KEP TRUST

FINANCIAL STATEMENTS

Prepared in accordance with
International Financial Reporting Standards
for the year ended 31 December 2018
with the Independent Auditors' Report thereon

CONTENTS **PAGES**

Independent Auditors' Report	
Statement of Financial Position	1
Statement of Profit or Loss and Other Comprehensive Income	2
Statement of Changes in Fund Balance	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 - 54

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and management of KEP Trust

Opinion

We have audited the financial statements of KEP Trust ("the Organization"), which comprise the statement of financial position as at 31 December 2018 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 presents fairly, in all material respects the financial position of the Organization as at 31 December 2018, and 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 International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kosovo, 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 matters

Financial statements of the Organization for the year ended 31 December 2017 have been audited by another auditor who issued an unmodified opinion on 30 March 2018.

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 IFRS 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 Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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 Organization'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 Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance of KEP Trust 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 Certified Auditors Kosovo shpk

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1 July 2019
Prishtina, Kosovo

KEP TRUST
Statement of Financial Position
(All amounts are expressed in EUR)

	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	7	5,937,621	2,162,302
Loans and advances to customers	8	42,764,759	36,055,365
Other assets	9	122,098	210,677
Property and equipment	10	738,169	546,740
Intangible assets	11	282,016	35,326
TOTAL ASSETS		**49,844,663**	**39,010,410**
LIABILITIES			
Borrowings	12	32,731,748	23,642,135
Provisions	13	212,418	187,167
Other liabilities	14	548,804	212,754
TOTAL LIABILITIES		**33,492,970**	**24,042,056**
FUND BALANCES			
Retained surplus		16,351,693	14,968,354
TOTAL EQUITY		**16,351,693**	**14,968,354**
TOTAL		**49,844,663**	**39,010,410**

The financial statements were authorized for issue by the Board of Directors on 10 June 2019 and signed on its behalf by:

Shpend Nura
Chief Executive Officer

Adrian Alo
Chief Financial Officer

Notes from page 5 to 54 form an integral part of these financial statements.

KEP TRUST
Statement of Profit or Loss and Other Comprehensive Income
(All amounts are expressed in EUR)

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Interest income at effective interest rate	15	8,842,911	7,017,292
Interest expense	12	(1,746,637)	(1,271,871)
Net interest income		**7,096,274**	**5,745,421**
Fee and commission income		18,682	60,450
Fee and commission expense		(32,936)	(25,191)
Net fee and commission income		**(14,254)**	**35,259**
Other income	16	330,713	293,861
Credit loss expense on loans and advances to customers	8	(739,953)	(292,234)
Personnel expenses	17	(2,798,047)	(2,658,606)
Administrative expenses	18	(1,085,462)	(1,016,871)
Rent expense		(431,987)	(423,613)
Depreciation and amortization	10,11	(181,724)	(110,040)
Loss on disposal of equipment	10	(602)	(8,170)
Provision charge for claims and litigations	13	(25,252)	(25,056)
Operating expenses		**(5,188,731)**	**(4,534,590)**
Surplus before income tax		**2,149,706**	**1,539,951**
Income tax expense	19	(264,717)	-
Surplus after income tax		**1,884,989**	**1,539,951**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Net change in fair value of financial assets through other comprehensive income		-	-
Total comprehensive income		**1,884,989**	**1,539,951**

Notes from pages 5 to 54 form an integral part of these financial statements.

KEP TRUST
Statement of Changes in Fund Balance
(All amounts are expressed in EUR)

	Retained Surplus
Balance at 1 January 2017	**13,428,403**
Total comprehensive surplus for the year	
Surplus for the year	1,539,951
Total comprehensive income for the year	**1,539,951**
Balance at 31 December 2017	**14,968,354**
Impact of adopting IFRS 9 (note 5)	(501,650)
Restated opening balance under IFRS 9	14,466,704
Total comprehensive surplus for the year	
Surplus for the year	1,884,989
Other comprehensive income	-
Total comprehensive income for the year	**1,884,989**
Balance at 31 December 2018	**16,351,693**

Notes from pages 5 to 54 form an integral part of these financial statements.

KEP TRUST
Statement of Cash Flows
(All amounts are expressed in Euro)

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Cash flows from operating activities			
Surplus before income tax		2,149,706	1,539,951
Adjustments for:			
Depreciation and amortization	10,11	181,724	110,040
ECL/Impairment of loans	8	739,953	292,234
Change in provision for legal claims	13	25,252	25,056
Loss on disposal of equipment		602	8,170
Interest income		(8,842,911)	(7,017,292)
Interest expenses		1,746,637	1,271,871
		(3,999,037)	**(3,769,970)**
Change in loans and advances to customers		(7,945,489)	(10,558,718)
Change in other assets		88,580	(167,991)
Change in other liabilities		194,391	52,584
		(11,661,555)	**(14,444,095)**
Interest received		8,837,402	6,868,087
Income tax paid		(123,044)	-
Net cash used in operating activities		**(2,947,197)**	**(7,576,008)**
Cash flows from investing activities			
Acquisition of equipment and leasehold improvements	10	(359,833)	(416,453)
Acquisition of intangible assets	11	(260,626)	(24,261)
Net cash used in investing activities		**(620,459)**	**(440,714)**
Cash flows from financing activities			
Disbursements during the year		20,000,000	16,375,000
Repayments during the year		(10,928,591)	(6,802,024)
Interest paid		(1,728,433)	(1,173,852)
Net cash from financing activities		**7,342,976**	**8,399,124**
Net increase/ (decrease) in cash and cash equivalents		**3,775,319**	**382,402**
Cash and cash equivalents at 1 January		2,162,302	1,779,900
Cash and cash equivalents at 31 December	7	**5,937,621**	**2,162,302**

Notes from pages 5 to 54 form an integral part of these financial statements.

1. GENERAL INFORMATION

Operations

The Micro Finance Institution – KEP Trust (the "Organization"), previously known as Kosovo Enterprise Program ("KEP") was founded by the humanitarian organization International Catholic Migration Commission – Switzerland ("ICMC") and the Prizren Business Club in August 1999, and was licensed to operate as a non-banking institution from the Central Bank of the Republic of Kosovo ("CBK").

The Organization was incorporated and domiciled in Kosovo, as a Non-Governmental Organization ("NGO") on 4 March 2002, and is registered with the CBK as a non-bank micro financial institution as defined in section 2 of Regulation 1999/21. The Organization's principal activity is to provide lending to low income individuals and households in Kosovo. On 3 April 2002, the Banking and Payment Authority of Kosovo approved the registration of the Organization as local NGO.

As at 31 December 2018, the Organization operated through 31 branches (2017: 31 branches) which were organized in 3 regions in Kosovo.

The Head Office of the Organization is located in Pashko Vasa str. No. 6, Prishtina, Kosovo.

The Organization is governed by the Board of Directors and the Executive Management. The Board of Directors is composed by 5 members, and all of them are independent and not related to the Company's interests and activities.

Board of Directors

As at 31 December 2018, the following members composed the Board of Directors:
Koen Wasmus – Chairman of the Board
Florence Joigneault – Member of the Board
Andreas Thiele – Member of the Board
Labinot Çoça – Member of the Board
Ardi Shita – Member of the Board

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis.

2.3 Going concern

The Organizations management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Organization's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis

2.4 New and amended standards and interpretations

In these financial statements, the Organization has applied IFRS 9, IFRS 15 and IFRS 7R, effective for annual periods beginning on or after 1 January 2018, for the first time. The Organization has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

2. BASIS OF PREPARATION (CONTINUED)

2.4 New and amended standards and interpretations (continued)

2.4.1 IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018.

The Organization has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in Note 5.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting, which however has limited applicability to the Organization, if any.

Details of these new requirements as well as their impact on the Organizations's financial statements are described below.

The Organization has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

2.4.1.1 Changes to classification and measurement

The date of initial application (i.e. the date on which the Organization has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Organization has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have not been restated.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

At 1 January 2018, the Organization does not hold other debt investments and equity investments whose business model requires them to be subsequently measured at fair value through profit or loss (FVTPL).

Management of the Organization reviewed and assessed the Organization's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Organization's financial assets as regards their classification and measurement:

- financial assets, and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Reclassifications of financial assets does not have any impact on the Organization's financial position and cumulative reserves as at 1 January 2018.

2. BASIS OF PREPARATION (CONTINUED)

2.4 New and amended standards and interpretations (continued)

2.4.1 IFRS 9 Financial Instruments (continued)

2.4.1.2 Changes to the impairment calculation

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Organization to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Organization to recognise a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortised cost or at FVTOCI;
- Lease receivables;
- Trade receivables and contract assets; and
- Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Organization to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Organization is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances, however the Organization does not have significant assets falling under this category.

The additional credit loss allowance of EUR 501,650 as at 1 January 2018 has been recognised against retained earnings on the same date, resulting in a decrease in retained earnings of EUR 501,650at 1 January 2018(Note 5). The additional loss allowance is charged against the respective asset or provision for financial guarantee.

2.4.2 IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 *Financial Instruments: Disclosures* was updated and the Organization has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 5,. Reconciliations from opening to closing ECL allowances are presented in Note 8. IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

2. BASIS OF PREPARATION (CONTINUED)

2.4 New and amended standards and interpretations (continued)

2.4.3 IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 Leases (or IFRS 16 Leases, once applied). Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. As the focus of IFRS 15 is not on accounting for revenue from financial instruments which in Organization's case are treated under IFRS 9, the number of contracts to which the standard is applicable is very limited. The Organization had no impact from the implementation of IFRS 15.

The Organization adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. The Organization elected to apply the standard to all contracts as at 1 January 2018. The comparative information was not restated and continues to be reported under IAS 18 and related interpretations.

IFRS 15 primarily includes within its scope the Net Fee and Commission income of the Organization. These fees and commissions are normally earned when transactions are executed, or are fees applied for accounts maintenance within a month or year, and typically performance obligations are satisfied, and income recognised within the financial year.

