KEP

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ANNUAL REPORT 2023

KEP

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* Except for financial statements, the annual report has not been audited by an independent auditor.

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MISSION

KEP Trust's mission is to improve the standard of living and support the economic development of Kosovo by providing accessible financial services to individuals and businesses facing challenges in securing necessary resources.

We are committed to supporting our clients in building a better future by creating opportunities and empowering those who most need financial support.

We aim to offer services that are not only reliable but also personalized to the unique needs of each client.

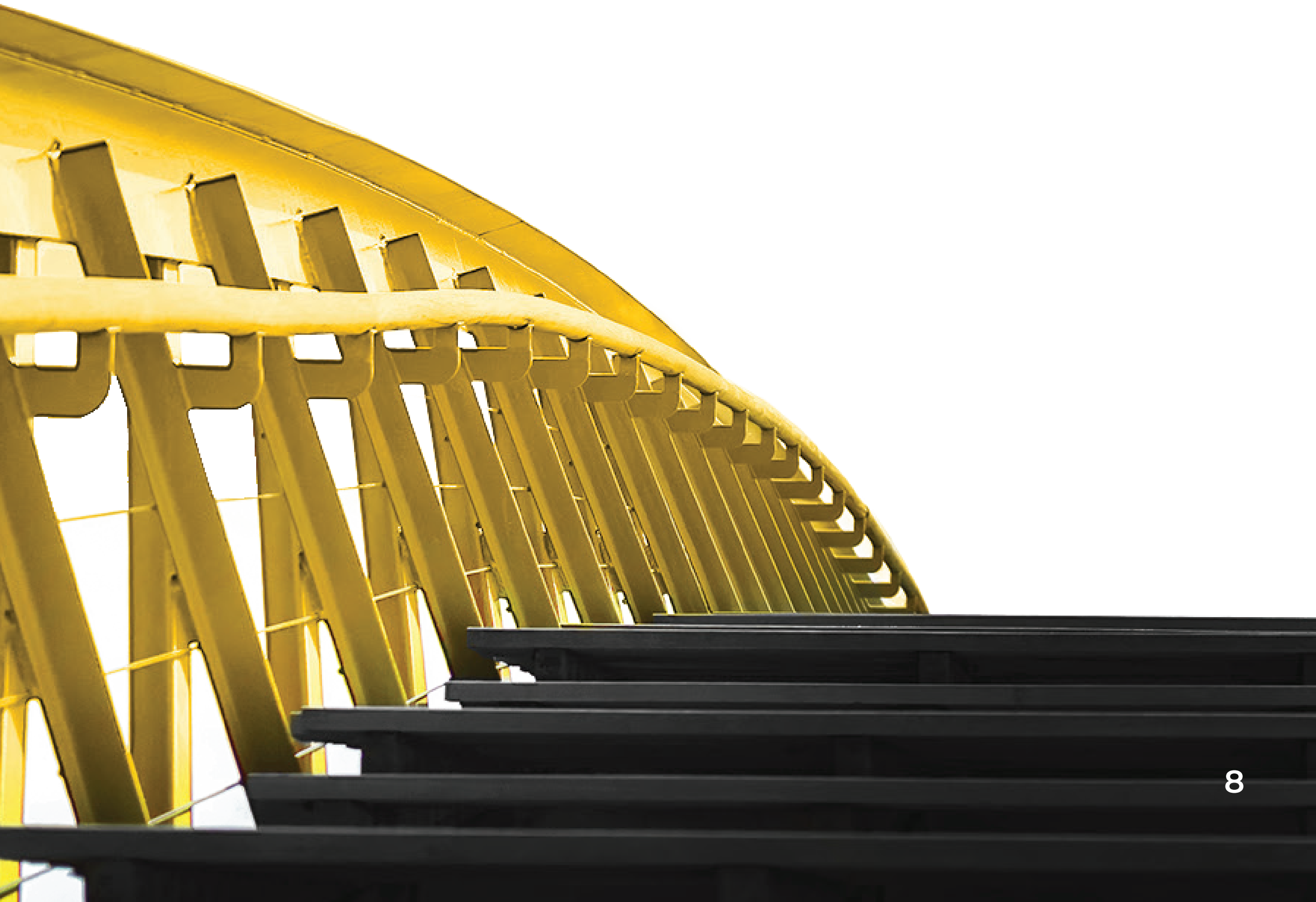
KEP TRUST TODAY

The Leading Microfinance Institution in Kosovo

In 2023, KEP Trust continued to strengthen its position as the leading microfinance institution in Kosovo, always pursuing the goal of meeting the needs of citizens and businesses facing limited financial resources.

With our headquarters in Prishtina and a wide network of 31 branches spread across the country, we provided services to empower our clients in their development efforts.

Throughout this year, our team of 248 employees worked to expand our reach and positive impact on clients. By the end of 2023, we served a clientele of 31 thousand people, offering financial solutions tailored to their specific needs. The portfolio continued to grow, demonstrating the sustainability and efficiency of our lending and financial inclusion strategies.

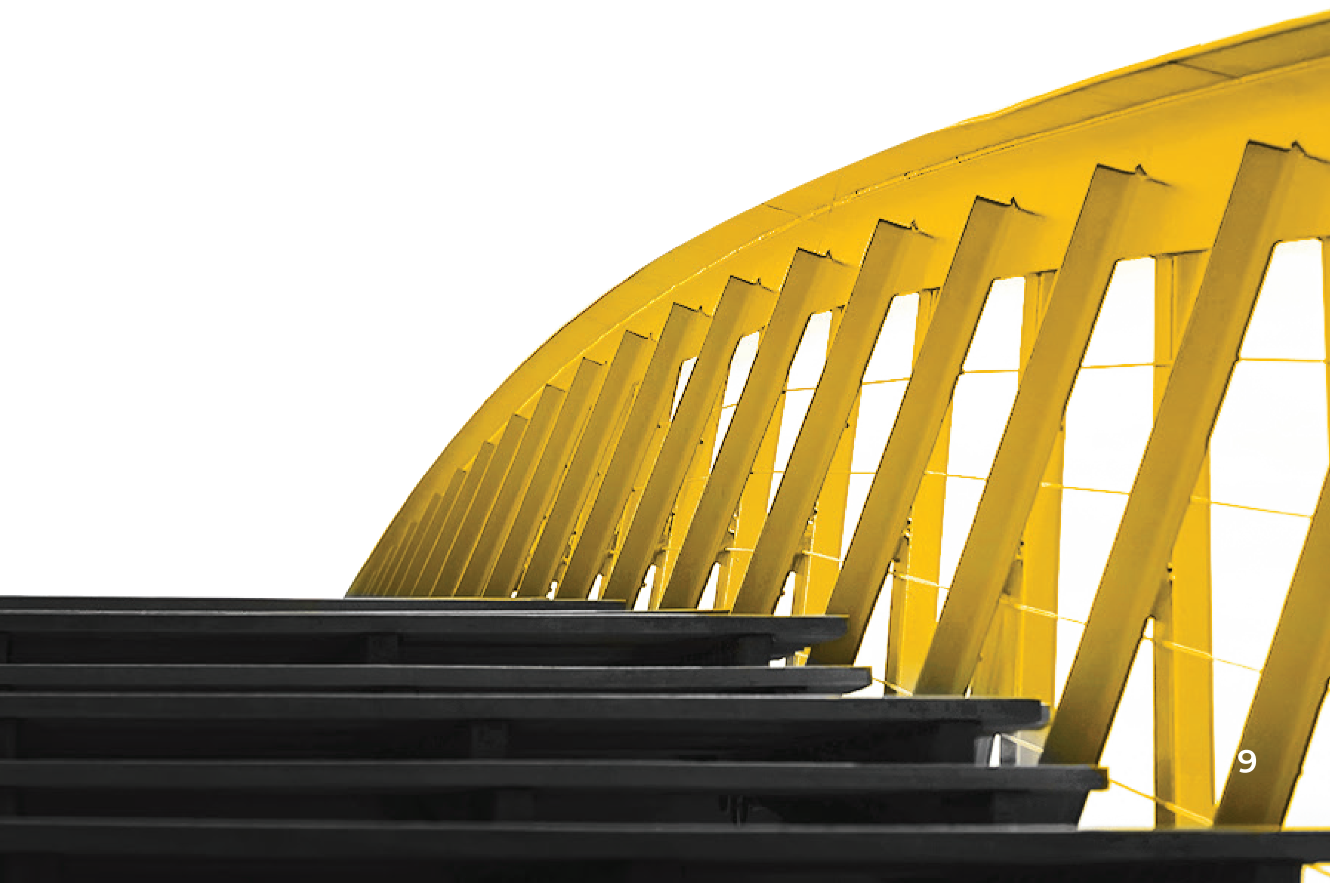


The presence of our branches played a crucial role in reaching citizens across Kosovo, ensuring access to financial services for individuals living in both rural and urban areas.

