KEP

Annual Report

2021

www.keptrust.org

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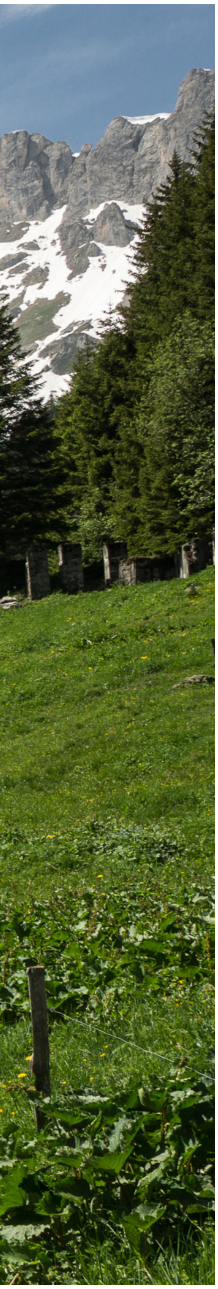
* Except for financial statements, the annual report has not been audited by an independent auditor



Mission and Vision

KEP's mission is to improve the standard of living and support the country's economic development by providing financial services to individuals and businesses having difficult access to financial resources.

At the same time, KEP looks forward in achieving its mission to provide general financial services.

KEP Trust Today

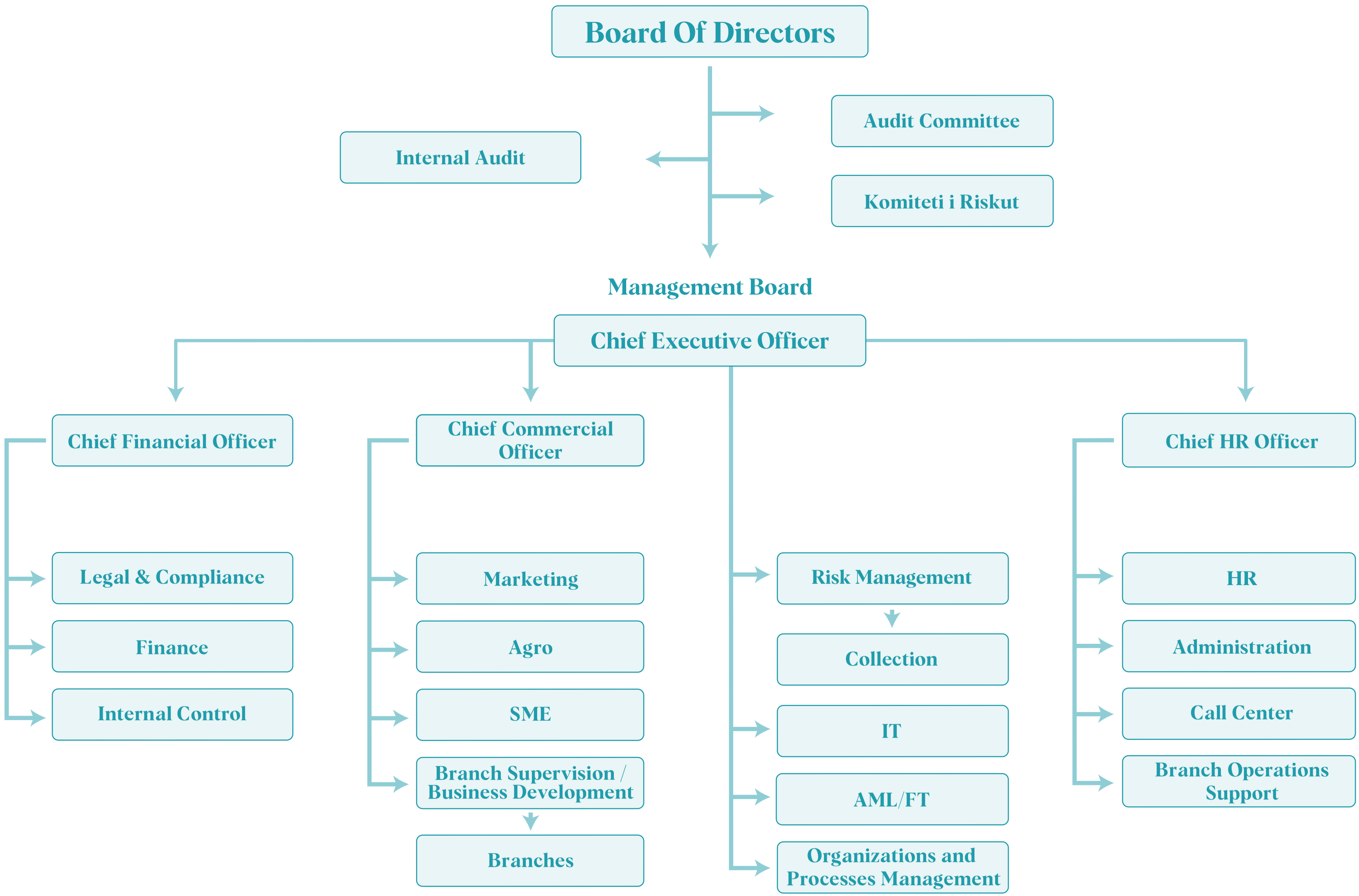
KEP is a leading institution in the microfinance sector of Kosovo, whose goal is to meet the needs of citizens having limited access to financial resources and build ongoing relationships with them.