There are no material revenues streams that fall under IFRS 15 and the adoption of this standard did not change the revenue recognition practices of the Organization.

2.5 Functional and presentation currency

These financial statements are presented in Euro ("EUR"), which is the Organization's functional currency.

2.6 Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Interest income and expense

Under both IFRS 9 and IAS 39 Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, where appropriate, a shorter period) to:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Interest income and expense (continued)

When calculating the effective interest rate 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.

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, under IFRS 9 for financial assets that have become credit-impaired after 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.

Under IFRS 9 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.

Interest income and expense presented in the statement of profit or loss and Other Comprehensive Income (OCI) include:

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

b) Fees and commission

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.

Under IFRS 15 the Organization earns fee and commission income from financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Organization's revenue contracts do not typically include multiple performance obligations,

The Organization provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time.

The Organization has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Under IAS 18 other fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

c) Lease payments

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Organizationexpects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

Additional taxes that arise from the distribution of dividends by the Organization are recognised at the same time as the liability to pay the related dividend is recognised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Organization takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Organization to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

e) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Organization at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot rate exchange rate at that date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was 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 retranslation are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and liabilities(Policy applicable after 1 January 2018)

(i) Recognition

The Organization recognizes a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

The Organization's financial assets include loans to customers and accounts / deposits with banks. Liabilities include borrowings from banks and other creditors, and other payables.

The Organization recognizes all its:

- Loans to customers initially at fair value minus the transaction fees that are directly attributable to the issue of the loan (i.e. loan origination fee); and
- Borrowings from banks and other creditors at fair value plus the transaction costs that are directly attributable to the acquisition of the borrowing (i.e. debt origination fee).

Any fee or cost incurred on short-term bank deposits and other payable with no significant financing component are recognized directly as income or expense in the profit or loss account when they originate.

KEP does not designate its financial assets or liabilities ate fair value through profit or loss at initial recognition.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.
A financial asset is measured at amortised cost if it meets both of 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 on the principal amount outstanding.

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

- 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 on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Organization may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.
All Organization's financial assets are classified as measured at amortised cost or at FVOCI.

Business model assessment

The Organization 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 Organization's management;

the risks that affect the performance of the business model (and the financial assets held withinthat business model) and how those risks are managed;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and liabilities(Policy applicable after 1 January 2018)(continued)

(ii) Classification (continued)

Business model assessment (continued)

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 Organization's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Organization does not hold Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL

Assessment whether contractual cash flows are solely payments of principal and interest

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 solely payments of principal and interest, the Organization 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 Organization considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Organization's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Organization holds a portfolio of long-term fixed rate loans for which the Organization has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Organization has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

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

Financial liabilities **(Policy applicable before and after 1 January 2018)**

The Organization classifies its financial liabilities as measured at amortised cost.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and liabilities(Policy applicable before and after 1 January 2018)

(iii) Derecognition (continued)

Financial assets

The Organization 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 the risks and rewards of ownership of the financial asset are transferred or in which the Organization neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organization is recognised as a separate asset or liability.

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

The Organization 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.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Organization retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Organization 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 Organization 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 **(Policy applicable before and after 1 January 2018)**

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

(iv) Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the Organization 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 and a new financial asset is recognized 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 Organization 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, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

(v) Offsetting (policy applicable before and after 1 January 2018)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) *Financial liabilities* (Policy applicable before and after 1 January 2018) (continued)

(vi) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount 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.

(vii) Fair value measurement (policy applicable before and after 1 January 2018)

'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 Organization has access at that date. The fair value of a liability reflects its non-performance risk

When available, the Organization measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Organization uses valuation techniques that maximise the use of relevant observable inputs and minimise 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 Organization determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, 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 recognised 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 Organization measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of 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 Organization recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred in FV levels

(viii) Identification and measurement of impairment

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Organization expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Organization if the commitment is drawn down and the cash flows that the Organization expects to receive.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) *Financial liabilities* (Policy applicable before and after 1 January 2018) (continued)

(viii) Identification and measurement of impairment (continued)

Definition of default

Under IFRS 9, the Organization will consider a financial asset to be in default when:

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

This definition is largely consistent with the definition used for regulatory purposes for loans classified as doubtful or loss.

In assessing whether a borrower is in default, the Organization will consider indicators that are consistent with the risk regulatory requirements for classification of loans as doubtful or lost:

- qualitative: e.g. breaches of contractual covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same borrower to the Organization; and
- regulatory risk classification of the same borrowers in other banks.

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

Credit risk grades

The Organization allocates each exposure to a credit risk grade based on requirements set forth by Credit Risk Management regulation by using qualitative and quantitative factors that are indicative of the risk of default. In addition to the risk classes introduced for regulatory purposes, the Organization identifies and monitors separately standard loans in past due from standard loans not in past due.
Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Significant increase in credit risk

Significant increase in the risk of default and default itself are key determinants for calculation of the expected credit losses.

At each reporting date, the Organization assesses whether there has been a significant increase in credit risk by comparing: (i) the risk that the loan will default at or after the reporting date with (ii) the risk of default assessed at or after the date of its initial recognition.

When performing this assessment, the Organization considers reasonable and supportable forward-looking and historical information for individual loans, or group of loans when reasonable and supportable information is not available on an individual basis. Measurement of the ECLs pattern reflects the general pattern of deterioration or improvement in the credit quality of financial instruments, expressed in terms of significant increase in credit risk. When the financial instruments are initially originated, loss allowance is measured at an amount equal to 12-month expected credit losses. When the instrument's risk of default has significantly increased since its origination, the Organization shall measure loss allowance at an amount equal to lifetime expected credit losses.

The Organization will monitor 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;
- the average time between the identification of a significant increase in credit risk and default appears reasonable; and
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) *Financial liabilities* (Policy applicable before and after 1 January 2018) (continued)

(viii) Identification and measurement of impairment (continued)

Determining whether credit risk has increased significantly

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Organization considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Organization's historical experience, expert credit assessment and forward-looking information.

The Organization has identified whether a significant increase in credit risk has occurred for an exposure that changes the regulatory risk classification from standard to watch assessed in line with the Organization's policy for regulatory risk classification. All loans showing significant increase in credit risk are classified in Stage 2.

As a backstop, and as required by IFRS 9, the Organization presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Organization determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Beside the backstop indicator, the Organization also considers as a significant increase in credit risk if the loan is classified from standard to watch or a worse risk grade or other loans of the same customer with the Organization are classified from standard to watch or a worse risk grade. The Organization also considers that the risk has increased if the client requests a restructuring with easing teams such as: extended maturity, lower instalment, lower interest rate, waivers of accrued penalties and interest.

Grouping of loans

Collective assessment of PD

For the purpose of a collective assessment of PDs, KEP groups loans on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

In consideration to credit risk profile of its loans, KEP has selected to group loans based on ***product type*** (agriculture, business, consumer, housing).

There has been a segmentation of the loan portfolio based on the similar characteristics of risk. Below are presented four segments of the loan portfolio:

- Agro
- Business
- Consumer
- Housing

Collective assessment of LGD

For the purpose of a collective assessment of LGDs, loans are group on the basis of:

- the cash recovery cycle for non-performing loans; and
- the recovery after write-off.

KEP reviews on annual basis the set limits and criteria to ensure that they remain valid following possible changes in the loans portfolio size and composition.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(viii) Identification and measurement of impairment (continued)

Modified financial assets (continued)

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. For financial assets for which the Organization has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the Organization will consider whether the asset's credit risk has increased significantly by analysing quantitative and qualitative factors affecting risk of default.

The Organization renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Organization's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.
The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and business loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit.
Following forbearance, a customer needs to demonstrate consistently good payment behaviour over eight months before the exposure is measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

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

These parameters are derived from internally developed statistical models and other historical data that leverage regulatory models. PDs are adjusted to reflect forward-looking information as described below.

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Organization has employed 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, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators are likely to include GDP growth, interest rates and unemployment. The Organization's approach to incorporating forward-looking information into this assessment is discussed below.

LGD is the magnitude of the likely loss if there is a default. The Organization estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset. .

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(viii) Identification and measurement of impairment (continued)

Inputs into measurement of ECLs (continued)

LGD estimates are calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Organization derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which is estimated based on historical observations and forward-looking forecasts.

The Organization is measuring ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Organization considers a longer period. The maximum contractual period extends to the date at which the Organization has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Forward-looking information

Under IFRS 9, the Organization incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Organization formulates a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on advice from the Organization Risk Committee and economic experts and consideration of a variety of external actual and forecast information.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Organization operates, supranational organisations such as the Bank for Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and financial liabilities (Policy applicable after 1 January 2018) (continued)

(viii) Identification and measurement of impairment (continued)

Forward-looking information (continued)

The base case represents a most-likely outcome and be aligned with information used by the Organization for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. The Organization also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.
The Organization has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include interest rates, unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 years.

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 amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Organization cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Organization presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Organization 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. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Organization's procedures for recovery of amounts due.

g) Financial assets and financial liabilities (Policy applicable before 1 January 2018)

(i) Recognition

The Organization initially recognises loans and advances,, deposits, borrowings and subordinated debt on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Organization commits to purchase or sell the asset. All other financial assets and liabilities are recognised initially on the trade date, which is the date that the Organization becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (Policy applicable before 1 January 2018)

(ii) Classification

Financial assets

The Organization classifies its financial assets into the category loans or receivables

- **Loans and receivables (Policy applicable before 1 January 2018)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Organization does not intend to sell immediately or in the near term. Loans to customers are classified as loans and receivables.
Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Financial liabilities

The Organization classifies its financial liabilities as measured at amortised cost.

(iii) Derecognition

Financial assets

The Organization 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 the risks and rewards of ownership of the financial asset are transferred or in which the Organization neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organization is recognised as a separate asset or liability.