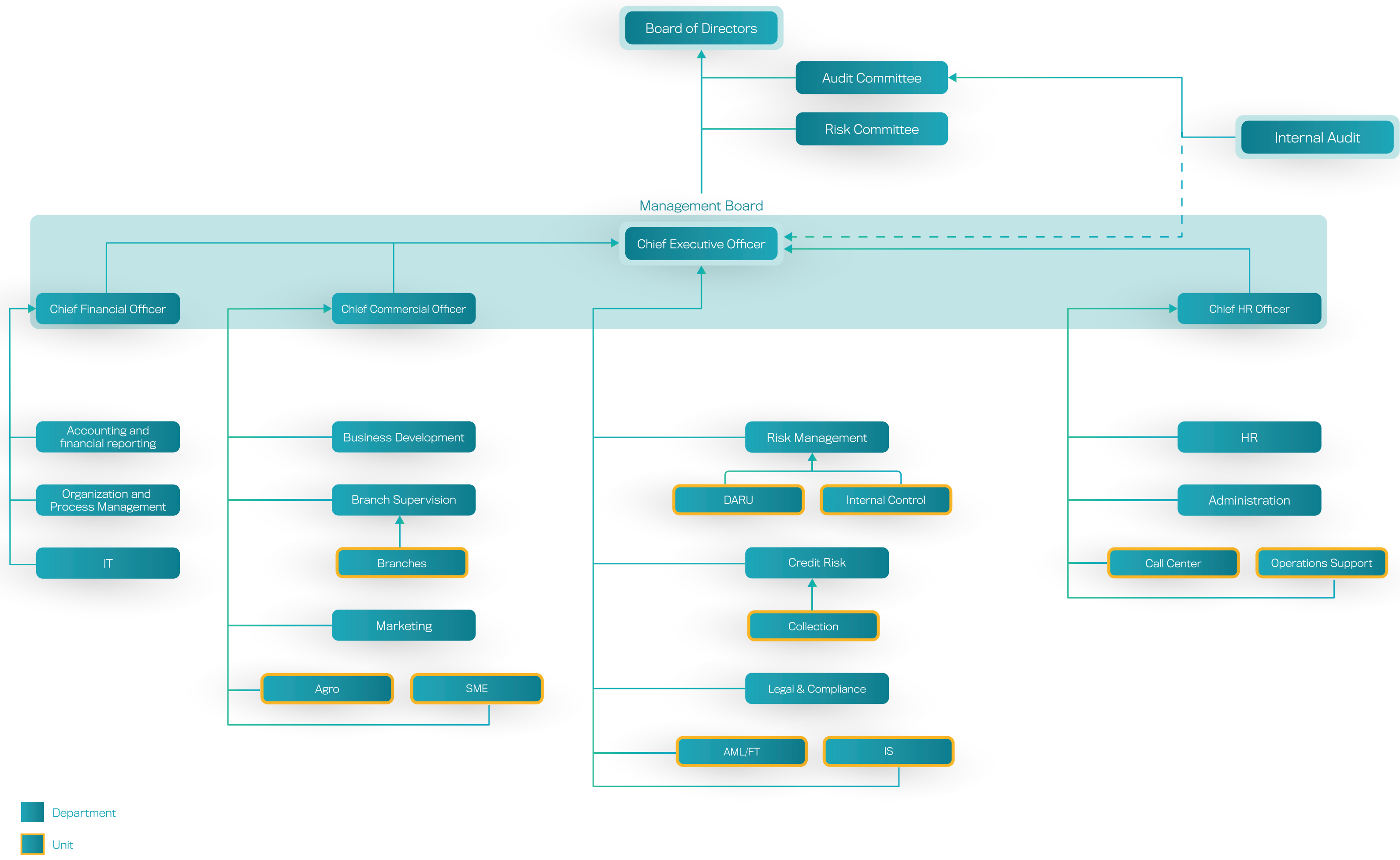
The application of new technologies and their potential to enhance access to services was another factor in our successful strategy, as our digital platforms enabled clients to access loan applications more easily and quickly.

Despite the challenging economic environment, we maintained a healthy loan portfolio. Our financial stability allowed us to invest in technology, modernize branches, and develop staff. This strengthened our ability to serve our clients effectively.

Remaining true to our mission and values, we will continue to leverage our expertise, innovative technologies, and strong community relationships to expand our reach and increase our positive impact. In the coming year, we plan to further strengthen our digital channels, invest in staff training and development, and explore new collaboration opportunities with current and potential partners.



ORGANIZATIONAL STRUCTURE


Board of Directors
Audit Committee
Risk Committee
Internal Audit
Management Board
Chief Executive Officer
Chief Financial Officer
Chief Commercial Officer
Chief HR Officer
Accounting and financial reporting
Organization and Process Management
IT
Business Development
Branch Supervision
Branches
Marketing
Agro
SME
Risk Management
DARU
Internal Control
Credit Risk
Collection
Legal & Compliance
AML/FT
IS
HR
Administration
Call Center
Operations Support
Department
Unit

LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

As Chairman of the Board, I am pleased to present the annual report for KEP Trust for the fiscal year ending December 31, 2023. This year marked significant achievements and progress for our institution, characterized by strong financial performance, strategic advancements, and unwavering commitment to our mission of providing access to finance for our valued clients.

In 2023, KEP achieved outstanding financial results, underscoring the strength and resilience of our business model. We maintained our market-leading position with an overall market share of 28.2%. Additionally, our client base continued to grow and currently stands at 31,000.

The loan portfolio is continuing to grow and will soon reach the monumental figure of 100 million euros.

We had an impressive return on equity, reflecting our careful risk management and operational efficiency. Our balance sheet remained strong, with total assets reaching 101.4 million euros.

Throughout the year, we made significant strides in implementing our strategic plan. We expanded our market presence through the successful introduction of new financial products, enhancing our capabilities, and broadening our service offerings. Investments in digital transformation reinforced our position as a leader in financial technology, improving the customer experience and operational efficiency.

Our commitment to sustainability and corporate responsibility remains a cornerstone of our strategy. We continued to integrate environmental, social, and governance (ESG) principles into our business practices, with a particular focus on sustainable finance, diversity and inclusion, and community engagement.

As we close a quarter-century of operations and look to the future, we remain cautiously optimistic. While we are aware of the macroeconomic uncertainties and regulatory challenges ahead, particularly with the adoption of new laws affecting the operations of microfinance institutions, we are confident in our ability to address them professionally. Our focus will be on fostering innovation, adapting to the new anticipated legal landscape by preparing in advance, and deepening relationships with clients through our disciplined approach to growth and risk management.

On behalf of the Board of Directors, I wish to express my gratitude to our dedicated employees for their hard work, our management team for their strategic leadership, and our lenders and founders for their continued trust and support. We also extend our heartfelt appreciation to the Central Bank of Kosovo and the NGO Department for their ongoing support. Together, we will continue to build on our successes and strive for excellence in everything we do.

Thank you for your continued support of KEP Trust. We look forward to another year of progress and prosperity.

Sincerely,

Korab Sejdiu

LETTER FROM THE CHIEF EXECUTIVE OFFICER

This year has been marked by significant achievements and considerable growth, laying a strong foundation as we approach our 25th anniversary next year.

The portfolio recorded an impressive growth of 26.5%, reflecting our strategic vision and effective implementation of our plans. Furthermore, our client base has grown to 31,000 clients, demonstrating increasing trust and satisfaction in our services.

Throughout this period, we have launched several initiatives to enhance our digital capabilities, resulting in improved customer experiences and services. Our strategic partnerships with leading companies have been crucial in this transformation, allowing us to integrate innovative technologies and streamline our operations.

We are grateful to our lenders for their support and trust during this time. Your confidence in our vision and capabilities has been key to our growth and stability.

A special thank you to our Board of Directors for their continuous guidance and support. Your oversight and strategic wisdom have been essential in our work and in steering us towards success.

We also thank the regulatory bodies, including the Central Bank of Kosovo, for their support and guidance. Your efforts in maintaining a transparent regulatory environment have been vital in ensuring our compliance and fostering a healthy business ecosystem.

Lastly, I want to express my deepest appreciation to our dedicated staff. Your tireless work has been and continues to be the cornerstone of our success. Every milestone we have achieved is a direct result of your relentless efforts and passion for excellence.

As we eagerly look forward to our 25th anniversary, we remain committed to improving our operations, increasing financial inclusion, and maintaining our leading position in this sector. Together, we will continue to drive innovation, provide exceptional value to our clients, and achieve sustainable growth.

Thank you for your continued support!

Shpend Nura

Chief Executive Officer

LENDING

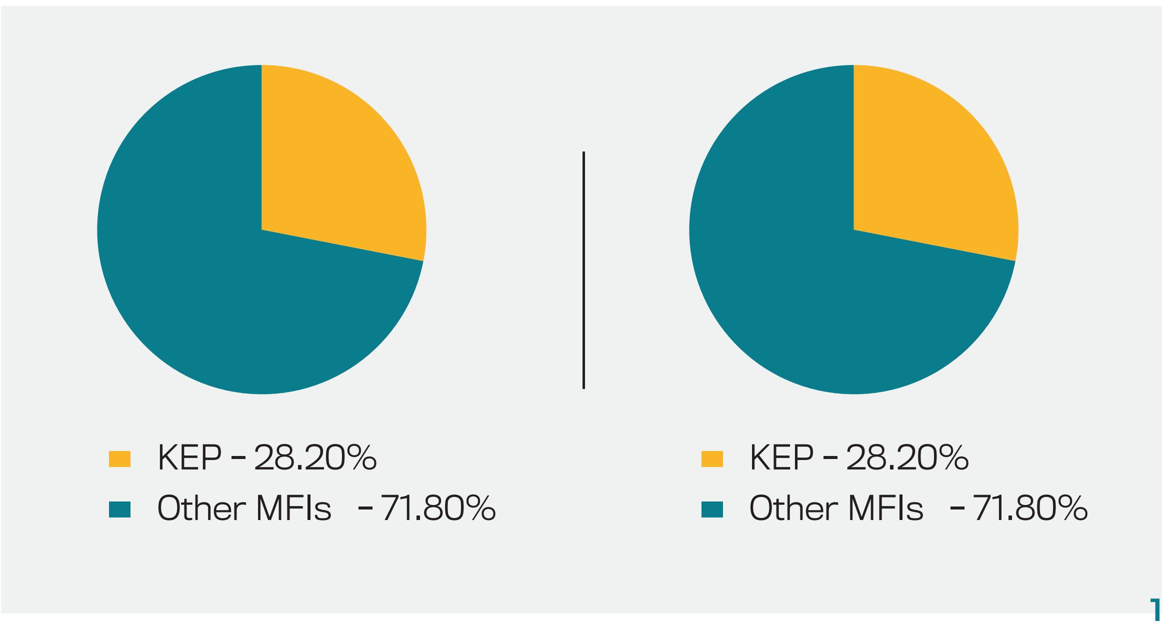
In 2023, KEP maintained its leadership position in the microfinance sector, holding a 28.2% market share in the portfolio and thus demonstrating continuous commitment to meeting the financial needs of clients.

The loan portfolio saw a notable increase throughout the year, growing by 26.5%, or 19.2 million euros. As a result, by the end of 2023, the active portfolio reached 91.4 million euros. This significant growth indicates that our lending strategies and commitment to clients were appropriate.

The number of active clients also saw a substantial increase of 18%, translating to 4,695 new clients. By the end of 2023, KEP's clientele reached 31,000, up from 26.1% in 2022 to 26.5% in 2023 in terms of client numbers. This growth in the client base shows our ability to attract new clients while retaining existing ones through offering tailored financial solutions and excellent service.

Market share by portfolio - 2022

Market share by portfolio - 2023



A key role in these achievements was played by our focus on loans for small and medium-sized enterprises (SMEs) and microbusinesses. Lending in this segment contributed about 49% of the portfolio growth, continuing our support for entrepreneurship and economic growth in Kosovo.

Additionally, agricultural loans contributed around 19% to the portfolio growth, showing our commitment to the agriculture sector by enabling farmers and agribusinesses to expand and improve their operations.

As in previous years, loans for individuals played a special role in the continuous growth of KEP, particularly in increasing the number of new clients. We continued to offer this group access to necessary funds with simple procedures, especially to those applying for their first loan.