Its head office is located in Prishtina, while 31 branches are located in the main cities of Kosovo and in smaller locations where access from the deepest rural areas is easier. This close proximity to these areas is very important as it enables quick contact with an essential part of our clients.

Contemporary digital channels provided by KEP are extremely important, as using them enables clients to apply for loans very quickly. Therefore, in 2021 the institution started the digitalization program aiming at the most advanced and comprehensive services for the clients.

At the end of 2021, serving over 23 thousand active clients, 242 employees were active, who made possible an adequate experience towards meeting their needs.

Organizational Structure


Board Of Directors
Internal Audit
Audit Committee
Komiteti i Riskut
Management Board
Chief Executive Officer
Chief Financial Officer
Legal & Compliance
Finance
Internal Control
Chief Commercial Officer
Marketing
Agro
SME
Branch Supervision / Business Development
Branches
Risk Management
Collection
IT
AML/FT
Organizations and Processes Management
Chief HR Officer
HR
Administration
Call Center
Branch Operations Support

“It is my privilege and pleasure to sincerely thank all our staff for their contribution to the outstanding performance of KEP in 2021.”

Andreas Thiele

Letter from the Chairperson of the Board of Directors

It has been two years since the initial measures were taken across the globe to control the COVID-19 pandemic, while in the first weeks of 2022 we began to record promising signs of normalization of our private and economic environments. However, the Russian war against Ukraine, which dominates the top titles in Europe, is expected to have a broad impact on the political and economic future of the region, including Kosovo. Although we all went through an unusual and quite challenging situation, we present financial statements of KEP being proud to highlight that KEP maintained a sound financial and liquidity position, continuing to provide loans to clients during peak periods of COVID-19, managed to expand the portfolio and range of services to clients.

At KEP, many things evolve around providing quality services while maintaining the quality of sound portfolio. Since the beginning of lending back in 1999, KEP has disbursed a total of over half a billion EUR, representing over 200,000 loans to target groups. In accomplishing its mission, as a SMART certified institution, KEP continues to commit to transparent and respectful treatment of clients.

As in previous periods, our long-term partnerships with reputable lenders resulted in the provision of loans with affordable terms and conditions to our clients. KEP will continue to invest in the digitalization of operations in order to further improve supply, customer journey, and increase operational efficiency and effectiveness in order to maintain a leading position among competitors and more successful operation in the microfinance sector in Kosovo.

On behalf of the Board of Directors, it is my privilege and pleasure to sincerely thank all our staff for their contribution to the outstanding performance of KEP in 2021. We are equally grateful to the founders of KEP, our local and international funding partners, the Central Bank of Kosovo and the NGO's Office at the Ministry of Public Administration for their continuous support. Please be assured that KEP remains highly committed to the development of Kosovo's economy, supporting the micro and small and medium enterprise sector.