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

Financial liabilities

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

(iv) Amortised cost measurement

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

Impairment of loans and advances

At each reporting date the Organization assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan by the Organization on terms that the Organization would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Organization.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (Policy applicable before 1 January 2018)

Impairment of loans and advances (continued)

The Organization considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advance with similar risk characteristics.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (type and amount of the loan). Based on historical data for each of these groups a loss factor is calculated. These expected loss factors are adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends, and then they are applied to estimate impairment loss on each group. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset 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 and the new financial asset is recognised at fair value.

The impairment loss is measured as follows:

If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. The loans are written off after reasonable collection measures have been taken in accordance with the Organization's established policy. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks 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 Organization in the management of its short-term commitments.

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

i) Borrowings (Policy applicable before 1 January 2018)

Borrowings are the Organization's main sources of debt funding.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Property and equipment

Items of Property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

The cost of replacing part of an item of 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 Organization and its cost can be measured reliably. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.

At the end of each reporting period management assesses whether there is any indication of impairment of Property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. An impairment loss recognized for an asset in prior years is reversed, if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

(i) Depreciation

Depreciation on items of Property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Motor vehicles	5 years
Furniture and fittings	5 years
Computers and electronic equipment	5 years
Leasehold improvements	Shorter of useful life and the term of the underlying lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
Intangible assets acquired by the Organization are stated at cost less accumulated amortization and accumulated impairment losses.

k) Intangible assets

Subsequent expenditure on intangible assets is capitalized 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 lives of the assets. The estimated useful life of the intangible assets is determined as per the contract validity or 10 years.

l) Provisions

A provision is recognised if, as a result of a past event, the Organization 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost

m) Employee benefits

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when they are due. The Organization makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Kosovo under a defined contribution pension plan.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

4.1 Standards and interpretations issued but not yet effective and not yearly adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Organisation's financial statements are disclosed below. The Organisation intends to adopt these standards, if applicable, when they become effective.

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.
Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.
IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on the composition of the Organization's lease portfolio at that date, the Organization's latest assessment of whether it will exercise any lease renewal options, and the extent to which the Organization chooses to use practical expedients and recognition exemptions. However the Organization has estimated based on current lease contracts, estimated extensions and overall business model in which contracts are signed no longer than 5 years the initial Right of use of assets and Lease liability to be 1.9 mil €.

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019),
- **IFRS 17 "Insurance Contracts"** (effective for annual period beginning on or after 1 January 2021),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement** - accounting when a plan amendment, curtailment or settlement occurs during a reporting period (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Conceptual Framework in IFRS standards** - For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020,

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

4.1 Standards and interpretations issued but not yet effective and not yearly adopted (continued)

- **IFRS 3: Business Combinations (Amendments)** - (effective for annual periods beginning on or after 1 January 2020),
- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)** - (effective for annual periods beginning on or after 1 January 2020).
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS, which become effective for annual periods beginning on or after 1 January 2019, and including:
    - IFRS 3 Business Combinations
    - IFRS 11 Joint Arrangements
    - IAS 12 Income Taxes
    - IAS 23 Borrowing costs.

4.2 Standards issued and effective for the annual period

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period, but their adoption has not led to any changes in the Company's accounting policies:

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),

Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are applied for annual periods beginning on or after 1 January 2018

5. USE OF ESTIMATES AND JUDGMENTS

The Organization makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Information about provisions and contingencies is detailed in notes 13 and 21.

a) Expected Credit Losses (policy applicable after 1 January 2018)

Financial assets measured at amortised cost or FVOCI are assessed for impairment on a basis described in Note 3.(e).(vii). The Organization reviews its assumptions and judgments on a regular basis.

The Organization measures the expected credit losses of a financial instrument in a way that reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(ii) the time value of money; and
(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

b) Determining fair values

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3.(e).(vii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Organization measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimation of the fair value is disclosed in note 5 c) below

c) Disclosure and estimation of fair value

Fair value estimates are based on existing financial instruments on the Organization's financial position statement without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

Fair values of financial instruments

Where available, the fair value of loans is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses and interest rates. Homogeneous small loans are grouped into portfolios with similar characteristics.

The fair value of borrowings is estimated using discounted cash flow techniques, applying the rates that are offered for borrowings of similar maturities and terms.

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

c) Disclosure and estimation of fair value (continued)

	31 December 2018		31 December 2017	
	Fair value Level 3	Carrying amount	Fair value Level 3	Carrying amount
Financial Assets				
Loans and advances to customers	43,108,216	42,764,759	36,819,455	35,553,715
Financial Liabilities				
Borrowings	33,138,860	32,731,748	23,753,453	23,642,135

The carrying amounts of loans and borrowings at 31 December 2018 are higher than the fair values for loans, because the current market rates of 21.7% for loans and for 4.7% lower than fair values for borrowings (2017: lower 22.6.3% for loans and 5.7% for borrowings).

6. TRANSITION DISCLOSURES

Transition effects

KEP has elected to account the effects of the transition on the retained earnings as at 1 January 2018. Accordingly, KEP measure and account the ECL in accordance with IFRS 9 as at 1 January 2018 and record any difference between IFRS 9 and IAS 39 as at that date on the retained earnings as at 1 January 2018.

	31 December 2017		Impact from First Time Adoption IFRS 9		1 January 2018	
	IAS 39 measurement		Re-classification	Re-measurement	IFRS 9 measurement	
Financial assets	**Category**	**Amount**		**ECL**	**Category**	**Amount**
Due from banks	L&R	2,162,302	2,162,302	-	AC	2,162,302
Loans and advances to customers, net	L&R	36,055,365	35,553,715	(501,650)	AC	35,553,715
Total Assets		**38,217,667**	**37,716,017**	**(501,650)**		**37,716,017**
Financial liabilities						
Due to banks and FI	AC	23,642,135	23,642,135	-	AC	23,642,135
Total Liabilities		**23,642,135**	**23,642,135**	**-**		**23,642,135**
Retained Earnings		**14,968,341**	**14,466,691**	**(501,650)**		**14,466,691**

	31 December 2017	Impact from First Time Adoption	1 January 2018
	Under IAS39/IAS37	Re-measurement	Under IFRS 9
Impairment allowance for:			
Due from banks	2,162,302		2,162,302
Loans and advances to customers	739,030	501,650	1,240,680
Total	**2,901,332**	**501,650**	**3,402,982**

6. TRANSITION DISCLOSURES (CONTINUED)

Transition effects (continued)

Ongoing implementation

The Organization recognizes in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

The carrying amount of impaired loans is reduced to the estimated recoverable amount through the use of an allowance account. The amount of the change in the current period's provision is recognized in the income statement for the respective period.

If in a subsequent period, the amount of the impairment on financial assets decreases as a result of an event occurring after the write-down, the amount is reversed by adjusting the accumulated loan loss allowance and is recognized in the income statement.

The amount of the loan loss allowance is presented in a separate allowance account in the "asset" side of the balance sheet, as an offset against the gross "loans and advances to customers". The provision charge is separately presented in the profit or loss.

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Reserves and Retained Earnings
Retained Earnings	
Closing balance under IAS 39 (31 December 2017)	14,968,354
Reclassification adjustments in relation to adopting IFRS 9	-
Recognition of IFRS 9 ECLs including those measured at FVOCI	(501,650)
Opening balance under IFRS 9 (1 January 2018)	**14,466,704**
Total change in equity due to adopting IFRS 9	**(501,650)**

7. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash at banks	5,452,914	1,845,423
Cash on hand	484,707	316,879
	5,937,621	**2,162,302**

8. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2018	31 December 2017
Loans and advances to customers	44,351,495	36,794,395
Less: allowance for impairment	(1,586,736)	(739,030)
	42,764,759	**36,055,365**

Movements in the allowance for impairment are as follows:

	31 December 2018	31 December 2017
Balance at 1 January	739,030	617,476
Additional reserve adjustment for opening figures according to IFRS 9	501,650	
Impairment charge	739,953	292,234
Amounts written-off	(393,897)	(170,680)
Balance at 31 December	**1,586,736**	**739,030**

Organization has secured borrowings from Banka per Biznes with a loan portfolio totalling EUR 492,175at 31 December 2018 (2017: EUR 1,676,423), based on the agreed contractual conditions which include a coverage of 150% of the actual exposure with a Portfolio-At-Zero Risk , also with Banka Ekonomike is secured borrowing with loan portfolio of EUR 837,976(see note 12).

Agro Loans <=3000

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	1,163,913	7,305	8,389	1,179,607
New assets originated or purchased	1,690,280			1,690,280
Assets de-recognised or repaid	(1,799,273)	(5,228)	(2,856)	(1,807,357)
Transfers to Stage 1	-	3,934	14,471	18,405
Transfers to Stage 2	-	-	2,152	2,152
Transfers to Stage 3	-	-	-	-
Amounts written off	-	(573)	(2,150)	(2,723)
Total	**1,054,920**	**5,439**	**20,005**	**1,080,364**

Agro Loans <=3000

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	4,991	829	5,856	11,676
New assets originated or purchased	5,770			5,770
Assets de-recognised or repaid	(7,044)	(185)	(1,831)	(9,059)
Transfers to Stage 1	-	192	11,117	11,309
Transfers to Stage 2	-	-	3,066	3,066
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	(573)	(2,150)	(2,723)
Total	**3,718**	**264**	**16,059**	**20,040**

8. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Agro Loans >3000

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	4,199,764	44,088	100,489	4,344,341
New assets originated or purchased	4,214,752			4,214,752
Assets de-recognised or repaid	(3,140,450)	(13,041)	(20,589)	(3,174,080)
Transfers to Stage 1	-	33,785	59,524	93,309
Transfers to Stage 2	-	-	2,901	2,901
Transfers to Stage 3	-	-		
Amounts written off	(4,255)	(17,433)	(26,769)	(48,457)
Total	**5,269,811**	**47,399**	**115,555**	**5,432,765**