In 2023, we also established new partnerships with various companies to enhance our lending capabilities and reach. These collaborations enable us to offer more diverse and flexible solutions, ensuring our clients have access to the financial resources they need.

Furthermore, we continued to promote the use of our online application form, making the loan application process faster and more convenient for clients. Our distribution network, consisting of 31 branches across Kosovo, remained essential in efficiently delivering our lending services to our broad clientele.

Overall, KEP's lending has demonstrated strong growth, reinforcing our position as a leader in the microfinance sector in Kosovo. Our strategic focus on SMEs, agricultural loans, and partnerships has driven this success, allowing us to support the financial well-being and economic development of our clients.

Market share by
number of clients - 2022

KEP - 26.10%
Other MFIs - 73.90%

Market share by
number of clients - 2023

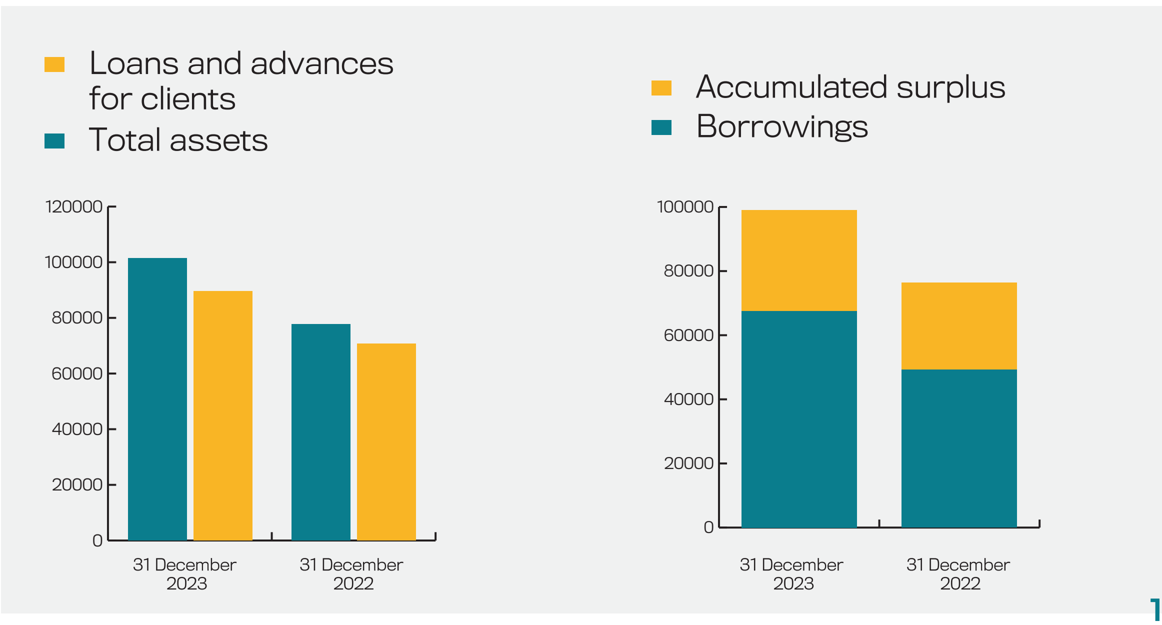
KEP - 26.50%
Other MFIs - 73.50%

FINANCIAL ACHIEVEMENTS

In 2023, KEP recorded significant financial growth. Total assets increased by 30.2%, reaching 100.5 million euros compared to the previous year. Loans to clients constituted 88.3% of total assets after provisioning for losses. The total gross loans as of December 31, 2023, amounted to 91.3 million euros, representing a 26.5% increase from the previous year. Provisions for loan losses increased by 33.8%, reflecting our commitment to maintaining a healthy and sustainable portfolio in accordance with IFRS 9.

KEP's borrowing liabilities reached 67.5 million euros, a 37.4% increase compared to the previous year, despite global economic challenges. The surplus reached 30.5 million euros, including 3.8 million euros generated from economic activities during the year. Net income after tax was 3.8 million euros, about 0.14 million euros more than the previous year, demonstrating our commitment to providing financial services that meet clients' needs.

In million EUR

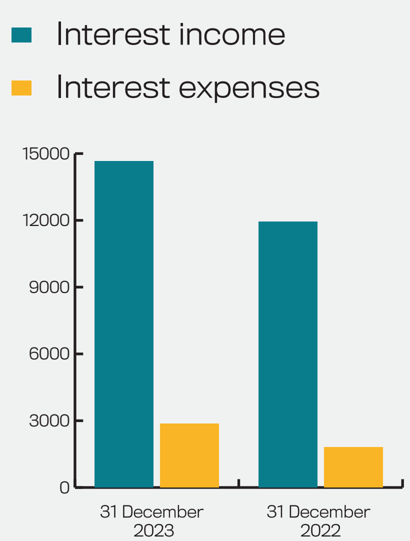


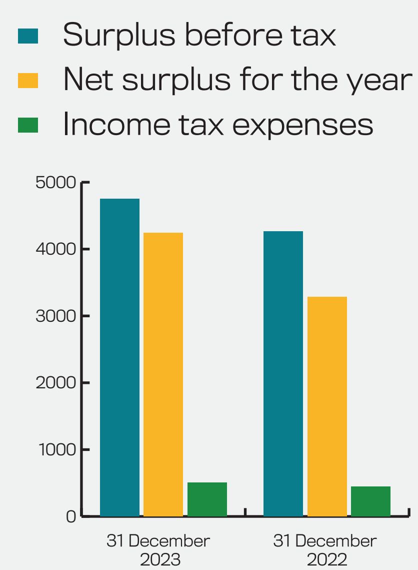
Interest from loans continued to be the primary source of total income. Personnel expenses as of December 31, 2023, amounted to 4.1 million euros, a 6.8% increase compared to the previous year. This increase resulted from adjusting compensation for inflation and investments in training and professional development, which are essential for the growth and development of our staff.

General and administrative expenses, excluding provisioning, amounted to 2.6 million euros, an 18% increase compared to the previous year. However, the net income to general expenses ratio, excluding provisioning for loan losses, remained stable under 60%, indicating our commitment to cost control.

Corporate income tax amounted to 508 thousand euros, with an effective tax rate of 11.7%. These figures are in line with the International Financial Reporting Standards (IFRS), while KEP prepares and reports financial statements according to the requirements of the Central Bank of Kosovo (CBK).

In million EUR

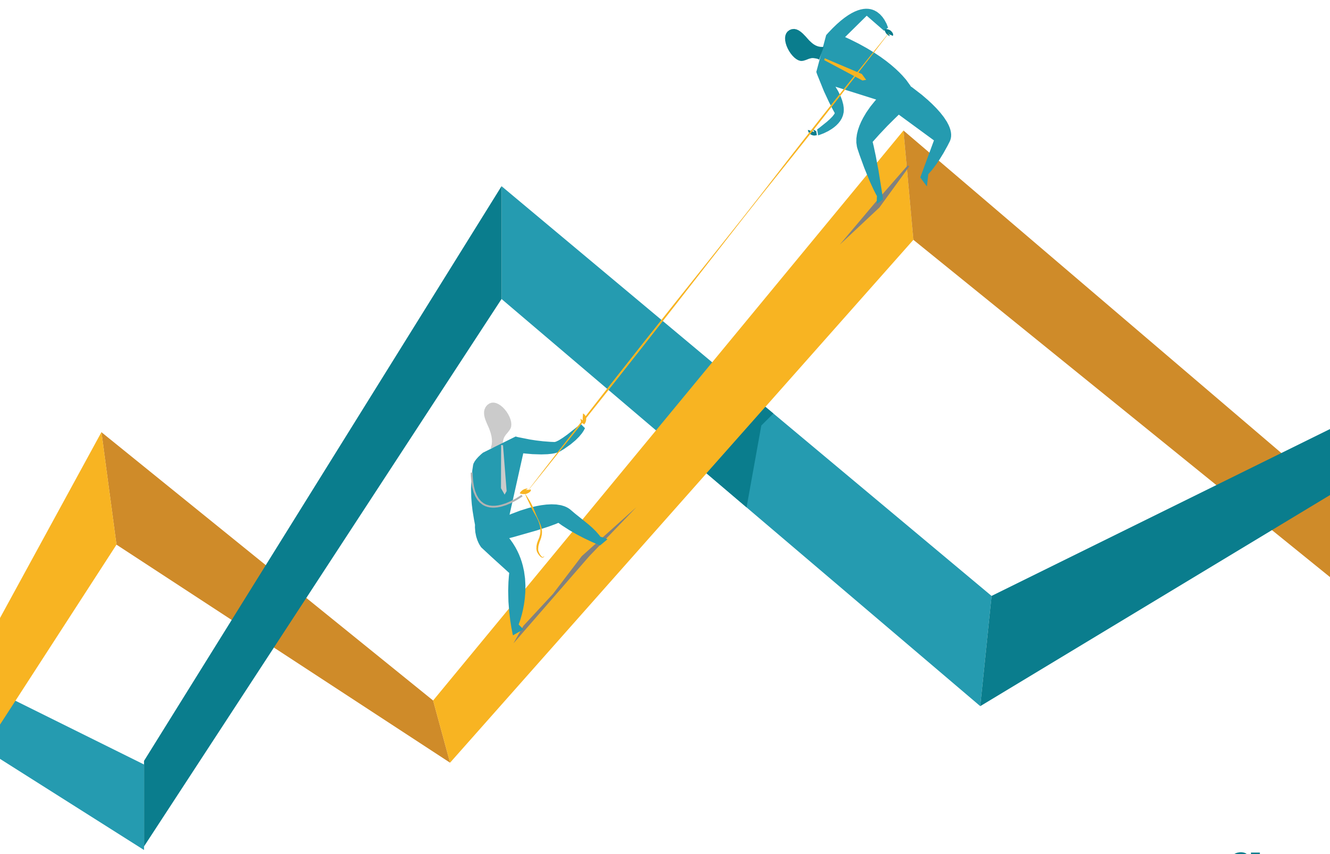




RISK MANAGEMENT

KEP Trust, as a leading institution in the microfinance sector in the country, ensures the implementation of the best standards and practices in risk management. Effective risk management is a key factor that guarantees the institution's sustainability and continuity. This structured approach enables us to build a strong risk culture by integrating corporate values, norms, and attitudes that promote a sustainable and responsible financial environment.