Andreas Thiele

Letter from the Chief Executive Officer

The post-pandemic period is characterized by efforts from various actors to address the challenges we have all faced. As Kosovo's economy slowly opened up during 2021, we witnessed an impressive power among small businesses and entrepreneurs to seize the new opportunities posed by the pandemic and to recreate themselves. This extraordinary determination and courage to face the consequences of the pandemic made KEP proud to be the leading microfinance institution in their support. I am honored to note that KEP has played a significant role in addressing some of these economic challenges, staying close to our client base and consistently supporting individuals, families and small businesses.

This support translates into continuous growth for KEP too, as we have achieved a portfolio growth of 18%, namely 56.9 million EUR, and an increase of 8% in the number of new clients. It is worth noting that lending to the micro-enterprise segment has taken on a increased dynamic and that such a pace will continue in the following year.

We have prepared the digitalization strategy and implementation roadmap, with the single purpose of increasing efficiency, optimizing the cost of operations, and facilitating inclusive access to finance. We have initiated partnerships with third parties and have launched projects to optimize the way of operation. We believe that next year will be of great importance in the implementation of many new digitalization-related initiatives.

In the context of contributing to the community, we have supported the two largest sports federations in the country and many projects having an impact on increase of well-being of the community.

All of the above would not have been possible without the support of the Board of KEP, which was necessary to overcome the challenges posed by COVID-19. Our colleagues proved to be our greatest asset as we faced the challenges posed by the pandemic. I am extremely grateful for their commitment and tireless work, perseverance and ingenuity. KEP staff has been a motivation to the management to make sure that despite the challenges, we rise above them and face them together, confident of further growth.

I would also like to thank our clients with whom we have always had a lively dialog. We learn a lot from them, so I'm proud to have been able to be supportive during these turbulent times.

Lastly, I would like to thank our lenders who trusted KEP and continued to support our operations, and the Central Bank of Kosovo for their availability to address our requests.

I am aware that the current circumstances are dire, therefore the recovery will continue to be challenging, yet this courage which we witnessed fills me with great hope. Whatever happens in the future, I am sure that KEP will remain open to continue supporting Kosovo's economy.

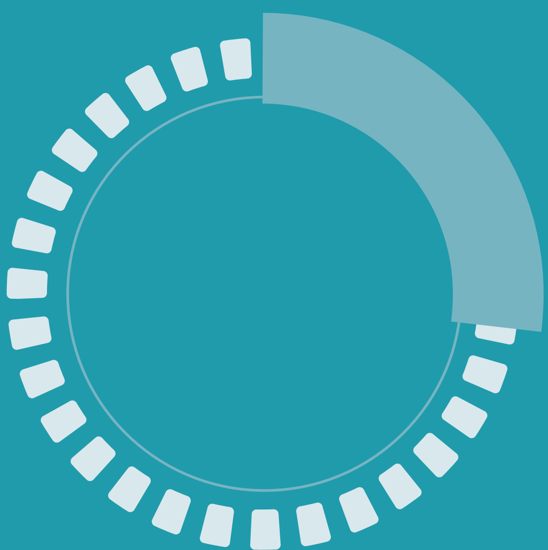
Shpend Nura

Lending

Although the pandemic continued during 2021 as well, like most other microfinance and banking institutions, KEP continued to provide loans, aiming to return to a full normal state.

As so far, KEP's goal was to maintain its leading position in the microfinance market. Official sources show that the institution not only achieved this, but also had a slight increase as the company with the largest market share, from 27.4% in 2020 to 28.0% at the end of 2021.