Agro Loans >3000

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	68,693	11,643	76,713	157,049
New assets originated or purchased	105,086	-	-	105,086
Assets de-recognised or repaid	(59,694)	6,287	(841)	(54,248)
Transfers to Stage 1	-	16,932	45,764	62,696
Transfers to Stage 2	-	-	2,339	2,339
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	(4,255)	(17,433)	(26,769)	(48,457)
Total	**109,831**	**17,429**	**97,205**	**224,465**

Business Loans <=3000

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	2,650,548	21,246	50,027	2,721,822
New assets originated or purchased	2,745,168	-	-	2,745,168
Assets de-recognised or repaid	(2,931,248)	(18,932)	(9,910)	(2,960,090)
Transfers to Stage 1	-	9,690	50,120	59,811
Transfers to Stage 2	-	-	11,455	11,455
Transfers to Stage 3	-	-	-	-
Amounts written off	(3,462)	(509)	(27,915)	(31,886)
Total	**2,461,006**	**11,495**	**73,778**	**2,546,280**

Business Loans <=3000

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	41,235	6,337	42,069	89,641
New assets originated or purchased	36,306	-	-	36,306
Assets de-recognised or repaid	(39,452)	(5,295)	(5,371)	(50,118)
Transfers to Stage 1	-	2,169	41,208	43,378
Transfers to Stage 2	-	-	10,950	10,950
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	(3,462)	(509)	(27,915)	(31,886)
Total	**34,626**	**2,702**	**60,942**	**98,270**

8. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Business Loans >3000

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	7,427,750	35,196	189,717	7,652,663
New assets originated or purchased	7,646,300	-	-	7,646,300
Assets de-recognised or repaid	(5,713,591)	(20,929)	(27,813)	(5,762,332)
Transfers to Stage 1	-	98,307	133,833	232,141
Transfers to Stage 2	-	-	11,918	11,918
Transfers to Stage 3	-	-	-	-
Amounts written off	(2,848)	(8,620)	(70,048)	(81,516)
Total	**9,357,611**	**103,955**	**237,608**	**9,699,174**

Business Loans >3000

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	166,869	8,584	159,386	334,838
New assets originated or purchased	167,068	-	-	167,068
Assets de-recognised or repaid	(126,889)	1,069	(8,445)	(134,265)
Transfers to Stage 1	-	29,441	107,085	136,526
Transfers to Stage 2	-	-	10,444	10,444
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	(2,848)	(8,620)	(70,048)	(81,516)
Total	**204,200**	**30,475**	**198,422**	**433,097**

Consumer loans <=3000

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	2,761,079	24,804	34,364	2,820,247
New assets originated or purchased	5,143,345	-	-	5,143,345
Assets de-recognised or repaid	(4,637,687)	(14,701)	(7,611)	(4,659,999)
Transfers to Stage 1	-	27,619	60,070	87,689
Transfers to Stage 2	-	-	7,098	7,098
Transfers to Stage 3	-	-	-	-
Amounts written off	(6,072)	(8,560)	(19,976)	(34,608)
Total	**3,260,665**	**29,162**	**73,945**	**3,363,772**

Consumer loans <=3000

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	33,699	7,058	27,220	67,977
New assets originated or purchased	49,115	-	-	49,115
Assets de-recognised or repaid	(49,896)	1,532	(1,680)	(50,044)
Transfers to Stage 1	-	8,581	46,946	55,527
Transfers to Stage 2	-	-	5,865	5,865
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	(6,072)	(8,560)	(19,976)	(34,608)
Total	**26,846**	**8,611**	**58,375**	**93,832**

8. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Consumer loans >3000

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	5,909	-	7,336	13,245
New assets originated or purchased	-	-	-	-
Assets de-recognised or repaid	(2,934)	-	(1,982)	(4,916)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(516)	(516)
Total	**2,975**	-	**4,838**	**7,813**

Consumer loans >3000

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	429	-	7,336	7,765
New assets originated or purchased	-	-	-	-
Assets de-recognised or repaid	(187)	-	(1,982)	(2,169)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	-	-	(516)	(516)
Total	**242**	-	**4,838**	**5,080**

Housing Loans <=3000

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	5,009,942	25,973	74,698	5,110,613
New assets originated or purchased	5,569,073	-	-	5,569,073
Assets de-recognised or repaid	(5,272,210)	(21,485)	(13,187)	(5,306,882)
Transfers to Stage 1	-	36,576	84,947	121,523
Transfers to Stage 2	-	-	10,728	10,728
Transfers to Stage 3	-	-	-	-
Amounts written off	(2,890)	(2,989)	(48,845)	(54,724)
Total	**5,303,915**	**38,075**	**108,341**	**5,450,331**

Housing Loans <=3000

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	80,695	8,395	60,168	149,257
New assets originated or purchased	96,312	-	-	96,312
Assets de-recognised or repaid	(91,749)	(5,370)	(1,075)	(98,194)
Transfers to Stage 1	-	12,515	68,071	80,586
Transfers to Stage 2	-	-	8,732	8,732
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	(2,890)	(2,989)	(48,845)	(54,724)
Total	**82,367**	**12,551**	**87,051**	**181,969**

8. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Housing Loans >3000

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	12,735,322	61,691	154,846	12,951,859
New assets originated or purchased	11,761,800	-	-	11,761,800
Assets de-recognised or repaid	(8,068,664)	(35,819)	(34,913)	(8,139,396)
Transfers to Stage 1	-	102,106	173,191	275,297
Transfers to Stage 2	-	-	24,828	24,828
Transfers to Stage 3	-	-	-	-
Amounts written off	(12,323)	(20,279)	(70,788)	(103,390)
Total	**16,416,135**	**107,699**	**247,163**	**16,770,998**

Housing Loans >3000

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	269,199	23,557	129,722	422,478
New assets originated or purchased	5,080	-	-	5,080
Assets de-recognised or repaid	25,372	(1,778)	(17,386)	6,208
Transfers to Stage 1	-	47,164	132,700	179,863
Transfers to Stage 2	-	-	19,746	19,746
Transfers to Stage 3	-	-	-	-
Net re-measurement of ECL	-	-	-	-
Amounts written off	(12,323)	(20,279)	(70,788)	(103,390)
Total	**287,327**	**48,663**	**193,994**	**529,985**

				As at 31 December 2018	As at 31 December 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Loans and advances	**43,127,038**	**343,225**	**881,232**	**-**	**44,351,495**	**36,794,395**
Low- fair risk	43.127.038	-	-	-	43.127.038	-
Monitoring	-	195.812	-	-	195.812	-
Substandard	-	147.413	-	-	147.413	-
Doubtful	-	-	260.261	-	260.261	-
Lost	-	-	620.972	-	620.972	-
Less: allowance	749.156	120.695	716.885	-	1.586.736	1.240.680
Carrying amount	**42,377,882**	**222,530**	**164,347**	**-**	**42,764,759**	**35,553,715**

9. OTHER ASSETS

	31 December 2018	31 December 2017
Prepaid expenses	88,977	188,281
Advances to employees	10,839	12,534
Other receivables	22,282	9,862
	122,098	**210,677**

Prepaid expenses include prepayments of EUR 55,000 for a front end& management fee for loans contracted and not yet disbursed in 2018.

10. PROPERTY AND EQUIPMENT

	Motor vehicles	Computers and electronic equipment	Furniture and Fittings	Leasehold Improvements	Total
Cost					
Balance at 1 January 2017	644,795	426,680	619,293	362,099	2,052,867
Additions	127,980	44,077	220,283	24,113	416,453
Disposals	(115,190)	(18,102)	(51,978)	(62,856)	(248,126)
Balance at 31 December 2017	**657,585**	**452,654**	**787,599**	**323,353**	**2,221,190**
Additions	196,000	40,407	81,495	52,337	370,239
Disposals	(254,206)	(13,285)	(25,482)	(34,985)	(327,958)
Balance at 31 December 2018	**599,379**	**479,776**	**843,611**	**340,705**	**2,263,471**
Accumulated depreciation					
Balance at 1 January 2017	(519,145)	(372,362)	(597,523)	(317,841)	(1,806,871)
Charge for the year	(30,464)	(22,420)	(39,242)	(15,423)	(107,549)
Disposals	115,190	17,195	50,174	57,397	239,956
Balance at 31 December 2017	**(434,419)**	**(377,588)**	**(586,591)**	**(275,866)**	**(1,674,463)**
Charge for the year	(64,817)	(25,374)	(60,032)	(17,566)	(167,788)
Disposals	243,800	13,271	24,965	34,914	316,950
Balance at 31 December 2018	**(255,436)**	**(389,691)**	**(621,658)**	**(258,517)**	**(1,525,302)**
Carrying amounts					
At 1 January 2017	**125,648**	**54,319**	**21,770**	**44,256**	**245,993**
At 31 December 2017	**223,164**	**75,069**	**201,007**	**47,500**	**546,740**
At 31 December 2018	**343,943**	**90,085**	**221,954**	**82,188**	**738,169**

As at 31 December 2018, the Organization has not pledged any property or equipment as collateral (2017: nil).

11. INTANGIBLE ASSETS

	Software
Cost	
Balance at 1 January 2017	147,346
Additions	24,260
Balance at 31 December 2017	**171,606**
Additions	260,626
Balance at 31 December 2018	**432,232**
Accumulated amortization	
Balance at 1 January 2017	**(133,776)**
Amortization for the year	(2,504)
Balance at 31 December 2017	**(136,280)**
Amortization for the year	(13,936)
Balance at 31 December 2018	**(150,216)**
Carrying amounts	
At 1 January 2017	**13,570**
At 31 December 2017	**35,326**
At 31 December 2017	**282,016**

12. BORROWINGS

As at 31 December 2018 and 2017, borrowings of the Organization are composed as follows:

	Interest rate	31 December 2018	31 December 2017
ResponsAbility	4.70% - 5.50%	2,937,500	6,750,000
Triple Jump	4.90% - 5.00%	5,000,000	4,000,000
Symbiotics	4.7% - 6.50%	4,000,000	3,500,000
EFSE	4.50% - 5.70%	3,840,000	3,200,000
Frankfurt School FSFS	5% - 6.30%	1,533,333	2,266,667
Blue Orchard	4.90%-5.60%	4,340,000	1,670,000
Microvest	4.70%	1,000,000	1,200,000
Banka per Biznes BpB	6.50% - 7%	375,736	785,160
CARITAS Switzerland	1%	85,000	85,000
Banka Ekonomike	5.70%	416,667	-
DWM	5.70%	4,000,000	-
IFC	6.12%	2,000,000	-
INCOFIN	5.00%	3,000,000	-
		32,528,236	**23,456,827**
Accrued interest		365,324	266,688
Deferred fee		(161,812)	(81,380)
Total		**32,731,748**	**23,642,135**

The total interest expense for these borrowings in 2018 is EUR 1,745,637 (2017: EUR 1,271,871).