The risk management process consists of the phases of identifying, measuring, treating, and monitoring risk; as well as developing clear and understandable policies and procedures for all levels within the institution. In collaboration with the Management Board, we ensure that the level of risk exposure is in line with established policies and within acceptable risk limits.

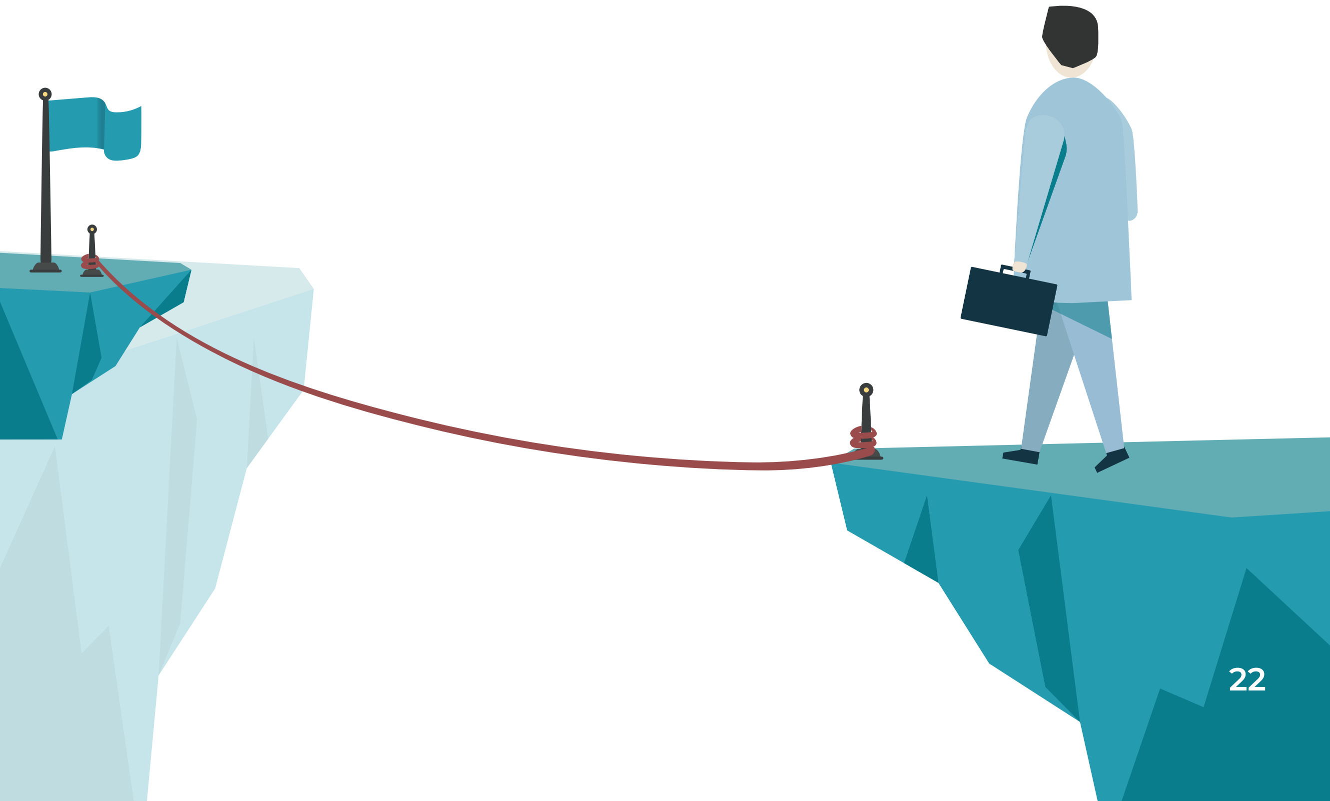


CREDIT RISK

Credit risk represents the main risk faced by our institution, considering the market structure and general conditions. KEP Trust defines credit risk as the possibility of loss if the client fails to meet obligations under the terms specified in the loan contract.

The objectives of credit risk management focus on maintaining a high-quality loan portfolio, minimizing risk concentration within the portfolio, and adequately covering credit risk with provisions for loan losses.

We employ various measures in our credit risk management strategy, including assessing clients' repayment capacity, preventing credit overloading, regularly monitoring loans, and actively addressing contaminated credit exposures. Overall, the implementation of well-coordinated processes, building long-term relationships with clients, and investing in qualified and motivated staff contribute to reducing credit risk.



We are committed to continuous improvement by aligning the quality of our services with rapid technological advancements, maintaining a balance between risk exposure and customer expectations. As part of this effort, we have successfully implemented the Score Card as an automated decision-making tool for loans up to 2,000 euros and are piloting such a decision-making tool for loans up to 5,000 euros. The introduction of econometric models for credit assessment has a dual impact: enhancing the quality of credit risk assessment and reducing the response time to customers, ensuring an efficient and data-driven decision-making process.

Credit stress testing is another important component for understanding potential situations we may face or market changes that could impact the balance sheet by simulating various scenarios of credit defaults in the existing portfolio. Furthermore, KEP Trust implements the principles of IFRS 9 for assessing and calculating expected credit losses and for its financial assets.

OPERATIONAL RISK

KEP Trust aims to cultivate a culture and awareness among staff regarding sensitivity to operational risk by implementing the "self-identification and assessment of risks" method, making employees active participants in the operational risk management system. Operational risk management includes monitoring, reporting, and developing Key Risk Indicators (KRIs), which serve as early warning signs for potential issues.

In addition to employee participation in the operational risk management process, KEP is investing in specialized training to enhance their competence in identifying and assessing risk.

Through the development of modern and user-friendly electronic platforms, we have created a responsible and transparent environment where employees feel involved and motivated to share information and contribute to improving operational processes to reduce risks and increase efficiency. Furthermore, the implementation of a clear operational risk management and reporting framework ensures that KEP Trust has a structured and efficient approach to proactively monitor and manage risks.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk of failing to meet current and future obligations fully or on time. KEP Trust manages this risk through effective policies and procedures, which comply with the regulatory requirements in the country. Liquidity risk management is based on the institution's business model. The high quality of the portfolio, the large number of small loans with short repayment terms, helps in reducing and managing risk, as cash inflows are more predictable.

As part of liquidity management, KEP Trust has defined and continuously monitors liquidity indicators. Additionally, liquidity stress tests are regularly conducted based on defined scenarios to help analyze liquidity positions in the event of potential internal or external shocks.

CURRENCY RISK MANAGEMENT

Foreign currency risk refers to the risk of negative effects on financial results caused by fluctuations in exchange rates in the market. Foreign currency risk is considered non-material for KEP Trust, as all financial assets and liabilities at the balance sheet date are denominated in EUR, which is the reporting currency.

INTEREST RATE AND FUNDING RISK

Interest rate risk arises from structural mismatches between the maturities of assets and liabilities. This can expose the institution to the risk of increased financing costs while returns on assets remain the same, or that returns on assets decline without a corresponding reduction in financing costs for an extended period, resulting in decreased margins.

To manage this risk, KEP Trust relies on a low leverage ratio and a strong equity base, which provides predictability and facilitates the management of impacts on economic value and interest income. KEP performs maturity gap analyses between assets and liabilities. The results of these analyses are regularly reported to the Risk Management Committee at the Board of Directors level.

Funding risk refers to the risk that additional financing may not be secured in a timely manner or may be available only at very high interest rates. KEP Trust considers funding risk to be low due to its low leverage. This status is maintained by relying on KEP's equity and the fact that KEP continues to have access to funding from various international sources, including institutional lenders specializing in MFI financing.

HUMAN RESOURCES

The year 2023 marked a period of stability for human resources. Our goals to enhance staff well-being and motivation yielded positive results, with the total number of employees reaching 248.

Our recruitment strategy aimed primarily at filling vacancies across our branches, with a particular focus on hiring credit analysts and branch support officers. Additionally, in the second half of the year, we organized an internship program to provide valuable practical experience for students from various academic backgrounds.

Demonstrating our commitment to professional development, we organized training programs through our electronic platform, including international certifications and specialized courses. Leadership with emotional intelligence, offered in three modules, Agile-Scrum methodologies, financial analysis, information security, and green credit training (GEFF) were just some of the training programs implemented during this period. Alongside these training programs, we also organized numerous team-building activities through various social events.

Based on specific needs in various areas, we offered targeted training programs, highlighting our commitment to the continuous professional growth of our employees.

In 2023, we also conducted a comprehensive survey on "Job Satisfaction and Engagement," with results proving to be extremely positive.

Looking ahead our focus will be on further expanding our training programs. In this regard, we aim to prioritize staff well-being and promote a balanced work-life environment. Our unwavering commitment is to ensure a supportive and inclusive workplace, fostering continuous growth and development within the institution.

INFORMATION TECHNOLOGY

The Information Technology department played a crucial role in supporting the institution's objectives and implementing new initiatives. A significant part of IT activities involved ensuring the smooth operation of the network, thereby improving the quality of services at KEP. Additionally, the department provided continuous support to staff for their daily tasks, ensuring they could perform their work efficiently.

Throughout the year, the IT department undertook several projects and made significant investments in infrastructure. These initiatives included improving existing systems and implementing new solutions to better serve employees and clients. One notable improvement was the implementation of the Human Resources training module. This module streamlined the staff training process, ensuring that employees had access to the necessary resources.

Another major achievement was the implementation of the Data Warehouse. This new system serves as a centralized repository for various reports, enabling more advanced data visualization and analysis. By consolidating data into a single platform, the Data Warehouse facilitates more efficient reporting and decision-making processes. It empowers different departments with comprehensive access to and analysis of data, ultimately leading to more informed strategic decisions.

The IT department remains committed to fostering innovation and supporting the institution's growth. Plans for the coming year include further infrastructure improvements, the introduction of new technologies to enhance operational efficiency, and ongoing support for staff through advanced training programs. These efforts will ensure that KEP stays at the forefront of technological advancements, providing superior services to our clients while maintaining a dynamic and efficient work environment for our employees.

ORGANIZATION AND PROCESS MANAGEMENT

In 2023, KEP dedicated itself to sustainable growth and minimizing its impact on the environment and society. In this context, we have updated, improved, and optimized processes in every segment of our institution.

These activities aimed to increase work efficiency while focusing on reducing environmental impact through investments that enable us to save energy, fuel, and printed paper. Throughout the year, KEP branches replaced old air conditioning units with energy-efficient systems, enhancing energy efficiency. Additionally, we upgraded our vehicle fleet, resulting in lower fuel expenses. We also improved various operational practices, leading to a reduction in paper usage and printing.

