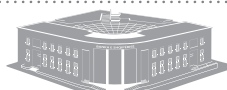
## 19. DEPOSITS AND BORROWINGS FROM THIRD PARTIES

	31 December 2021	31 December 2020
Deposits from the Deposit Insurance Agency	2,509	2,411
Deposits from the pension fund	247	57
Deposits from individuals for participation in Treasury Bills auctions	16	18
<b>Total</b>	<b>2,772</b>	<b>2,485</b>

Deposits from the pension fund relate to the pension plan scheme, which is based on employees' contributions and employer's contributions. Based on the Decision No. 17, dated 26 February 2014 of the Supervisory Council the pension fund reports its financial statements separately from the Bank.

## 20. DUE TO GOVERNMENT AND PUBLIC INSTITUTIONS

	31 December 2021	31 December 2020
Profit to be distributed to the Government	-	1,486
Accounts and deposits with the Government	102,134	28,514
Due to state institutions	4,376	4,431
<b>Total</b>	<b>106,510</b>	<b>34,431</b>



Based on the agreement between the Bank and the Ministry of Finance and Economy, the Bank of Albania pays interest only for the time deposits placed by the Government of Albania, as well as for a guarantee deposit of ALL 500 million (2020: ALL 500 million) for which the interest rate is based on the decisions of the Supervisory Council. For these deposits the remuneration rate on 31 December 2021 is 1% (2020: 1%).

On November, 2021 the Republic of Albania successfully priced a new 10-year maturity EuroBond for the amount of 650 million EUR.

Profit to be distributed to the Government of Albania is detailed as follows:

	Note	31 December 2021	31 December 2020
<b>Net profit of year</b>		<b>560</b>	<b>749</b>
Transfer to reserves	22	(856)	686
<b>(Loss) / Distribution from profit of year</b>		<b>(296)</b>	<b>1,435</b>
Distribution from other reserves	22	-	52
<b>Total to be distributed to the Government</b>		<b>-</b>	<b>1,487</b>
<b>Total to be transferred to the Retained earnings/(Accumulated losses)</b>		<b>(296)</b>	<b>-</b>

## 21. OTHER LIABILITIES

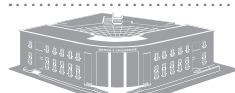
	31 December 2021	31 December 2020
<b>Financial liabilities</b>		
Due to international financial institutions	698	579
Due to third parties	496	278
Accrued expenses	13	7
<b>Total financial liabilities</b>	<b>1,207</b>	<b>864</b>
<b>Non-financial liabilities</b>		
Provisions for claims and litigations	125	129
Grants	2	2
<b>Total non-financial liabilities</b>	<b>127</b>	<b>131</b>
<b>Total</b>	<b>1,333</b>	<b>995</b>

Balances due to international financial institutions include amounts payable to IBRD, International Development Agency ('IDA'), Multilateral Investment Guarantee Agency ('MIGA'), and Islamic Development Bank ('IDB').

Lease liabilities for bank office premises amounting are ALL nil as at 31 December 2021 (2020: ALL 35 million).

The movements in provisions for claims and litigations are set out below:

	31 December 2021	31 December 2020
<b>Balance at 1 January</b>	<b>129</b>	<b>111</b>
Provisions made during the year	-	23
Provisions used during the year	4	-
Provisions reversed during the year	-	(4)
<b>Balance at 31 December</b>	<b>125</b>	<b>129</b>



## 22. RESERVES

	31 December 2021	31 December 2020
Legal reserve	12,500	12,500
Revaluation reserve	(5,995)	(6,904)
Fair value reserve (investment securities)	(355)	2,126
Other reserves	21,942	21,995
<b>Total</b>	<b>28,092</b>	<b>29,716</b>

The legal reserve is created based on the requirements of Article 9 of the Law 'On the Bank of Albania', according to which, the Bank sets aside 25% of the net profit for the year into a Legal Reserve until the reserve amounts to 500% of the capital. The Bank achieved compliance with this requirement as at 31 December 2011 with its legal reserve amounting to ALL 12,500 million.

Based on the point "a" and "c", Article 64 of the Law "On the Bank of Albania", the movement in revaluation reserve results from the following items, which are initially recognized in profit or loss and then transferred to revaluation reserves:

	2021	2020
Net foreign exchange losses, other than from trading assets and liabilities	(169)	(1,817)
Net foreign exchange losses from trading assets and liabilities	794	(1,094)
Net loss from changes in the fair value of monetary gold (Note 10)	284	2,226
<b>Total</b>	<b>909</b>	<b>(686)</b>

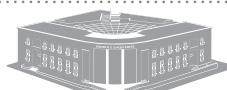
The increase of ALL 909 million (2020: decrease ALL 686 million) in revaluation reserve is a result of the valuation of the monetary gold and the foreign currencies USD, GBP, meanwhile the EUR currency has been depreciated versus the functional currency (see Note 8(E)(ii)).