	2018	2017
Principal outstanding at 1 January	23,456,827	13,883,851
Disbursements during the year	20,000,000	16,375,000
Repayments during the year	(10,928,591)	(6,802,024)
Principal outstanding31 December	**32,528,236**	**23,456,827**
Accrued interest and fees at 1 January	185,308	87,289
Interest expense	1,746,637	1,271,871
Interest paid	(1,728,433)	(1,173,852)
Accrued interest and fees at 31 December	**203,512**	**185,308**
Total	**32,731,748**	**23,642,135**

The Organization has an overdraft facility from Banka Ekonomike of EUR 500,000 with an interest rate of 5.7% on the utilised amount, and maturity on 14February 2019. As at 31 December 2018, the Organization has not utilized this overdraft.

13. PROVISIONS

	31 December 2018	31 December 2017
Legal claims	205,104	179,853
Other provisions for losses	7,314	7,314
	212,418	**187,167**

Provision for legal claims are mainly related to ongoing court cases brought by former employees against the Organization.

13. PROVISIONS (CONTINUED)

Other provisions for losses of EUR 7,314 (2017: EUR 7,314), relates to legal cases that were won by the Organization in the past and were subsequently appealed by third parties, which management believes that will be lost.

Movements in the provision charge are as follows:	31 December 2018	31 December 2017
At 1 January	187,167	162,111
Provision charge	25,251	23,790
Provision for other assets	-	1,266
At 31 December	**212,418**	**187,167**

14. OTHER LIABILITIES

	31 December 2018	31 December 2017
Accrued expenses	40,228	60,964
Withholding tax on interest	35,804	44,454
Pension contributions and personal income tax payable	50,763	45,551
Income Tax payable	141,659	-
Accounts payable	197,565	41,860
Other payables	82,785	19,925
	548,804	**212,754**

15. INTEREST INCOME AT EFECTIVE INTEREST RATE

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income from loans and advances	8,828,806	7,013,311
Interest income from banks	14,105	3,981
	8,842,911	**7,017,292**

At 31 December 2018, the Organization has accrued interest of EUR 60,936 (2017: EUR 42,575) for past due loans.

16. OTHER INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
Recoveries from loans written off	256,056	256,702
Proceeds from sale of fixed assets	61,200	24,548
Other operating income	13,457	12,611
	330,713	**293,861**

17. PERSONNEL EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Wages and salaries	2,476,945	2,450,889
Compulsory social and health insurance	129,467	124,891
Other	191,635	82,826
	2,798,047	**2,658,606**

At 31 December 2018, the Organization employed 224 employees (2017: 226).

18. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Legal, consultancy and professional fees	209,881	194,537
Utilities	139,527	141,831
Security	144,409	137,014
Advertisement and Marketing expenses	109,200	101,230
Board compensation and travelling	65,921	84,926
Fuel and parking	61,868	57,546
Repairs and maintenance	66,618	51,415
Communication	102,576	50,736
Office supplies	53,839	50,197
Staff development	15,927	40,567
Insurance	24,165	28,986
Travel	6,691	9,150
Accommodation	3,344	2,418
Representation expenses	2,697	1,520
Tax interest and penalties	143	-
Other	78,656	64,798
	1,085,462	**1,016,871**

19. INCOME TAX

	Year ended 31 December 2018	Year ended 31 December 2017
Profit before tax	2,149,706	-
Non-deductible expenses	463,382	-
Taxable Profit	2,613,088	-
Income tax	**264,717**	**-**
Effective tax rate	**12.31%**	**-**

Following the decision of Organization Board that starting from year 2018, the Organization recognises and pays Income tax voluntarily despite the Public Benefit Status Income tax expense for the year 31 December 2017 is nil.

Following the renewal of the Public Benefit Status in 2017, the Organization was not liable to pay income tax, and was exempted from income tax. The Board of Directors decided to voluntarily terminate the Public Benefit Status from 2018 onwards, consequently Corporate income tax is applied at the rate of 10%.

20. RELATED PARTY TRANSACTIONS

The Organization has related party relationships with its directors and executive officers. As described in Note 1, the Organization is a Non-Governmental Organization. Therefore, there is no ultimate parent or shareholders.

Transactions with related parties

A summary of remuneration and benefits of directors and key management for the years ended 31 December 2018 and 2017 is as follows:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Remuneration	**Other expenses**	**Remuneration**	**Other expenses**
Executive Management	205,600	5,395	186,851	3,148
Board of Directors	36,814	29,107	52,674	32,252
Total	**242,414**	**34,502**	**239,525**	**35,400**

21. COMMITMENT AND CONTINGENCIES

Legal

Except for provisions created as at 31 December 2018 (see note 13), management believes that there are no other litigations or claims brought by third parties that may result in significant future cash outflows or losses in the future.

Lease commitments

The Organization has entered into lease commitments for its head office and all the branches with maturities ranging from 1 to 10 years. Generally, the Organization may cancel these leases upon giving 1 to 6 months prior notice. Therefore, the maximum non-cancellable commitment payable not later than one year is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Not later than 1 year	109,133	94,718
	109,133	**94,718**

22. FINANCIAL RISK MANAGEMENT

22.1 Introduction and overview

The Organization has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Organization's exposure to each of the above risks, the Organization's objectives, policies and processes for measuring and managing risk, and the Organization's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

Credit risk is the risk of financial loss to the Organization if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Organization's loans and advances to customers and other banks. For risk management reporting purposes, the Organization considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Organization's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets. The Organization has no significant exposure to any individual customer or counterparty. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Board of Directors has delegated responsibility for the management of credit risk to the management. Regular audits of business units and credit processes are undertaken by the Internal Audit Department.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk

Allowances for impairment

The Organization establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. This allowance refers to a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Organization has made concessions that it would not otherwise consider.

Once the loan is restructured, it must be classified at the minimum substandard category or worse and will continue to be classified at the same category until stable performance is observed (regarding repayment of principal and interest as per repayment schedule). As at 31 December 2018, the loans with renegotiated terms are EUR 165,018 (2017: EUR 180,561). The impairment allowance for loans with renegotiated terms as of 31 December 2018 is EUR 85,698 (2017: EUR 61,777).

Write-off policy

The Organization writes off a loan (and any related allowances for impairment losses) when Management determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For small balance standardized loans, write off decisions are generally based on a product specific past due status. Loans are generally written off when they are overdue more than 365 days (2017: 365 days), and no repayment has been made during the last six months. The total amount of loans written-off is presented in Note 8. Total recoveries from loans written off are presented in Note 8.

The classification of loans and the average nominal interest rates by type are as follows:

	31 December 2018	Interest rate	31 December 2017	Interest rate
Agriculture	6,268,623	22.2%	5,355,223	24.7%
Consumer	3,272,673	25.9%	2,757,750	28.5%
Housing	21,509,375	24.6%	17,490,737	26.5%
Individual Business	11,714,087	23.6%	9,950,005	25.6%
	42,764,759		**35,553,715**	

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit Risk

a) Financial assets impairment

Under IFRS 9, KEP Trust recognizes an impairment allowance measured for the expected credit losses (ECLs) at each reporting date for all its financial assets measured at amortized costs (AC), which include:

- Loans to customers, and
- Deposits with Banks

Additionally, impairment requirements under IFRS 9 apply to the following groups of financial assets, which are not applicable for KEP Trust at the date of this policy:

1. Financial assets measured at fair value through other comprehensive income (FVOCI);
2. Loan commitments not measured at fair value through profit or loss (FVPL);
3. Financial guarantee contracts to which IFRS 9 is applied and that are not accounted for at fair value through profit or loss; and
4. Lease receivables that are within the scope of IAS 17, Leases, and trade receivables or contract assets within the scope of IFRS 15.

This policy will address the main principles for recognition of expected credit losses for loans to customers and deposits with banks measured at amortized costs. Principles and requirements introduced for measuring ECL of loans to customers (referred as "loans"), are applicable to deposits with banks proportionate with their complexity and time-to-maturity.

b) Main principles

Measurement of the ECLs pattern reflects the general pattern of deterioration in the credit quality, expressed in terms of significant increase in credit risk.
When the loans are initially originated, loss allowance is measured at an amount equal to 12-month expected credit losses. When the instrument's risk of default has significantly increased since its origination, KEP Trust measure loss allowance at an amount equal to lifetime expected credit losses.

c) The three stage model

IFRS 9 general approach to impairment and interest revenue recognition can be summarized in the following three-stage model, where transfers from one stage to another depend on the changes in credit risk since origination until credit defaults.