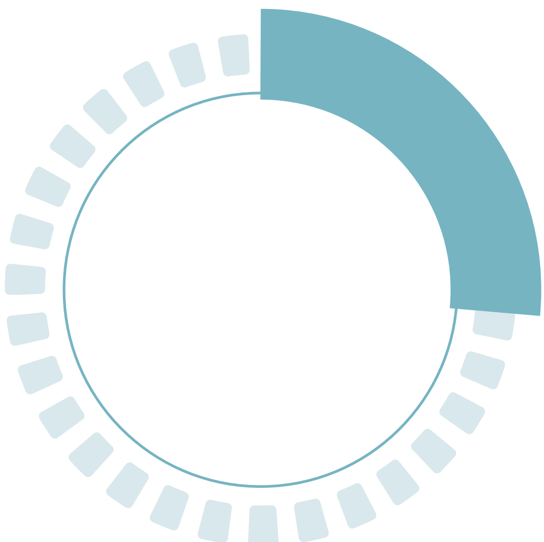
Market share by portfolio – 2021



KEP – 28.0%

Other MFIs – 71.9%

Market share by portfolio – 2021



KEP – 27.4%

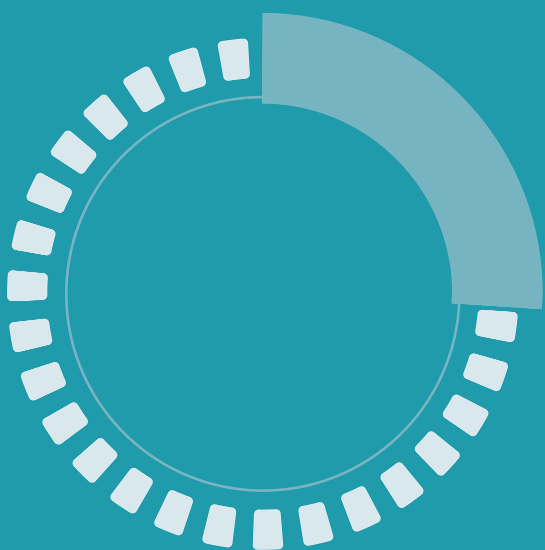
Other MFIs – 72.6%

The increase in market share was also reflected on the number of active clients, with the share at the end of the year reaching 26.3%, while in 2020 it was 25.5%.

Disbursement of loans was mainly in business loans, personal loans, housing loans and a significant share in loans for various activities in the agricultural sector.

During this year there was also an increase in the disbursement of loans to small and medium enterprises.

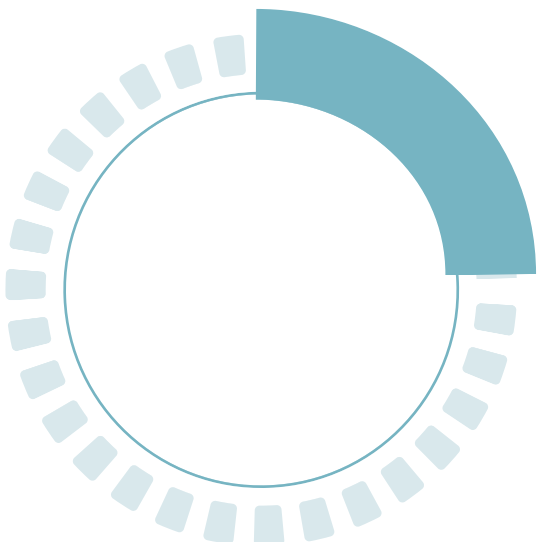
Market share by number of clients – 2021