As part of our digitization project, there were advancements in electronic communication channels with clients, including the launch of an app to facilitate interactions for clients who prefer this method of service. Additionally, we established several partnerships with e-commerce and fintech companies to leverage shared resources and better serve our mutual clients in achieving their goals.

Meanwhile, we have advanced the institution's analytical capabilities, giving us a high level of confidence in our decision-making processes. All these activities and projects are expected to reflect in increased efficiency, with easy access and various communication channels available to all our current and potential clients.

SOCIAL RESPONSIBILITY

In 2023, KEP continued its commitment to supporting initiatives that contribute to the well-being and development of the community in Kosovo, including cultural heritage, health, sports, and environmental sustainability.

In the field of culture, we supported various festivals and initiatives aimed at promoting and preserving Kosovo's rich cultural heritage. These events not only maintain our traditions and history but also strengthen connections between cultural communities. By supporting these initiatives, KEP plays a vital role in ensuring that our cultural heritage is valued and passed down to future generations.

In the field of education, we contributed by sponsoring the organization "Kosova Makers League," helping purchase robots for students in public schools in Kosovo. These students then participate in the national robotics competition.

Our institution also provided financial assistance in numerous cases requiring medical treatment abroad, demonstrating our commitment to the health and well-being of our fellow citizens. Additionally, we collaborated with various organizations focused on general health initiatives and mental health activities across Kosovo. By contributing to these critical health programs, we aim to improve the quality of life for individuals and families in need.

In the field of sports, KEP played a prominent role by continuing as one of the main sponsors of the Kosovo Handball Federation. Our support extended beyond handball, as we also sponsored activities in football, basketball, and tennis, with a particular emphasis on being the main sponsor of the Kosovo Tennis Federation. Through these sponsorships, we aim to promote physical activity, teamwork, and the pursuit of excellence among athletes of all ages.

Additionally, recognizing the importance of environmental conservation, KEP financed organizations dedicated to protecting and preserving our natural environment. In this area, we also contributed to the creation of educational materials and initiatives that raise awareness about environmental issues and encourage sustainable practices.

Looking ahead to 2024, KEP aims to increase the budget to support even more initiatives that promote the development of sports, culture, and education. Our continued investment in these areas underscores our commitment to driving positive social change and enhancing the quality of life in Kosovo.

COMPLIANCE

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

At KEP, compliance remains a top priority. We are committed to ensuring that our operations align with the laws, regulations, and guidelines that impact our institution. Throughout 2023, KEP conducted regular reviews of internal documents, implementing all legal and regulatory requirements across our policies and procedures. By adhering to the highest standards of compliance, we have ensured transparency, accountability, and alignment with best global practices.

CONSUMER PROTECTION

Consumer protection is a responsibility that KEP takes very seriously. To ensure the provision of high-quality services, we adhere to all regulatory and legal requirements. Throughout our operations, we continuously focus on advancing consumer protection by ensuring that all citizens are informed, empowered, and that their rights are protected.

We remain committed to addressing consumer complaints and concerns from other parties promptly and effectively, with transparency and maximum vigilance. We strictly adhere to all legal requirements arising from current laws and regulations, ensuring that all issues are resolved in the best possible manner.

INDEPENDENT AUDITOR'S REPORT

KEP TRUST

Independent Auditor's Report and Financial Statements for the year ended 31 December 2023 prepared in accordance with International Financial Reporting Standards (IFRSs)

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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 "Organisation" or "KEP"), which comprise the statement of financial position as at December 31, 2023, and the statement of profit or loss and other 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 material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organisation as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with the 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 Organisation in accordance with the International Ethics Standards Board for Accountant's International Code of Ethics for Professional Accountant's (including International Independence Standards, IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with IESBA Code.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Organisation'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 Organisation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organisation'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.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 Organisation'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 Organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO
BDO Kosova L.L.C
audit, accounting and financial advisory
Prishtina, Kosova

Burim Cena,
Engagement Partner

BDO Kosova L.L.C.
Str. Ukshin Hoti, Ob. C4/3, Ent. A, 2nd Floor,
10 000 Prishtinë, Kosovë

April 16, 2024

KEP TRUST
Statement of Financial Position
(All amounts are expressed in '000 EUR)

	Note	31 December 2023	31 December 2022
ASSETS			
Cash and cash equivalents	6	8,614	5,107
Loans and advances to customers	7	88,796	70,307
Right of use of assets	11	1,464	679
Other assets	8	175	124
Property and equipment	9	988	596
Intangible assets	10	514	412
TOTAL ASSETS		**100,551**	**77,225**
LIABILITIES			
Borrowings	12	67,574	49,175
Lease liability	11	1,477	683
Provisions	13	500	356
Other liabilities	14	465	319
TOTAL LIABILITIES		**70,016**	**50,533**
FUND BALANCES			
Retained earning		30,535	26,692
TOTAL FUND		**30,535**	**26,692**
TOTAL		**100,551**	**77,225**

The financial statements were authorized for issue by the Board of Directors on 16 April 2024 and signed on its behalf by:

Shpend Nura
Chief Executive Officer

Adrian Alo
Chief Financial Officer

Notes from page 7 to 57 form an integral part of these financial statements.

(All amounts are expressed in '000 EUR

	Note	Year ended 31 December 2023	Year ended 31 December 2022
Interest income at effective interest rate	15	14,688	11,935
Interest expense	12	(2,860)	(1,819)
Net interest income		**11,828**	**10,116**
Fee and commission income		61	55
Fee and commission expense		(53)	(50)
Net fee and commission income		**8**	**5**
Other income	16	398	403
Credit loss expense on loans and advances to customers	7	(1,086)	(267)
Personnel expenses	17	(4,115)	(3,851)
Administrative expenses	18	(1,758)	(1,392)
ROU depreciation	11	(387)	(382)
Depreciation and amortization	9,10	(318)	(321)
Loss on disposal of equipment		(15)	(5)
Lease liability cost	11	(60)	(50)
Provision expense for claims and litigations	13	(144)	(109)
Operating expenses		**(7,883)**	**(6,377)**
Profit before income tax		**4,351**	**4,147**
Income tax expense	19	(508)	(445)
Profit after income tax		**3,843**	**3,702**

There were no items of comprehensive income in the current or prior year other than the profit for the year and, accordingly, no statement of comprehensive income is presented.

Notes from pages 7 to 57 form an integral part of these financial statements.

(All amounts are expressed in '000 EUR)

	Retained Earning
Balance on 1 January 2022	**22,990**
Total comprehensive earning for the year	
Profit for the year	3,702
Other comprehensive income	-
Total comprehensive income for the year	**3,702**
Balance on 31 December 2022	**26,692**
Total comprehensive earning for the year	
Profit for the year	3,843
Other comprehensive income	-
Total comprehensive income for the year	**3,843**
Balance on 31 December 2023	**30,535**

(All amounts are expressed in '000 Euro)

	Note	For the year ended 31 December 2023	For the year ended 31 December 2022
Cash flows from operating activities			
Profit before income tax		4,351	4,147
Adjustments for:			
Depreciation and amortization	9,10	318	321
ECL/Impairment of loans	7	1,086	267
Change in provision for legal claims	13	144	109
Loss on disposal of equipment		15	5
Interest income		(14,688)	(11,935)
Interest expenses		2,860	1,819
		(5,914)	**(5,267)**
Change in loans and advances to customers		(19,376)	(13,338)
Change in other assets		(836)	233
Change in other liabilities		981	(283)
		(25,145)	**(18,655)**
Interest received		14,488	11,682
Income tax paid		(549)	(414)
Net cash used in operating activities		**(11,206)**	**(7,387)**
Cash flows from investing activities			
Acquisition of equipment and leasehold improvements	9	(692)	(232)
Acquisition of intangible assets	10	(135)	(91)
Net cash used in investing activities		**(827)**	**(323)**
Cash flows from financing activities			
Disbursements during the year		36,280	28,210
Repayments during the year		(18,225)	(16,484)
Interest paid		(2,515)	(1,850)
Net cash from financing activities		**15,540**	**9,876**
Net increase in cash and cash equivalents		**3,507**	**2,166**
Cash and cash equivalents at 1 January		5,107	2,941
Cash and cash equivalents at 31 December	6	**8,614**	**5,107**

Notes from pages 7 to 57 form an integral part of these financial statements.

1. GENERAL INFORMATION

Operations

The Micro Finance Institution – KEP Trust (the "Organisation"), previously known as Kosovo Enterprise Program ("KEP") was founded by the humanitarian Organisation 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 Organisation was incorporated and domiciled in Kosovo, as a Non-Governmental Organisation ("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 Organisation'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 Organisation as local NGO.

As of 31 December 2023, the Organisation operated through 31 branches (2022: 31 branches)

The Head Office of the Organisation is located at Mujë Krasniqi str. No. 1, Prishtina, Kosovo.

The Organisation 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 Organisation's interests and activities.

Board of Directors

As of 31 December 2023, the following members composed the Board of Directors:
Korab Sejdiu – Chairman of the Board
Birgit Rauleder – Member of the Board
Barbara Wasmus – Member of the Board
Elza Herman– Member of the Board
Arbër Hoti – 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 (IFRS) 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 Organisations management has assessed 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 Organisation's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis

2.4 Functional and presentation currency

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

2. BASIS OF PREPARATION (CONTINUED)

2.5 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 material areas of estimation uncertainty and critical judgments in applying accounting policies that have the most material effect on the amounts recognized in the financial statements are described in Note 5.

3. MATERIAL ACCOUNTING POLICY INFORMATION

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

a) Interest income and expense

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.

When calculating the effective interest rate for purchased or originated credit impaired financial assets (POCI), 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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 Organisation earns fee and commission income from financial services it provides to its customers. Fee and commission income are recognised at an amount that reflects the consideration to which the Organisation 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 Organisation's revenue contracts do not typically include multiple performance obligations,

The Organisation 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 Organisation 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) 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 Organisation expects, 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 Organisation are recognised at the same time as the liability to pay the related dividend is recognised.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

c) Tax expense (continued)

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)Uncertain tax positions

The Organisation's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

d) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Organisation 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 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.

e) Financial assets and liabilities

(i) Recognition

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

The Organisation 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 minus 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 at fair value through profit or loss at initial recognition.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through other Comprehensive Income (FVOCI) or Fair Value through Profit or loss (FVTPL).
A financial asset is measured at amortised cost if it meets both 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 Organisation may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.
All Organisation's financial assets are classified as measured at amortised cost.