Stage 1	**Stage 2**	**Stage 3**	**POCI**
Newly originated financial assets non-credit-impaired Existing financial assets with **no significant increase in risk** since origination	Existing financial assets with **significant increase in risk** since origination.	Credit impaired financial assets (in **default**)	Credit impaired financial assets at acquisition Credit impaired financial assets at origination
Recognition of expected credit losses			
12-month expected credit losses	**Lifetime expected credit losses**	**Lifetime expected credit losses**	**Lifetime expected credit losses**
Interest revenue			
Effective interest on gross carrying amount	**Effective interest on gross carrying amount**	**Effective interest on net carrying amount (amortized cost less credit allowance)**	**Credit-adjusted effective interest on net carrying amount (amortized cost less credit allowance)**

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit Risk (continued)

c) The three stage model (continued)

Stage 1 includes newly originated loans that are not credit-impaired and existing financial instruments for which credit risk has not significantly increased since initial recognition, at the reporting date. IFRS 9 requires that ECLs for these loans be assessed on 12 months basis considering:

- the probability that exposures will default within the next 12 months after the reporting date (referred as '12-month PD'), and
- the ultimate loss suffered over the lifetime in case of default (referred as 'loss given default' or 'LGD'.

Stage 2 includes loans that have had a significant increase in credit risk since initial recognition but that do not have objective evidence that default has occurred. IFRS 9 requires that ECLs for these loans be assessed on lifetime basis considering:

- the probability that exposures will default within their entire remaining life after the reporting date (referred as 'cumulative lifetime PD'), and
- the ultimate loss suffered over the lifetime in case of default.

Stage 3 includes financial assets that have objective evidence of default at the reporting date (hence defaulted assets). IFRS 9 requires that lifetime ECLs is assessed based on the ultimate loss suffered.

POCI includes originated credit-impaired loans or credit-impaired loans acquired at deep discount. IFRS 9 requires that these loans are initially recognized at fair value less cumulative credit losses at initial recognition. ECL is re-measured at each reporting date and changes are recognised in profit and loss.

d) Basis for interest revenue recognition

IFRS 9 allow entities to recognize interest revenue over the gross carrying amount for financial assets classified into **Stage 1** and **Stage 2**.

For loans classified in **Stage 3**, under IFRS 9, KEP will not recognize interest income on the amount of loss allowance recognised at the reporting date. Instead, KEP will recognise interest income on net carrying amount after deducting the loss allowance, using the original effective interest rate.

For loans classified as **POCI** interest income is recognized on the net carrying amount of the loan, using the credit-adjusted EIR, which taking into account the initial lifetime ECLs in the estimated cash flows.

Significant increase in credit risk (referred also as risk of default)

Significant increase in the risk of default and default itself are key determinants for calculation of the expected credit losses.

At each reporting date, KEP assess whether there has been a significant increase in credit risk by comparing:

(i) the risk that the loan will default at the reporting date with
(ii) *(ii)* the risk of default assessed at initial recognition of the loan.

When performing this assessment KEP consider reasonable and supportable forward-looking and historical information for individual loans, or group of loans when reasonable and supportable information is not available on an individual basis. *Guidelines on Stage Classification* lists information used by KEP in assessing whether credit risk has significantly increased at the reporting date.

What constitutes significant increase in credit risk is neither not specifically defined by IFRS 9. Instead, the Standard provides guiding principles, allowing the Entity make its own judgments and conclusions in line with its credit risk management practices.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit Risk (continued)

e) Definition of default

Under IFRS 9, the Organization will consider a financial asset to be in default whenThe credit client is more than 90 days past due on any of the outstanding loans at the reporting date.

a) the borrower is assessed as ***unlikely to pay its credit obligations*** in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due;
b) The loans are credit impaired as defined in IFRS 9 requirements and linked with UTP
c) The loan(s) of the credit client is(are) restructured within the last 4 months, due to financial difficulties evidenced by delays of more than 90 days in past due on any of the outstanding loans before the restructuring event.

Groups of related clients are all classified 'in default', when the debtor being classified as in default has a material effect on the repayment capabilities of the other related debtors belonging to the same group.
Any deviation from the above rules should be very well supported and documented.

f) Unlikeliness to pay

Unlikeliness to pay includes the following:

- KEP Trust puts the credit obligation on non-accrued status;
- KEP Trust recognizes a specific loss due facts known on the client's ability to repay the loan;
- KEP Trust considers to sell the credit obligation at a material credit-related economic loss;
- KEP Trust consents to a distressed restructuring of the loan where this is likely to result in a material forgiveness, or postponement, of principal, interest or, where relevant fees;
- KEP Trust has filed for the client's bankruptcy or a similar order (legal procedures against the client have started);
- the client has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to KEP;

Events that may indicate unlikeness to pay or existence of credit impaired financial instrument are presented in below. The list is not exhaustive.

Credit – impaired triggers	**Non-performing UTP events**
	the entity has called any collateral including a guarantee
	lawsuit, execution or enforced execution in order to collect debt
	license of the borrower is withdrawn
	the borrower is a co-debtor when the main debtor is in default or a guarantor of a debtor in default.
	Postponements/ extensions of loans beyond economic lifetime
	multiple restructurings on one exposure
	a borrower's sources of recurring income are no longer available to meet the instalment payments; customer becomes unemployed and repayment is unlikely
	the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses
	for exposures to an individual: default of a company fully owned by a single individual where this individual provided the institution with a personal guarantee for all obligations of the company
	a financial asset was purchased or originated at a material discount that reflects the deteriorated credit quality of the debtor

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit Risk (continued)

f) Unlikeliness to pay (continued)

Credit – impaired triggers (continued)	Non-performing UTP events (continued)
	for retail exposures where the default definition is applied at the level of an individual credit facility, the fact that a significant part of the total obligation of the obligor is in default
	debt service coverage ratio indicates that debt is not sustainable
	loss of major customer or tenant
	material decrease of turnover/operating cash flows (20%)
	connected customer has filed for bankruptcy
	restricted or qualified opinion of external auditor
	it is expected that a bullet loan cannot be refinanced at current market conditions
	disappearance of refinancing options
	fraud cases
b) a breach of contract such as default or past due event	the borrower has breached the covenants of a credit contract
c) the disappearance of an active market for that financial asset because of financial difficulties	disappearance of an active market for the debtor's financial instruments
d) the lender, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the lender would not otherwise consider	credit institution stops charging of interest (also partially or conditionally)
	direct write-off
	write-off against loss allowance
	claim sold with loss which is credit-related
	restructuring with a material part which is forgiven (net present value (NPV) loss)
	restructuring with conditional forgiveness
e) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization	credit institution or leader of consortium starts bankruptcy/insolvency proceedings
	out-of-court negotiations for settlement or repayment (e.g. stand-still agreements)
	obligor has filed for bankruptcy or insolvency

a. Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the loans. KEP measures the expected credit losses in a way that reflects:

- ✓ an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- ✓ the time value of money; and
- ✓ reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit Risk (continued)

b. Period over which to estimate expected credit losses

KEP measures the expected credit losses over the maximum period exposed to credit risk. For KEP loans, such period, would be contractual period KEP has a present contractual obligation to extend credit. However, for some accounts/deposits with banks, period over which KEP is exposed to credit risk may be longer than their contractual term due to the following characteristics:

a) the deposits do not have a fixed term or repayment structure and are usually repaid on demand;
b) the contractual ability to cancel the contract or recall the deposit is not mitigated by KEP Trust's normal credit risk management actions. In such cases, to determine the maximum period of exposure to credit risk, KEP considers factors such as historical information and experience about:
   - the period over which KEP Trust was exposed to credit risk on similar deposits;
   - Time from significant increase in credit risk to default on similar deposits; and
   - Potential recall of the amounts deposited when credit risk of the bank has increased.

c. Probability-weighed scenario

The purpose of estimating expected credit losses is neither to estimate a worst-case scenario nor to estimate the best-case scenario. Instead, an estimate of expected credit losses consistently reflects the possibility that a credit loss occurs and the possibility that no credit loss occurs even if the most likely outcome is no credit loss.

d. Consideration of time value of money

Expected credit losses are discounted to the reporting date using the discount rate provided below.

Instrument	Discount rate to be used
Fixed rate financial asset	Effective interest rate determined at initial recognition
Variable rate financial asset	Current effective interest rate
Purchased or originated credit impaired asset	Credit-adjusted effective interest rate determined at initial recognition
Lease receivable	Same discount rate used to measure lease receivables
Loan commitments	Effective interest rate of an approximation of it that will be applied when recognising the financial asset resulting from the loan commitment
Loan commitments and financial guarantee contracts for which effective interest rate cannot be determined	A rate that reflects current market assessment of the time value of money and specific risks to the cash flows (unless adjustment has been made for the cash flows)

e. Consideration of collateral

For the purposes of measuring expected credit losses, KEP considers the amount and timing of cash expected from the foreclosure of the collaterals, when these can be reliably measured for individual loans or group of loans.

f. Reasonable and supportable information

KEP considers reasonable and supportable information is that which is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions. Information that is available for financial reporting purposes is considered to be available without undue cost or effort.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit Risk (continued)

g. Special considerations

a) Modification of financial instruments

In some circumstances, the restructuring or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing loans in accordance with IFRS 9 derecognition requirements.

KEP Trust derecognizes a loan when:

a) the contractual rights to a portion or full cash flows from the loan has expire, or
b) it transfers the loan and the transfer qualifies for derecognition.

b) Derecognition rules

KEP Trust has set specific rules in order to assess whether derecognition should be performed. In this context the below criteria should be assessed.

- change of debtor
- change of currency
- debt consolidation of multiple loans into one loan or vice-versa
- Write-offs partial or not

In case at least one of the above criteria is present, derecognition should be performed.

On derecognition of a loan in its entirety, the difference between:

- the carrying amount (measured at the date of derecognition) and
- the consideration received (including any new asset obtained less any new liability assumed) be recognised in profit or loss.

c) Modification that leads to derecognition

When the modification results in the derecognition of the existing loan(s) and the subsequent recognition of a new modified loan, KEP classify this new loan either as **POCI** or **Stage 1** depending on the fact whether the new loan is credit-impaired (see paragraph 2.4.4 below).

For originated credit-impaired loans, expected credit losses be discounted using the credit-adjusted effective interest rate determined at initial recognition.