KEP – 26.3%

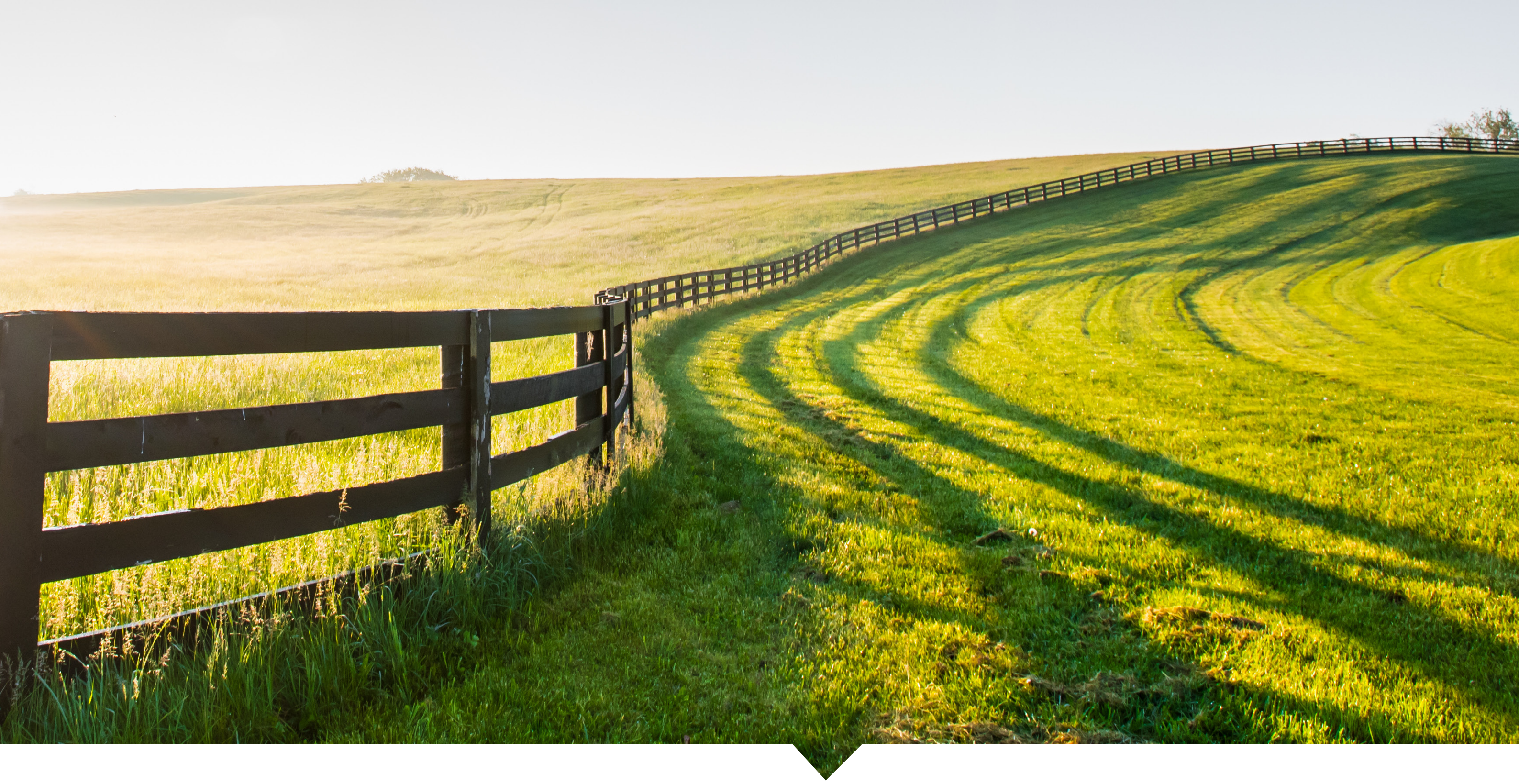
Other MFIs – 73.7%

Market share by number of clients – 2020

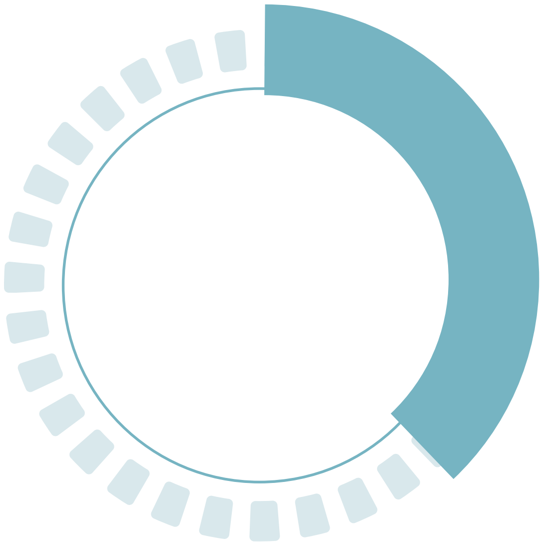


KEP – 25.4%

Other MFIs – 74.6%



Distribution by zones



Urban Zones – 38%

Rural Zones – 62%

As in previous years, in 2021 the focus was on meeting the needs of clients from rural areas. Expressed in percentage, 62% of loans were issued to borrowers from rural areas, while 38% were disbursed to clients of urban areas.
31 branches continued to be the key points where clients applied for loans.

However, from year to year, there is a growing interest to apply through digital channels. This fact pushed the management of KEP to make available human and financial resources for the initiation of the digitalization program.

Financial achievements

Total assets of KEP as at 31 December 2021 were 61.1 million EUR, an increase of 9% compared to the previous year (2020: 55 million EUR). The asset structure continued to be dominated by the loans to the clients, after the loss provisioning, 92% of total assets were concentrated in the loans to the clients.