Business model assessment

The Organisation 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 Organisation'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;
- 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 Organisation's stated objective for managing the financial assets is achieved and how cash flows are realised.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(ii) Classification (continued)

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 Organisation 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 Organisation considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Organisation'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 Organisation holds a portfolio of long-term fixed rate loans for which the Organisation 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 Organisation 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 Organisation changes its business model for managing financial assets.

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

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

(iii) Derecognition

Financial assets

The Organisation 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 Organisation 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 Organisation is recognised as a separate asset or liability.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(iii) Derecognition (continued)

Financial assets (continued)

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 (only for debt instruments measured at FVOCI) is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organisation is recognised as a separate asset or liability.

The Organisation 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 Organisation retains all or substantially all of the risks and rewards of ownership of such assets.
In transactions in which the Organisation 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 Organisation continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

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

(iv) Modifications of financial assets

If the terms of a financial asset are modified, the Organisation 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 Organisation 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.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Organisation 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 Organisation's trading activity.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

***Financial liabilities* (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 Organisation has access at that date. The fair value of a liability reflects its non-performance risk

When available, the Organisation 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 Organisation 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 Organisation 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 Organisation 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 Organisation 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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(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 Organisation in accordance with the contract and the cash flows that the Organisation 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 expected future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Organisation if the commitment is drawn down and the cash flows that the Organisation expects to receive.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Organisation in full, without recourse by the Organisation 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 Organisation.

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 Organisation 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 Organisation; and
- regulatory risk classification of the same borrowers in other financial institutions.

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 Organisation 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 Organisation 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 Organisation 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

When performing this assessment, the Organisation 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 Organisation shall measure loss allowance at an amount equal to lifetime expected credit losses.

The Organisation 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.

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 Organisation 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 Organisation's historical experience, expert credit assessment and forward-looking information.

The Organisation 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 Organisation'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 Organisation presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Organisation 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 Organisation 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 Organisation are classified from standard to watch or a worse risk grade. The Organisation also considers that the risk has increased if the client requests a restructuring with easing terms such as: extended maturity, lower instalment, lower interest rate, waivers of accrued penalties and interest.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

Grouping of loans

Collective assessment of PD – Probability of Default

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 grouped 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 loan 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.

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 change in the lifetime expected credit losses subsequent to the initial recognition. For financial assets for which the Organisation 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 Organisation will consider whether the asset's credit risk has increased significantly by analysing quantitative and qualitative factors affecting risk of default.

More specifically, the Organisation shall assess whether there has been a significant increase in the credit risk of the financial instrument by comparing:

the risk of a default occurring at the reporting date (based on the modified contractual terms); and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Modified financial assets (continued)

The Organisation renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Organisation'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 Organisation 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 Organisation'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 Organisation 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

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

EAD represents the expected exposure in the event of a default. The Organisation 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 Organisation 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 Organisation considers a longer period. The maximum contractual period extends to the date at which the Organisation has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Forward-looking information

Under IFRS 9, the Organisation 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 Organisation 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 Organisation 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 Organisation 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.

The base case represents a most-likely outcome and is aligned with information used by the Organisation for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. The Organisation also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Organisation 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

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 Organisation cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Organisation 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 Organisation 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 Organisation's procedures for recovery of amounts due.

f) 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 Organisation in the management of its short-term commitments.

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

g) Borrowings

Borrowings are the Organisation'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.

h) 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 Organisation 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

h) Property and equipment (continued)

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 than useful life or 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 Organisation are stated at cost less accumulated amortization and accumulated impairment losses.

i) 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.

j) Leases

The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

The Organisation assesses whether a contract is or contains a lease, at inception of the contract. The Organisation recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee. For these leases, the Organisation recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.
The lease liability is initially measured at the present value of the lease payments

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

j) Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Organisation remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

j) Leases (continued)

The Organisation did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Organisation incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Organisation expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Organisation has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Organisation allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

k) Provisions

A provision is recognised if, as a result of a past event, the Organisation 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.

l) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when they are due. The Organisation 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.

(ii) Short-term benefits

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

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

4.1. Standards, amendments and interpretations that are already effective.

In the current year, the Organisation has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2023.

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements);
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes);
- *International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12).*

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

4.2 Standards, amendments and interpretation issued but not yet effective

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

The following amendments are not effective for the period beginning 1 January 2023:

- Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases);
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 Presentation of Financial Statements);
- Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements);
- Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures).

These standards, amendments or interpretations are not expected to have a material impact on the Organisation in the current or future reporting periods and on foreseeable future transactions.

5. USE OF ESTIMATES AND JUDGMENTS

The Organisation 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

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

The Organisation 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 Organisation 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 Organisation'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.

(All amounts are expressed in '000 Euro, unless otherwise stated)

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

c) Disclosure and estimation of fair value (continued)

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.

	31 December 2023		31 December 2022	
	Fair value Level 3	**Carrying amount**	**Fair value Level 3**	**Carrying amount**
Financial Assets				
Loans and advances to customers	89,166	88,796	71,383	70,307
Financial Liabilities				
Borrowings	68,082	67,574	46,936	49,175

The carrying amounts of loans and borrowings at 31 December 2023 are lower than the fair values for loans, because the current market rates of 19.1% are lower for loans and 6.2% for borrowings are higher (2022: lower 18.6% for loans and lower 3.5% for borrowings).

(All amounts are expressed in '000 Euro, unless otherwise stated)

6. CASH AND CASH EQUIVALENTS

	31 December 2023	31 December 2022
Cash at banks	7,947	4,575
Cash on hand	667	532
	8,614	**5,107**

7. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2023	31 December 2022
Loans and advances to customers	91,311	72,186
Less: allowance for impairment	(2,515)	(1,879)
	88,796	**70,307**

Movements in the allowance for impairment are as follows:

	31 December 2023	31 December 2022
Balance at 1 January	1,879	2,245
Impairment charge	1,086	267
Amounts written-off	(450)	(633)
Balance at 31 December	**2,515**	**1,879**

The Organisation has secured overdrafts with two local banks with a loan portfolio outstanding totalling EUR 3,750 as at end of December 2023 (overdraft 2022: EUR 3,000). The loan portfolios are required to have zero days past due and a collateral coverage ratio of at least 150% (note 12).

(All amounts are expressed in '000 Euro, unless otherwise stated)

7. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Agro Loans <=3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2023	653	4	10	667
New assets originated or purchased	859	-	-	859
Assets de-recognised or repaid	(871)	(2)	(4)	(877)
Transfers to Stage 1	(7)	2	5	-
Transfers to Stage 2	-	(1)	1	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(2)	(2)
Total	**634**	**3**	**10**	**647**

Agro Loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2023 under IFRS 9	4	1	7	12
New assets originated or purchased	5	1	2	8
Assets de-recognised or repaid	1	(1)	(5)	(5)
Transfers to Stage 1	(4)	1	3	-
Transfers to Stage 2	-	(1)	1	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(2)	(2)
Total	**6**	**1**	**6**	**13**

Agro Loans >3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2023	11,970	40	124	12,134
New assets originated or purchased	11,638	-	6	11,644
Assets de-recognised or repaid	(7,825)	(10)	(37)	(7,872)
Transfers to Stage 1	(130)	43	87	-
Transfers to Stage 2	-	(20)	20	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(46)	(46)
Total	**15,653**	**53**	**154**	**15,860**

Agro Loans >3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2023 under IFRS 9	105	13	97	215
New assets originated or purchased	117	3	9	129
Assets de-recognised or repaid	46	(1)	(37)	8
Transfers to Stage 1	(85)	20	65	-
Transfers to Stage 2	-	(15)	15	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(32)	(32)
Total	**183**	**20**	**117**	**320**

(All amounts are expressed in '000 Euro, unless otherwise stated)

7. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Business Loans <=3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2023	1,471	7	47	1,525
New assets originated or purchased	1,076	-	-	1,076
Assets de-recognised or repaid	(1,471)	(6)	(15)	(1,492)
Transfers to Stage 1	(94)	78	16	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	1	(1)	-
Amounts written off	-	-	(23)	(23)
Total	**982**	**80**	**24**	**1,086**

Business Loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2023 under IFRS 9	19	3	47	69
New assets originated or purchased	7	19	4	30
Assets de-recognised or repaid	21	(21)	(26)	(26)
Transfers to Stage 1	(36)	23	13	-
Transfers to Stage 2	-	1	(1)	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(18)	(18)
Total	**11**	**25**	**19**	**55**

Business Loans >3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2023	19,449	112	232	19,793
New assets originated or purchased	22,655	37	3	22,695
Assets de-recognised or repaid	(13,131)	(71)	(17)	(13,220)
Transfers to Stage 1	(1,211)	1,057	154	-
Transfers to Stage 2	-	(45)	45	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(120)	(120)
Total	**27,762**	**1,090**	**297**	**29,149**

Business Loans >3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2023 under IFRS 9	285	42	189	516
New assets originated or purchased	206	218	31	455
Assets de-recognised or repaid	326	(220)	(69)	37
Transfers to Stage 1	(496)	381	115	-
Transfers to Stage 2	-	(35)	35	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(88)	(88)
Total	**321**	**386**	**213**	**920**

(All amounts are expressed in '000 Euro, unless otherwise stated)

7. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Consumer loans <=3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2023	12,154	70	140	12,364
New assets originated or purchased	22,810	-	-	22,810
Assets de-recognised or repaid	(17,433)	(35)	(44)	(17,512)
Transfers to Stage 1	(490)	222	268	-
Transfers to Stage 2	-	(30)	30	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(72)	(72)
Total	**17,041**	**227**	**322**	**17,590**

Consumer loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2023 under IFRS 9	238	29	140	407
New assets originated or purchased	244	62	64	370
Assets de-recognised or repaid	100	(64)	(118)	(82)
Transfers to Stage 1	(306)	88	218	-
Transfers to Stage 2	-	(26)	26	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(66)	(66)
Total	**277**	**89**	**264**	**629**

Housing Loans <=3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2023	3,306	25	77	3,408
New assets originated or purchased	2,008	-	-	2,008
Assets de-recognised or repaid	(3,023)	(13)	(22)	(3,058)
Transfers to Stage 1	(77)	31	46	-
Transfers to Stage 2	-	(11)	11	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(34)	(34)
Total	**2,214**	**32**	**78**	**2,324**

Housing Loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2023 under IFRS 9	43	8	63	114
New assets originated or purchased	14	3	7	24
Assets de-recognised or repaid	14	(2)	(32)	(20)
Transfers to Stage 1	(48)	10	38	-
Transfers to Stage 2	-	(9)	9	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(25)	(25)
Total	**23**	**10**	**60**	**93**