At the reporting date, KEP Trust only recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

d) Credit-impaired loans

Derecognition of assets already classified as “Credit Impaired” triggered by modifications including change of debtor may not lead to the recognition of a Purchased or Originated Credit Impaired (POCI) following an assessment to verify that:

a) the New Debtor has improved credit rating as compared to the previous, and
b) the New Debtor is not in financial difficulty, and
c) the New Debtor’s expected cash flows are sufficient

More analysis for the POCI is described in the Classification and Measurement Policy.

e) Modification that does not lead to derecognition

When contractual cash flows on a loan have been renegotiated or otherwise modified and such has not lead to derecognition of the loan, KEP assesses whether there has been a significant increase in credit risk since initial recognition on the basis of all reasonable and supportable information that is available without undue cost or effort, which includes but not limit to:

- information about the circumstances that led to the modification;
- credit repayment history before the medication (missed or irregular payments);

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit Risk (continued)

h. Expected Credit Loss model

Impairment methodology

For the purposes of ECL measurement, KEP performs the necessary model parameterization based on observed point-in-time data on a granularity of quarterly time intervals, which is considered appropriate for the circumstances. The ECL calculations are based on the following input parameters:

Probability of Default (PD): This expresses the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon, i.e. over 12-month for **Stage 1** loans and over the entire lifetime for **Stage 2** loans. For **Stage 3** and **POCI** loans PD is 1, because the default event has occurred.

Exposure at Default (EAD): This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after reporting date, including repayments of principal and interest and expected drawdowns on committed facilities.

Loss Given Default (LGD): This represents an estimate of the loss arising on a default event. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

Cure Rate: This expresses the likelihood of exit from Stage 3 status.

Discount Rate: This is used it the discounting of an expected credit loss to a present value at the reporting date. **See section I. j)**

The following table illustrates how the model applies to the different stages:

Stage	Level	PD	LGD	EAD
Stage 1	Collective	12-months PD (adjusted for macro-economic conditions)	Lifetime losses	Exposure at default over the next 12 month
	Individual	Not applicable or applied in limited circumstances*		
Stage 2	Collective	Lifetime PD (adjusted for macro-economic conditions)	Lifetime losses	Exposure at default over the remaining lifetime
	Individual	Not applicable or applied in limited circumstances*		
Stage 3	Collective	PD equals 1, because default event has occurred	Lifetime losses depending on the point of the recovery cycle	Exposure in default at the reporting date
	Individual	N/a	Estimated future cash flows discounted at the reporting date	Exposure in default at the reporting date

**Individual assessment of the PiT probability of default and the lifetime losses is inherently difficult when there is no objective evidence of impairment. However, for significant exposures classified in Stage 1 and Stage 2, KEP may wish to corroborate LGD assessed on a collective basis to the expected recovery from the collateral foreclosure strategy in a default event.*

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit Risk (continued)

h) Expected Credit Loss model (continued)

Exposure at default

EAD is an assessment of the exposure that will default as a result of a default event. Assessment of EAD differs depending on whether default has or has not occurred.

Default has occurred (exposure in default – EID)

When default has occurred (typical for Stag 3), the exposure in default is a known amount, which includes outstanding loan principal, accrued interest, accrued penalties, and other receivables arising from the loan contract such as: insurance fees, prepaid bailiff fees etc.

Default has not occurred (exposure at default – EAD)

When default has not occurred, the EAD is a reasonable estimate of the exposure at a future default date. In cases of newly originated loans not credit-impaired, or existing loans not subject to significant increase in credit risk, the exposure at default would be assessed over a period a period of 12 month from the reporting date. EAD could be the gross carrying amount at the reporting date or a later date depending on the point in time the default occurs.

In cases where there has been a significant increase in credit risk, KEP assesses the probability that the loan will default in any of the forthcoming years until its contractual maturity.

KEP's consideration for point in time EAD are summarized as follows depending on the stage classification of the loans to customers and bank deposits:

Stage 1	**The gross carrying amount at the reporting date**
Stage 2	The gross carrying amount at the reporting date and at each forthcoming anniversary until maturity of the loan. In normal credit recovery cycle where cash is recovered in accordance with the payment plan, EAD is expected to decrease as time approaches maturity date.
Stage 3	The gross carrying amount at the reporting date. In normal recovery cycle where cash is recovered in small payments over the recovery cycle after default, EAD is expected to decrease as months in default increase
POCI	The net carrying amount at the reporting date

In line with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, in preparation of its annual financial statements due for submission on 30 April, KEP consider repayments of principal and interest and expected drawdowns on committed facilities granted prior to year-end, until 31st of March subsequent to the 31st December of the reporting year.

Individual vs. collective assessment

KEP assesses ECL on individual basis for all outstanding loans in default exceeding 10,000 EUR. Such would include all loans classified in Stage 3 or as POCI and individually exceeding 10,000 EUR.

KEP performs collective assessment of the:

- PDs and LGDs for all loans classified in Stage 1 and Stage 2, and
- LGD of all loans classified in Stage 3 or as POCI with an outstanding exposure less than 10,000 EUR.

Grouping of loans

Collective assessment of PD

For the purpose of a collective assessment of PDs, loans are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms. Such may include the basis of a credit risk evaluation or grading process that considers product type, customer type, collateral type, past-due status and other relevant factors.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit Risk (continued)

h) Expected Credit Loss model (continued)

Grouping of loans (continued)

In consideration to credit risk profile of its loans, KEP has selected to group loans based on:

1. The loan purpose (business, agro, housing and consumer) and
2. The collateral requirements for the borrower assessed based on the loan amount granted.

In line with Credit risk manual loans KEP requires collateral for all loans granted with an amount in exceed of EUR 3,000. Accordingly, this amount is a key determinant to the risk of the loan, depending on whether the loan is secured by collateral or not.

Based on the criteria adopted KEP loans are grouped as follows for the purpose of PD modelling:

1. Business > 3000	Business loans granted in an amount in exceed of EUR 3,000
2. Business <= 3000	Business loans granted in an amount equal or lower than EUR 3,000
3. Agro > 3000	Agro loans granted in an amount in exceed of EUR 3,000
4. Agro <= 3000	Agro loans granted in an amount equal or lower than EUR 3,000
5. Housing > 3000	Housing loans granted in an amount in exceed of EUR 3,000
6. Housing <= 3000	Housing loans granted in an amount equal or lower than EUR 3,000
7. Consumer > 3000	Consumer loans granted in an amount in exceed of EUR 3,000
8. Consumer <= 3000	Consumer loans granted in an amount equal or lower than EUR 3,000

Collective assessment of LGD

For the purpose of a collective assessment of LGDs, loans are group on the basis of:

- the recovery cycle for non-performing loans, and / or
- the collateral type (i.e. house financed by the loan).

In consideration to these criteria, KEP considers PD groups enumerated above appropriately reflecting the recovery cycle for non-performing loans.

KEP reviews on annual basis the above presented limits and criteria to ensure that they remain valid following possible changes in the loans portfolio size and composition.

Individual assessment of ECL

KEP assesses individual exposures when reasonable and supportable information is available without undue cost. Such would require individual forecast of timing and extend of cash shortfalls considering at least two scenarios: 1) *the scenario that results in a loss* and 2) *the scenario that results with no loss.*
Individual loss allowance is assessed = Exposure at Default – Discounted Cash Flows
For loans assessed individually, KEP identifies and forecasts cash flows expected the recovery strategy(ies) including:

- time and amount of cash payments from credit forbearance measures;
- time and amount of recovery from the collateral foreclosure;
- time and amount of non-recoverable cash payments incurred as part of the recovery strategy, etc.

The forecasted cash flows will enter into the determination of the cash short fall and discount to the reporting date using the effective interest rate of the exposure.
Each scenario will be assigned a probability of occurring, such that the sum of probabilities assigned to all identified scenarios will be 1.

Impairment for a particular exposure is assessed as the difference between the cross carrying amount (GCA) and discounted cash flows, where the GCA includes the outstanding principal, interest, penalties, and any other receivables arising from the loan contract**.**

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit Risk (continued)

h) Expected Credit Loss model (continued)

Consideration of multiple scenarios

The impairment is a probability-weighted amount that is determined by evaluating the outcomes of two or more different economic scenarios applied by KEP for measuring expected credit losses. KEP considers variability of cash flows to different economic factors in a multiple-scenario analysis.

Probabilities of the scenarios are determined by KEP, given that there are reasonable and available information. These probabilities are reviewed annually and amended accordingly depending on the economic outlook and/or other relevant information.

i) Cash Flows received from the Borrower

In the context of the Impairment Assessment, KEP estimates the future cash flows of the borrower/business which will be available to serve the debt. In more detail, these cash flows are determined by KEP's collection unit and credit risk unit responsible for developing an expectation of recovery cash flows by taking into consideration relevant available information such as financial information and future plans.

ii) Liquidation of Collaterals

In order for KEP to determine the recoverable amount of collaterals, it considers the indicative following series of information if available:

- Market value of the collateral
- Appraisal date
- Price Indexation
- Time to sale
- Forced sale discount (auction discount)
- Sale cost haircut (i.e. liquidation cost)
- Prior Liens
- Preferential rights

The forced sale discount and the sale cost haircut are also applied on the market value of the collateral, without taking into account any prior liens or preferential rights. Based on the parameters mentioned above, the recoverable amount per collateral and per loan facility is calculated. Afterwards, the recoverable amount of the collateral per facility is discounted back based on the estimated time to recovery and the effective interest rate. In the case of repossession of collaterals, KEP discounts further the cash flows considering the timing of the realization of these cash flows and the time to sell the repossessed collateral.

Collective assessment of ECL

KEP measures ECLs on a collective basis for portfolios where less borrower – specific information is available such as retail exposures and some exposures to small and medium – sized enterprises. This incorporates borrower - specific information such as delinquency days, collective historical experience of credit losses and forward looking information.

For the calculation of the impairment amount of loans assessed on a collective basis, statistical methods are used, based on credit risk parameters. The calculation of 12-Month and Lifetime ECL, for all portfolios, is depicted below:

Stage 1 - 12 months ECL

For Stage 1 loans, time of exposition to credit risk is considered for over the forthcoming 12 months.