The total net loans as at 31 December 2021 reached at 56.9 million EUR, an increase of 18% compared to the previous year (2020: 48.2 million EUR).

Loan loss provisioning amounted to 2.2 million EUR, representing a moderate decrease of 6% compared to 2020 (2020: 2.4 million EUR). These provisions were made in accordance with IFRS 9, which entered into force on 1 January 2020, for loans considered to be not fully recoverable and represent the assessment of the management for such losses at the reporting date.

From 35.3 million EUR at the end of 2020, on 31 December 2021 borrowings reached at 37.4 million EUR, marking an increase of 6%.

In 2021, the surplus of KEP amounted to 22.9 million EUR including 3 million EUR in the form of excess created by economic activities during 2021.

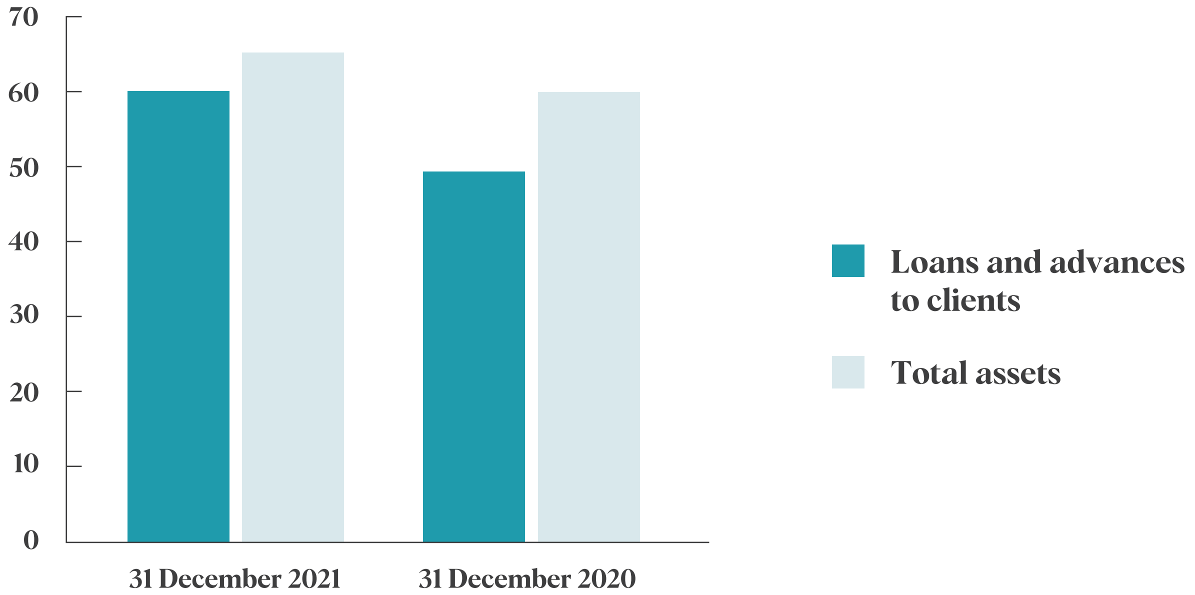
Net income was 3 million EUR, around 1.3 million EUR more than in the previous year (2020: 1.7 million EUR).

Interest income on loans continued to be the main source of income. Staff expenditure as at 31 December 2021 were 3.2 million EUR, where compared to 2019 when they were 2.9 million EUR, there was an increase of 10%. General and administrative expenditure (excluding provisioning costs) were 1.9 million EUR, 9% higher compared to 2020. The ratio of net income to general expenditure remained stable, marking a symbolic decline to 58%, while last year it was 58.8%.