(All amounts are expressed in '000 Euro, unless otherwise stated)

7. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Housing Loans >3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2023	21,905	152	236	22,293
New assets originated or purchased	16,957	3	14	16,974
Assets de-recognised or repaid	(14,388)	(60)	(62)	(14,510)
Transfers to Stage 1	(317)	211	106	-
Transfers to Stage 2	-	(71)	71	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(102)	(102)
Total	**24,157**	**235**	**263**	**24,655**

Housing Loans >3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2023 under IFRS 9	294	57	194	545
New assets originated or purchased	120	16	13	148
Assets de-recognised or repaid	(48)	(14)	(68)	(130)
Transfers to Stage 1	(158)	72	86	-
Transfers to Stage 2	-	(54)	54	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(79)	(79)
Total	**208**	**77**	**201**	**486**

					As at 31 December 2023	As at 31 December 2022
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Loans and advances	**89,614**	**550**	**1,148**	**-**	**91,311**	**72,185**
Low- fair risk	89,614	-	-	-	89,614	70,929
Monitoring	-	254	-	-	254	200
Substandard	-	296	-	-	296	214
Doubtful	-	-	324	-	324	200
Lost	-	-	823	-	823	643
Less: allowance	1,443	197	875	-	2,515	1,879
Carrying amount	**88,171**	**353**	**272**	**-**	**88,796**	**70,307**

(All amounts are expressed in '000 Euro, unless otherwise stated)

8. OTHER ASSETS

	31 December 2023	31 December 2022
Prepaid expenses	91	73
Advances to employees	20	23
Other receivables	64	28
	175	**124**

Prepaid expenses include prepayments of EUR 48 for Annual Microsoft 365 licence for 2024.

9. PROPERTY AND EQUIPMENT

	Motor vehicles	Computers and electronic equipment	Furniture and Fittings	Leasehold Improvements	Total
Cost					
Balance at 1 January 2022	619	600	925	453	**2,597**
Additions	24	40	137	31	232
Disposals	-	(10)	(33)	(14)	**(58)**
Balance at 31 December 2022	**643**	**630**	**1,029**	**470**	**2,772**
Additions	-	85	241	367	692
Disposals	-	(23)	(86)	(55)	**(164)**
Balance at 31 December 2023	**643**	**691**	**1,184**	**781**	**3,300**
Accumulated depreciation					
Balance at 1 January 2022	(414)	(406)	(771)	(346)	**(1,937)**
Charge for the year	(94)	(68)	(87)	(43)	**(292)**
Disposals	-	10	31	12	**53**
Balance at 31 December 2022	**(508)**	**(463)**	**(827)**	**(377)**	**(2,176)**
Charge for the year	(65)	(69)	(94)	(57)	**(285)**
Disposals	-	22	83	44	**149**
Balance at 31 December 2023	**(573)**	**(511)**	**(838)**	**(390)**	**(2,312)**
Carrying amounts					
At 31 December 2022	**135**	**167**	**202**	**92**	**596**
At 31 December 2023	**70**	**181**	**346**	**391**	**988**

As at 31 December 2023, the Organisation has not pledged any property or equipment as collateral (2022: nil).

(All amounts are expressed in '000 Euro, unless otherwise stated)

10. INTANGIBLE ASSETS

	Programs/Software
Cost	
Balance at 1 January 2022	573
Additions	91
Balance at 31 December 2022	**664**
Additions	135
Balance at 31 December 2023	**799**
Accumulated amortization	
Balance at 1 January 2022	(223)
Amortization for the year	(29)
Balance at 31 December 2022	**(252)**
Amortization for the year	(33)
Balance at 31 December 2023	**(285)**
Carrying amounts	
At 31 December 2022	**412**
At 31 December 2023	**514**

11. RIGHT OF USE ASSET AND LEASE LIABILITY

	Right of use asset Building
Cost	
As at January 1, 2022	2,062
Additions	177
As at December 31, 2022	**2,239**
Additions	1,222
Disposals	(50)
As at December 31, 2023	**3,411**
Accumulated depreciation	
As at January 1, 2022	1,178
Charge	382
As at December 31, 2022	**1,560**
Charge	387
As at December 31, 2023	**1,947**
Net book value as at	
December 31, 2022	**679**
December 31, 2023	**1,464**

(All amounts are expressed in '000 Euro, unless otherwise stated)

11. RIGHT OF USE ASSET AND LEASE LIABILITY (CONTINUED)

	Lease liability
Lease Liability as at January 1, 2022	**951**
Additions	177
- Less lease payments	(495)
+ Interest on Lease Liabilities	50
Lease liability as at December 31, 2022	**683**
Additions	1,222
Disposals	(50)
- Less lease payments	(438)
+ Interest on Lease Liabilities	60
Lease liability as at December 31, 2023	**1,477**
Maturity of lease liability	
Not later than one year	466
Later than one year and not later than five years.	1,011
Later than five years	-
Total	**1,477**

The Organisation leases several assets which consist of premises. The average lease term is 5 years.

The Organisation does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Organisation's treasury function.

All lease obligations are denominated in currency units.

Total cash outflow for leases in 2023 was EUR 438. (2022: EUR 495)

(All amounts are expressed in '000 Euro, unless otherwise stated)

12. BORROWINGS

As at 31 December 2023 and 2022, borrowings of the Organisation are composed as follows:

31 December 2022

International lenders	**% Range**	**Maturity range**	**Amount**
Fixed interest rate	3.30%-5.80%	22 - 51 months	45,993
Floating interest rates	-	-	-
Local Lenders	**% Range**	**Maturity range**	**Amount**
With Fixed rate	-	-	-
Overdraft	4.50%-5.00%	3 - 12 months	3,210
		Principal outstanding	49,203
		Accrued interest	318
		Deferred fee	(346)
		Total	**49,175**

31 December 2023

International lenders	**% Range**	**Maturity range**	**Amount**
Fixed interest rate	3.30%-5.80%	17 - 49 months	38,393
Floating interest rates	3.30%-3.75% + Euribor 6M	33 - 51 months	25,776
Local Lenders	**% Range**	**Maturity range**	**Amount**
With Fixed rate	5.50%	24 - 36 months	1,643
Overdraft	4.50%-5.00%	3 - 12 months	1,446
		Principal outstanding	67,257
		Accrued interest	770
		Deferred fee	(453)
		Total	**67,574**

The total interest expense for these borrowings in 2023 is EUR 2,860 (2022: EUR 1,819).

(All amounts are expressed in '000 Euro, unless otherwise stated)

12 BORROWINGS (CONTINUED)

	31 December 2023	31 December 2022
Principal outstanding at 1 January	49,203	37,477
Disbursements during the year	36,280	28,210
Repayments during the year	(18,226)	(16,484)
Principal outstanding 31 December	**67,257**	**49,203**
Accrued interest and fees at 1 January	(28)	3
Interest expense	2,860	1,819
Interest paid	(2,515)	(1,850)
Accrued interest and fees at 31 December	**317**	**(28)**
Total	**67,574**	**49,175**

The Organisation has an overdraft facility from two local banks of EUR 1,500 in total, and maturity on 26 January 2024 and 17 March 2024. As at 31 December 2023, the Organisation has utilized these overdrafts in total amount of EUR 1,446.

As at 31 December 2023, all the loan payments are made on time. As at 31 December 2023 the Organisation is in compliance with financial covenants attached to the agreements with borrowers. While as at 31 December 2022 the Organisation was in compliance with all financial covenants attached to the agreements with borrowers.

13. PROVISIONS

	31 December 2023	31 December 2022
Legal claims	493	349
Other provisions for losses	7	7
As at December 31	**500**	**356**

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

Other provisions for losses of EUR 7 (2022: EUR 7) relate to legal cases that were won by the Organisation 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 2023	31 December 2022
At 1 January	356	247
Provision charge	144	109
At 31 December	**500**	**356**

14. OTHER LIABILITIES

	31 December 2023	31 December 2022
Accrued expenses	30	39
Withholding tax on interest	48	28
Pension contributions and personal income tax payable	84	89
Income Tax payable	31	72
Accounts payable	49	49
Other payables	223	42
Total	**465**	**319**

Other liabilities payables include payables to suppliers of EUR 206 mostly for leaseholds improvements in new Head Office.

(All amounts are expressed in '000 Euro, unless otherwise stated)

15. INTEREST INCOME

	Year ended 31 December 2023	Year ended 31 December 2022
Interest income from loans and advances	14,641	11,910
Interest income from banks	47	25
Total	**14,688**	**11,935**

At 31 December 2023, the Organisation has accrued interest of EUR 67 (2022: EUR 49) for past due loans.

16. OTHER INCOME

	Year ended 31 December 2023	Year ended 31 December 2022
Recoveries from loans written off	377	381
Proceeds from sale of fixed assets	-	-
Other operating income	21	22
Total	**398**	**403**

17. PERSONNEL EXPENSES

	Year ended 31 December 2023	Year ended 31 December 2022
Wages and salaries	3,625	3,321
Compulsory social and health insurance	198	185
Other	292	345
Total	**4,115**	**3,851**

At 31 December 2023, the Organisation employed 255 employees (2022: 253).

18. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2023	Year ended 31 December 2022
Legal, consultancy and professional fees	294	224
Communication	278	194
Advertisement (Marketing expenses)	244	155
Security	180	180
Utilities	132	137
Fuel and parking	89	88
Board compensation and travelling	84	78
Insurance policy expenses	66	68
Office supplies	65	59
Repairs and maintenance	64	72
Staff development	45	18
Accommodation	15	2
Travel	14	6
Representation expenses	7	6
Other	181	105
Total	**1,758**	**1,392**

(All amounts are expressed in '000 Euro, unless otherwise stated)

19. INCOME TAX

	Year ended 31 December 2023	Year ended 31 December 2022
Profit before tax	4,351	4,147
Corrections	731	300
Taxable profit	5,082	4,447
Income tax	**508**	**445**
Effective tax rate	**11.68%**	**10.73%**

Following the decision of the Organisation's Board, starting from year 2018, the Organisation recognises and pays Income tax voluntarily despite the Public Benefit Status. Income tax expense for the year December 31, 2023 was EUR 508 (2022: EUR 445).

Following the renewal of the Public Benefit Status in 2017, the Organisation 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 Organisation has related party relationships with its directors and executive officers. As described in Note 1, the Organisation is a Non-Governmental Organisation. 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 2023 and 2022 is as follows:

	Year ended 31 December 2023		Year ended 31 December 2022	
	Remuneration	Other expenses	Remuneration	Other expenses
Executive Management	233	7	222	5
Board of Directors	44	44	40	38
Total	**277**	**51**	**262**	**43**

21. COMMITMENT AND CONTINGENCIES

Legal

Except for provisions created as at 31 December 2023 (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.