Movements in Fair value reserve are reflected as below:

	31 December 2021	31 December 2020
<b>Balance at 1 January</b>	<b>2,126</b>	<b>865</b>
Change in Fair Value of Securities	(2,481)	1,243
Transfers to impairment of Securities (ECL) from Other Reserves	-	18
<b>Balance at 31 December</b>	<b>(355)</b>	<b>2,126</b>

### *Negative revaluation reserve*

Given the negative balance of the revaluation reserve at 31 December 2020 and, pursuant to the requirements of clause "b", Article 64 of the Law 'On Bank of Albania' (Note 7(N)) and a bilateral agreement with the Government of Albania, the latter shall issue debt securities to cover the negative balance of the revaluation reserve within April 2022 and upon issuance of the external auditors' report on these financial statements.



Other reserves include the following:

	31 December 2021	31 December 2020
Reserve for the Balance of Payments	7,209	7,209
Reserve of gold and precious metals	7,042	7,042
Reserve for property and equipment	7,691	7,744
<b>Total</b>	<b>21,942</b>	<b>21,995</b>

The reserve for the Balance of Payments represents financial assistance provided by the European Community during the years 1992 and 1993. There have been no movements in such reserve since 1995.

The reserve of gold and precious metals represents the reserve created based on the Law No. 9862, dated 24 January 2008 'On the transfer of ownership of gold and other precious metals from the Albanian Council of Ministers to the Bank of Albania'.

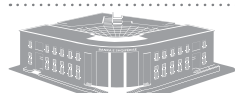
Movements in Reserve for Expected Credit Losses (ECL) are reflected as below:

	31 December 2021	31 December 2020
<b>Balance at 1 January</b>	<b>24</b>	<b>18</b>
Reversal/(Charge) for impairment for securities (ECL)	(1)	6
<b>Total</b>	<b>23</b>	<b>24</b>

The reserve for property and equipment of ALL 7,691 million (2020: ALL 7,743 million) was originally created based on the Decisions of the Supervisory Council of the Bank of Albania No. 19 and No. 20, dated 15 March 2018, as a result of the reallocation of the transition reserve of ALL 5,619 million, created as a result of the first-time adoption of IFRSs, and other reserves of ALL 2,297 million created through the years.

From the total reserve for property and equipment, an amount of ALL 2,241 million (2020: ALL 2,294 million) is distributable in the future and such distributions are subject to decisions of the Supervisory Council of the Bank of Albania. For the year 2021, the amount of ALL 53 million is added to the year 2021 result and transferred to the "Losses carried forward (2020: the amount of ALL 52 million was added to the profits distributed to the Government).

The remaining part of the reserve for property and equipment is not distributable.



### 23. NET INTEREST INCOME

	2021	2020
<b>Interest income calculated using the effective interest method</b>		
Investment securities	1,648	1,999
Loans to banks	197	225
Deposits and current accounts with banks	13	24
Accounts with the IMF	17	37
Negative remuneration for reserve requirement	34	14
Negative remuneration for excess reserve requirement	379	355
Other	12	9
<b>Total interest income</b>	<b>2,300</b>	<b>2,663</b>
		-
<b>Interest expense</b>		
Reserve requirements	188	225
Due to the International Monetary Fund	8	15
Due to the Albanian Government	4	6
Deposits from third parties	14	14
Negative interest from deposits and current accounts with Banks	909	696
Other	2	2
<b>Total interest expense</b>	<b>1,125</b>	<b>960</b>
<b>Net interest income</b>	<b>1,175</b>	<b>1,703</b>

Interest income from investment securities includes ALL 1,192 million (2020: ALL 1,122 million) of income from treasury bills issued by the Albanian Government and ALL 456 million (2020: ALL 877 million) of income from security lending and foreign reserve investment securities after accounting for the amortization of premium/discount.

Negative interest from deposits and current accounts with banks of ALL 909 million (2020: ALL 696 million) represents charges arising from negative yielding deposits and accounts placed with foreign banks.

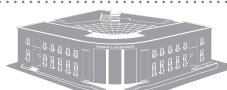
### 24. NET TRADING INCOME

	2021	2020
Interest income from trading assets	183	287
Net gain/(loss) from the trading assets	(28)	151
Unrealized fair value changes	(224)	4
Net profit from forward and future contracts	686	435
<b>Total</b>	<b>617</b>	<b>877</b>

### 25. NET INCOME FROM SALES OF FINANCIAL ASSETS AT FVOCI

See accounting policies in Notes 7(A)(iii) and 7(E).