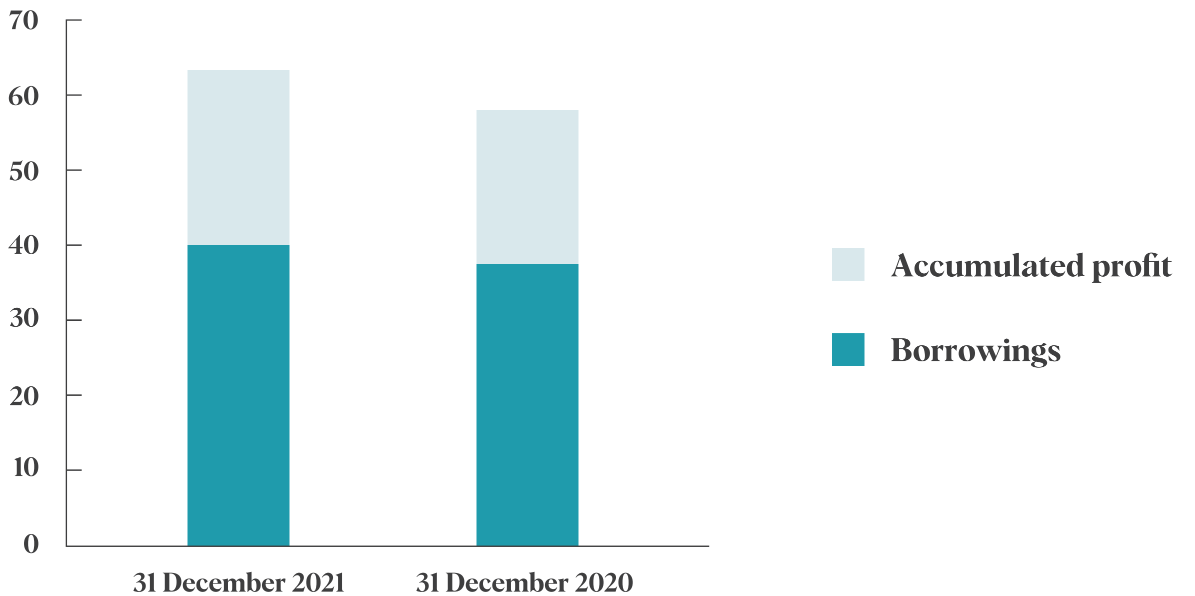
As a result, in the name of corporate income tax, for 2021 KEP paid an amount of 365 thousand EUR with an effective tax rate of 10.8%. In the previous year, 256 thousand EUR were paid with an effective tax rate of 13.1%.

The above data are in accordance with International Financial Reporting Standards (IFRSs), while KEP prepares and reports the statements also in accordance with the requirements of the Central Bank of Kosovo (CBK).