22. FINANCIAL RISK MANAGEMENT

22.1 Introduction and overview

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

- credit risk
- liquidity risk
- market risk

This Note presents information about the Organisation's exposure to each of the above risks, the Organisation's objectives, policies and processes for measuring and managing risk, and the Organisation'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 Organisation if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Organisation's loans and advances to customers. For risk management reporting purposes, the Organisation considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Organisation'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 Organisation 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.

22.2 Credit risk

Allowances for impairment

The Organisation 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 Organisation 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 2023, the loans with renegotiated terms are EUR 185 (2022: EUR 231). The impairment allowance for loans with renegotiated terms as at 31 December 2023 is EUR 57 (2022: EUR 49).

(All amounts are expressed in '000 Euro, unless otherwise stated)

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

Write-off policy

The Organisation 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 (2022: 365 days), and no repayment has been made during the last six months. The total amount of loans written-off is presented in Note 7. Total recoveries from loans written off are presented in Note 7.

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

	31 December 2023	Interest rate	31 December 2022	Interest rate
Agriculture	16,173	16,9%	12,573	17.4%
Consumer	20,286	23.0%	16,785	22.8%
Housing	24,170	19.4%	21,749	19.6%
Individual Business	28,167	16.7%	19,199	17.5%
	88,796		**70,307**	

a) Financial assets impairment

Under IFRS 9, KEP 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 credit risk exposures, which are not applicable for KEP at the date of this policy:

1. Financial assets measured at fair value through other comprehensive income (FVOCI) other than investments in equity instruments elected to FVTOCI option upon the initial recognition
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 IFRS 16, 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 measure loss allowance at an amount equal to lifetime expected credit losses.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

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**	Cumulative changes in lifetime ECL
Interest revenue			
Effective interest on gross carrying amount	**Effective interest on gross carrying amount**	**Effective interest on amortized cost**	**Credit-adjusted effective interest on amortized cost**

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 assesses 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) the risk of default assessed at initial recognition of the loan.

When performing this assessment KEP 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. *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 to make its own judgments and conclusions in line with its credit risk management practices.

d) Definition of default

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

- 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;
- The loans are credit impaired as defined in IFRS 9 requirements and linked with unlikeliness to pay;

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

d) Definition of default(continued)

- 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.

e) Unlikeliness to pay

Unlikeliness to pay includes the following:

- KEP puts the credit obligation on non-accrued status;
- KEP recognizes a specific loss due fact known on the client's ability to repay the loan;
- KEP considers selling the credit obligation at a material credit-related economic loss;
- KEP 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 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 below. The list is not exhaustive.

Credit – impaired triggers	Non-performing UTP events
a)	the entity has called any collateral including a guarantee
	lawsuit, execution or enforced execution 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 Organisation fully owned by a single individual where this individual provided the institution with a personal guarantee for all obligations of the Organisation
	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)

e) 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 reorganisation	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 for which 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'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 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)

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

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.

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 derecognizes a loan when:

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

b) Derecognition rules

KEP 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 classifies this new loan either as **POCI** or **Stage 1** depending on the fact whether the new loan is credit-impaired.

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

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

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

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 is not limited to:

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

h. Expected Credit Loss model

a) 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.

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 in the discounting of an expected credit loss to a present value at the reporting date. **See section I. j)**

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

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

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

**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.*

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.

h. Expected Credit Loss model (continued)

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 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:

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

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 a 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 EUR. Such would include all loans classified in Stage 3 or as POCI and individually exceeding 10 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 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 debtor's 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 policy loans KEP requires collateral for all loans granted with an amount in exceed of EUR 3. 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 > 3	Business loans granted in an amount in exceed of EUR 3
2. Business <= 3	Business loans granted in an amount equal or lower than EUR 3
3. Agro > 3	Agro loans granted in an amount in exceed of EUR 3
4. Agro <= 3	Agro loans granted in an amount equal or lower than EUR 3
5. Housing > 3	Housing loans granted in an amount in exceed of EUR 3
6. Housing <= 3	Housing loans granted in an amount equal or lower than EUR 3
7. Consumer > 3	Consumer loans granted in an amount in exceed of EUR 3
8. Consumer <= 3	Consumer loans granted in an amount equal or lower than EUR 3

Collective assessment of LGD

For the purpose of a collective assessment of LGDs, loans are grouped 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 of 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 extent 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*.

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 is 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.

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

h. Expected Credit Loss model (continued)

Consideration of multiple scenarios (continued)

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, the 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.

Stage 3 - Lifetime ECL

Loans classified in stage 3 have already defaulted; hence, probability of default equals 1. Expected credit losses are 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.

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

h. Expected Credit Loss model (continued)

Consideration of multiple scenarios (continued)

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 amortized cost (i.e. the gross carrying amount adjusted for the impairment allowance).

Transition considerations

Loans to customers

At the date of initial application of IFRS 9, 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.

(All amounts are expressed in '000 Euro, unless otherwise stated)

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

Information on loans by sector and type of collateral as at 31 December 2023 and 2022, is as follows:

In EUR	**Agriculture**	**Consumer**	**Housing**	**Individual Business**	**Total**
Secured loans					
Vehicles	3,426	54	3,778	5,968	**13,225**
Real estate	24	-	17	84	**125**
Goods	5,594	214	5,143	8,469	**19,420**
Un-secured loans	7,129	20,018	15,232	13,646	**56,026**
Total loans and advances to customers	**16,173**	**20,286**	**24,170**	**28,167**	**88,796**

In EUR	**Agriculture**	**Consumer**	**Housing**	**Individual Business**	**Total**
Secured loans					
Vehicles	3,216	102	3,397	3,893	**10,608**
Real estate	-	-	20	92	**112**
Goods	4,438	412	5,366	6,703	**16,919**
Un-secured loans	4,920	16,271	12,966	8,511	**42,668**
Total loans and advances to customers	**12,574**	**16,785**	**21,749**	**19,199**	**70,307**

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

	31 December 2023	**31 December 2022**
Vehicles	13,519	10,779
Real estate	126	114
Goods	19,902	17,140
	33,547	**28,033**

(All amounts are expressed in '000 Euro, unless otherwise stated)

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

Analysis by credit quality of loans outstanding at 31 December 2023 is as follows:

In EUR	Agriculture	Consumer	Housing	Individual Business	Total
Neither past due nor impaired					
Loans to individuals below 3 EUR	634	20,198	1	-	**20,833**
Loans to individuals over 3 EUR	15,645	65	24,159	28,496	**68,366**
Total neither past due nor impaired	**16,280**	**20,263**	**24,160**	**28,496**	**89,199**
Past due but not impaired					
- less than 30 days overdue	28	214	114	144	**500**
- 30 to 90 days overdue	30	163	141	98	**432**
- 91 to 180 days overdue	44	130	51	67	**292**
- 181 to 360 days overdue	54	222	109	125	**509**
- over 360 days overdue	47	73	82	80	**282**
Total past due but not impaired	**203**	**802**	**496**	**514**	**2,015**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	11	-	-	73	**84**
- 30 to 90 days overdue	-	-	-	-	**-**
- 91 to 180 days overdue	13	-	-	-	**13**
- 181 to 360 days overdue	-	-	-	-	**-**
- over 360 days overdue	-	-	-	-	**-**
Total individually impaired loans (gross)	**24**	**-**	**-**	**73**	**97**
Less impairment provisions	**333**	**779**	**486**	**917**	**2,515**
Total loans and advances to customers	**16,173**	**20,286**	**24,170**	**28,167**	**88,796**

(All amounts are expressed in '000 Euro, unless otherwise stated)

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.3 Liquidity risk

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

The Organisation'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 Organisation's reputation.

The Organisation'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 Organisation'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 Organisation. The Organisation strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Organisation 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 Organisation strategy.

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

	Up to 1 month	**1 to 6 months**	**6 months to 1 year**	**Over one year**	**Carrying amount**
31 December 2023					
Borrowings	1,436	11,844	16,903	37,391	**67,574**
Other liabilities	433	31	-	-	**464**
	1,869	**11,875**	**16,903**	**37,391**	**68,038**
31 December 2022					
Borrowings	318	6,712	10,226	31,919	**49,175**
Other liabilities	247	72	-	-	**319**
	565	**6,784**	**10,226**	**31,919**	**49,494**

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 Organisation'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 Organisation 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.

(All amounts are expressed in '000 Euro, unless otherwise stated)

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 2023 and 2022 are as follows:

	Up to 1 month	1 to 6 months	6 months to 1 year	Over one year	Carrying amount
31 December 2023					
Loans and advances to customers	3,534	17,355	18,612	49,295	**88,796**
	3,534	**17,355**	**18,612**	**49,295**	**88,796**
Borrowings	1,436	11,844	16,903	37,391	**67,574**
	1,436	**11,844**	**16,903**	**37,391**	**67,574**
Net position	**2,098**	**5,511**	**1,709**	**11,904**	**21,222**

	Up to 1 month	Up to 6 months	6 months to 1 year	Over one year	Carrying amount
31 December 2022					
Loans and advances to customers	2,860	14,113	15,296	38,038	**70,307**
	2,860	**14,113**	**15,296**	**38,038**	**70,307**
Borrowings	318	6,712	10,226	31,919	**49,175**
	318	**6,712**	**10,226**	**31,919**	**49,175**
Net position	**2,542**	**7,401**	**5,070**	**6,119**	**21,132**

The management of interest rate risk is supplemented by monitoring the sensitivity of the Organisation'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 Organisation'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:

	2023	**2022**
Profit: 1% increase	212	211
Loss: 1% decrease	(212)	(211)

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 Organisation is not exposed to this risk because its assets and liabilities are in EUR.

22.5 Capital management

The Organisation is in compliance with the minimum capital of EUR 200 required by the Central Bank of Kosovo. The Organisation is subject to a periodic supervision by the Central Bank of Kosovo.
The Organisation'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 Organisation 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 Organisation's approach to capital management during the year

23. EVENTS AFTER THE REPORTING PERIOD

On February 13th 2024, the Organisation received from an international lender the 2nd tranche (EUR 2,000) of the contracted total loan amount of EUR 4,000 signed in December 20th 2023.

On February 23rd 2024, the Organisation entered into contractual agreement with a local bank of an amount of EUR 1,500.

On February 29th 2024, the Organisation entered into a loan contractual agreement with an international lender of an amount of EUR 3,000.

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

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