	2021	2020
Gain on sale of FVOCI debt investment securities	715	1,288
(Loss) on sale of FVOCI debt investment securities	(434)	(168)
<b>Net other income</b>	<b>281</b>	<b>1,120</b>



## 26. EMPLOYEE BENEFIT EXPENSES

	2021	2020
Employee salaries and compensations	1,264	1,191
Contributions for health and social security	122	109
Contribution for pension fund (see Note 19)	131	120
<b>Total</b>	<b>1,517</b>	<b>1,420</b>

As at 31 December 2021, the Bank had 609 employees (2020: 593 employees).

## 27. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
Repair and maintenance expenses	190	161
Amortization of currency printing and minting costs	173	104
Information expenses	110	100
Fees for third-party services	94	91
Other staff expenses	34	31
Transportation fees	13	14
Publication and membership expenses	11	12
Other expenses	23	40
<b>Total</b>	<b>648</b>	<b>553</b>

## 28. CONTINGENCIES AND COMMITMENTS

### (i) Reverse repurchase agreements

Reverse repurchase agreements, as at 31 December 2021, represented collateralized loans (see Note 12). The nominal value of the securities used as collateral as at 31 December 2021, was ALL 43,900 million (2020: ALL 35,260 million).

### (ii) Operating leases

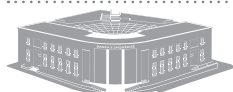
The Bank has entered into operating lease agreements for its office premises for a three year period. At 31 December 2021, operating lease commitments payable within one year is ALL 0 million (2020: ALL 36 million)

### (iii) Capital commitments

As at 31 December 2021, the Bank has entered into capital commitments of ALL 682 million (2020: ALL 1,504 million) for the reconstruction of one of its buildings.

### (iv) Credit commitments and collaterals received from employees

The total value of registered collateral for long-term loans extended to employees (see Note 16) at 31 December 2021 is ALL 2,978 million (2020: ALL 2,802 million).



million). At 31 December 2021, unused credit commitments for employees amount to ALL 94 million (2020: ALL 86 million).

#### (v) Legal proceedings

Claims against the Bank may be raised in the normal course of business. In two cases brought by third parties, although liability is not admitted, if the defence is unsuccessful, then certain amounts and legal costs would be paid by the Bank. The outcome of these actions and the amounts claimed by third parties has not yet been determined. The Bank estimates that no material losses will be incurred in respect of claims, in excess of provisions that have been made in these financial statements (see Note 21).

## 29. MANAGED ASSETS

At 31 December 2021, the Bank acts as custodian for short-term treasury bills with maturities from 3 to 12 months, with total nominal value of ALL 206 billion (2020: ALL 204 billion) and for long-term securities with maturities varying between 2 and 15 years, with nominal value of ALL 482 billion (2020: ALL 434 billion). These securities are issued by the Albanian Government.

## 30. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial and other decisions.

Considering each possible related party relationship, attention is directed to the substance of the relationship and not merely to the legal form.

The related parties of the Bank of Albania include the directors and members of the Supervisory Council. As at 31 December 2021 and 2020, balances with related parties comprised:

	2021	2020
<b>Loans to directors</b>		
Directors	129	136
<b>Total</b>	<b>129</b>	<b>136</b>

Loans to directors follow the terms and conditions applied to all employees of the Bank based on the policy and regulations in force. The mortgage loans are collateralized.



	2021	2020
<b>Administrative expenses</b>		
<i>Directors and Supervisory Council members:</i>		
Telephone expenses	4	4
Salaries and bonuses	156	152
Per diems	6	-
<i>Directors:</i>		
Fuel compensation	3	2
Contribution to pension plan scheme	14	14
<b>Total of administrative expenses for related parties</b>	<b>183</b>	<b>172</b>

Balances with/(due to) the Albanian Government and public institutions are disclosed in Notes 14 and 20, and related interest income from securities and interest expenses are included in Note 23. Promissory notes issued by the Albanian Government in favour of the IMF are detailed in Note 11, whilst securities issued by the Albanian Government and managed by the Bank are detailed in Note 28.

### 31. SUBSEQUENT EVENTS

In February 2022, following the military conflict between Russia and Ukraine, certain countries announced new packages of sanctions against the public debt of the Russian Federation and a number of Russian banks, as well as personal sanctions against a number of individuals.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and currency markets, fluctuations in energy and petrol prices, significant depreciation of the ruble against the US dollar and the euro.

It is expected that these events may affect the activities of Russian, Ukrainian and Belarusian enterprises in various sectors of the economy.

The Bank of Albania does not have direct exposures to related parties and/or key customers or suppliers or banks from those countries. Nevertheless, the impact of the above events will affect the macro-economic conditions in Europe and therefore in our domestic economy. It is difficult to know the full extent of the implications at this point in time, but from today's viewpoint, the bulk of the adverse impact should originate from higher commodity prices, the disruption of international commerce and weaker confidence.

The Bank of Albania regards these events as non-adjusting events after the reporting period, due to non-quantitative effect estimated at the date of the approval for issue of the present financial statements.