Stage 2 - Lifetime ECL

For stage 2 loans, period over which to measure ECL is the maximum period over which KEP is exposed to credit risk. This could be the maximum contractual period over which KEP is exposed to credit risk *(i.e. period until the loan is fully repaid, typically the remaining time until contractual maturity)* or a longer period.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit Risk (continued)

h) Expected Credit Loss model (continued)

Consideration of multiple scenarios (continued)

Stage 3 - Lifetime ECL

Loans classified in stage 3 have already defaulted; hence, probability of default equals 1. Expected credit losses is measured as the ultimate loss after consideration of all potential repayments over the recovery horizon, reflected by the LGD in each month in default.

Forward-looking and macro-economic adjustment

KEP considers the potential impact of the forward-looking macroeconomic and financial factors into the PD assessment over the 12 months and Lifetime in line with PD Macro-modeling Guidelines.

ECL assessments for bank deposits

Stage 1

For the calculation of the impairment amount of bank deposits KEP applies statistical methods based on credit risk parameters developed by Moody's Annual Default Study: Corporate Default and Recovery Rates.

Stage 2

The variables at each reporting date represent as described below:

If there is a significant increase in credit risk associated with a specific bank deposit comparing to the acquisition date, then expected credit losses for the full lifetime of the debt instrument are recognized.

If the expected maturity is shorter than 12m then the 12 month PD is adjusted accordingly for the remaining maturity.

Stage 3

If the credit risk of a debt instrument increases to the point that it is considered to be credit impaired, the lifetime PD equals to 1 and KEP estimates lifetime ECLs based on the LGD, the notional amount and the accrued interest. Under stage 3 (where a credit event has occurred), interest income is calculated on the net carrying amount (i.e. the gross carrying amount adjusted for the impairment allowance).

Transition considerations

Loans to customers

At the date of initial application, KEP could not determine whether there has been a significant increase in credit risk since initial recognition for the loans originated on or before 30 September 2018, without undue cost or effort. In line with IFRS 9 transition requirements, KEP recognizes a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until these loans are derecognized. After the date of initial application, KEP uses reasonable and supportable information that is available without undue cost or effort to determine whether credit risk has significantly increased for all loans originated on or after 1 October 2018.

Bank deposits

At the date of initial application, KEP uses reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a bank deposit was initially recognized and compare that to the credit risk at 1 January 2018.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

Information on loans by sector and type of collateral as at 31 December 2018 and 2017, is as follows:

In EUR	**Agriculture**	**Consumer**	**Housing**	**Individual Business**	**Total**
Secured loans					
Vehicles	1,688,356	17,381	3,705,530	2,275,768	**7,687,035**
Real estate	13,569	-	41,695	58,587	**113,851**
Goods	695,493	4	956,350	1,528,331	**3,180,179**
Un-secured loans	3,871,206	3,255,287	16,805,800	7,851,402	**31,783,695**
Total loans and advances to customers	**6,268,623**	**3,272,673**	**21,509,375**	**11,714,087**	**42,764,759**

In EUR	**Agriculture**	**Consumer**	**Housing**	**Individual Business**	**Total**
Secured loans					
Vehicles	1,556,744	8,613	3,255,799	1,813,246	**6,634,402**
Real estate	48,737	-	39,942	114,411	**203,090**
Goods	724,115	6,090	998,911	1,439,436	**3,168,552**
Un-secured loans	3,025,627	2,743,046	13,196,086	6,582,912	**25,547,671**
Total loans and advances to customers	**5,355,223**	**2,757,750**	**17,490,737**	**9,950,005**	**35,553,715**

The Organization holds collateral against loans and advances to customers in the form of mortgages, vehicles and goods.

	31 December 2018	**31 December 2017**
Vehicles	14,252,041	13,802,411
Real estate	870,063	1,665,715
Goods	6,534,432	7,362,652
	21,656,536	**22,830,777**

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

Analysis by credit quality of loans outstanding at 31 December 2018 is as follows:

In EUR	**Agriculture**	**Consumer**	**Housing**	**Individual Business**	**Total**
Neither past due nor impaired					
Loans to individuals below 3,000 EUR	1,049,748	3,226,070	5,273,855	2,429,118	**11,978,791**
Loans to individuals over 3,000 EUR	5,242,931	2,975	16,309,321	9,248,788	**30,804,014**
Total neither past due nor impaired	**6,292,678**	**3,229,045**	**21,583,176**	**11,677,907**	**42,782,805**
Past due but not impaired					
- less than 30 days overdue	42,017	34,595	137,269	126,697	**340,578**
- 30 to 90 days overdue	29,087	29,162	145,069	69,266	**272,584**
- 91 to 180 days overdue	17,117	21,653	97,406	100,502	**236,678**
- 181 to 360 days overdue	51,302	44,812	186,621	105,563	**388,298**
- over 360 days overdue	21,748	12,318	57,478	69,177	**160,721**
Total past due but not impaired	**161,271**	**142,540**	**623,843**	**471,203**	**1,398,858**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	-	-	14,310	39,917	**54,227**
- 30 to 90 days overdue	18,085	-	-	31,059	**49,143**
- 91 to 180 days overdue	16,223	-	-	-	**16,223**
- 181 to 360 days overdue	-	-	-	-	**-**
- over 360 days overdue	24,872	-	-	25,367	**50,239**
Total individually impaired loans (gross)	**59,179**	**-**	**14,310**	**96,343**	**169,832**
Less impairment provisions	**244,505**	**98,912**	**711,953**	**531,366**	**1,586,736**
Total loans and advances to customers	**6,268,623**	**3,272,673**	**21,509,375**	**11,714,087**	**42,764,759**

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.3 Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations from its financial liabilities.

The Organization's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Organization's reputation.

The Organization's liquidity position is monitored by the Finance Department on a weekly and monthly basis and directly by the management systematically, through managing cash availability for loan disbursement and ensuring adequate funds, available for each account, based on expected inflows and outflows to meet the Organization's obligations. Internal policies on liquidity risk management are aligned with the regulation "On the management of liquidity risk in microfinance institutions", approved by the Central Bank of Kosovo on 29 August 2013.

Exposure to liquidity risk

Borrowings are the main source of funding for the Organization. The Organization strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Organization continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall the Organization strategy.

In addition, the Organization holds a portfolio of liquid assets as part of its liquidity risk management strategy. The following table shows the Organization's financial liabilities on the basis of their earliest possible contractual maturity:

	Up to 6 months	6 months to 1 year	Over one year	Carrying amount
31 December 2018				
Borrowings	5,514,393	11,251,571	15,965,783	32,731,748
Other liabilities	548,804	-	-	548,804
	6,063,197	**11,251,571**	**15,965,783**	**33,280,552**
31 December 2017				
Borrowings	5,520,733	6,094,833	12,026,569	23,642,135
Other liabilities	212,754	-	-	212,754
	5,733,487	**6,094,833**	**12,026,569**	**23,854,889**

22.4 Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads will affect the Organization'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.

Exposure to interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Organization manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing, or reallocation decisions. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date, were outstanding during the year.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.4 Market risk (continued)

The interest gap positions of significant categories of interest bearing financial assets and liabilities as at 31 December 2018 and 2017 are as follows:

	Up to 6 months	6 months to 1 year	Over one year	Carrying amount
31 December 2018				
Loans and advances to customers	12,125,760	9,889,472	20,749,527	42,764,759
	12,125,760	**9,889,472**	**20,749,527**	**42,764,759**
Borrowings	5,514,393	11,251,571	15,965,783	32,731,748
	5,514,393	**11,251,571**	**15,965,783**	**32,731,748**
Net position	**6,611,366**	**(1,362,099)**	**4,783,744**	**10,033,011**

	Up to 6 months	6 months to 1 year	Over one year	Carrying amount
31 December 2017				
Loans and advances to customers	9,800,916	8,155,554	17,597,245	**35,553,715**
	9,800,916	**8,155,554**	**17,597,245**	**35,553,715**
Borrowings	5,520,733	6,094,833	12,026,569	23,642,135
	5,520,733	**6,094,833**	**12,026,569**	**23,642,135**
Net position	**4,280,183**	**2,060,721**	**5,570,676**	**11,911,580**

The management of interest rate risk is supplemented by monitoring the sensitivity of the Organization's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios include a 1% parallel fall, or rise in all yield curves. An analysis of the Organization's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant net position) is as follows:

	2018	2017
Surplus: 1% increase	100,330	119,116
Deficit: 1% decrease	(100,330)	(119,116)

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.4 Market risk (continued)

Exposure to currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Organization is not exposed to this risk because its assets and liabilities are in EUR.

22.5 Capital management

The Organization is in compliance with the minimum capital of EUR 200 thousand required by the Central Bank of Kosovo. The Organization is subject to a periodic supervision by the Central Bank of Kosovo. The Organization's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of equity on its return is also recognized and the Organization recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound equity position. There have been no changes in the Organization's approach to capital management during the year

23. EVENTS AFTER THE REPORTING PERIOD

On 30th January 2019, the Organization received scheduled disbursement from EFSE in amount of EUR 1,500,000for the loan contracted and signed in September 2018 with an interest rate of 5.20%p.a.

On 5th February 2019, the Organisation received from EBRD 1st tranche (EUR 1,000,000) of contracted total loan amount of EUR 3,000,000, signed in 14 December 2018 with an interest rate of 5.20%.

On 27th March 2019, the Organisation received from Green for Growth Fund contracted total loan amount of 1,000,000, signed in 17 December 2018 with an interest rate of 4.50%.

On 28th March 2019, the Organisation received from Microvest remaining tranche (EUR 2,000,000) of contracted total loan amount of EUR 3,000,000, signed in 18 December 2018 with an interest rate of 4.70%.

There were no other events after the reporting date that would require adjustments, or additional disclosures in these financial statements.