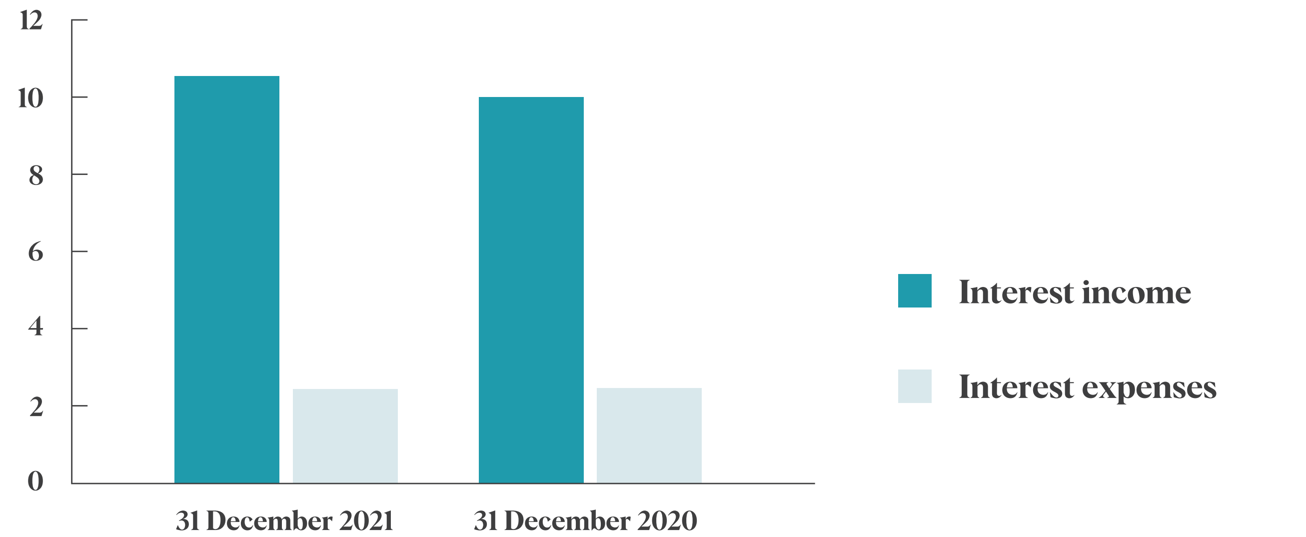
In million EUR



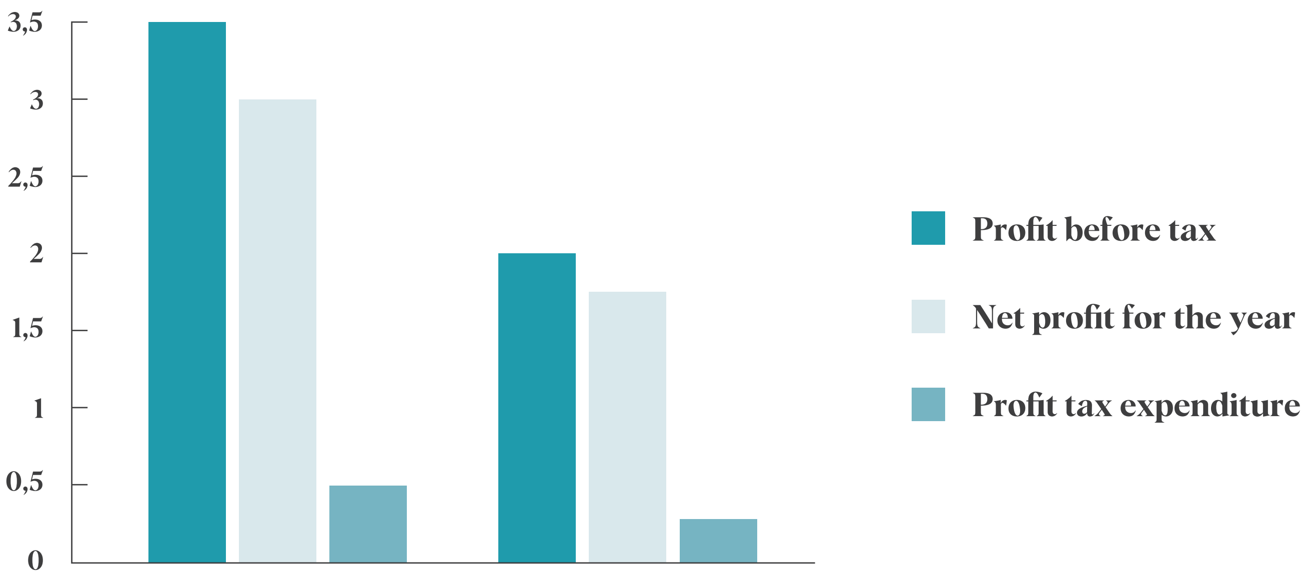
In million EUR



In million EUR



In million EUR



Risk Management

Through credit policies and procedures, KEP addresses credit risk issues reviewed regularly by the institution based on requirements and changes arising from relevant institutions such as the CBK, Law on Banks, Microfinance Institutions and Non-Bank Financial Institutions, as well as the approved Regulation on Credit Risk Management for Non-Bank Financial Institutions. With its operational activities, KEP is exposed to credit risk, liquidity risk, operational risk and other potential related risks which are identified, monitored, mitigated and avoided in accordance with policies and procedures.

Through the credit risk reduction strategy, KEP managed to end 2021 with a non-performing loans level of 2.0%, marking a decrease compared to the previous year when it was 2.7%.

Credit Risk Management

In 2021, KEP reviewed policies and procedures in order to be more practical and in accordance with applicable legislation. At the same time this had an impact on the efficiency and effectiveness of performing tasks towards better customer service.

Taking into account the market where it operates, credit risk is considered as a more direct risk for KEP. In this regard, the intention is, through intra-institutional cooperation, to minimize this risk through adequate mechanisms and best practices.

As part of enhancing the credit risk management framework, the institution has developed a credit scoring model for a better credit risk exposure assessment. As such, the scoring has been developed to some extent while from June 2022 will start the implementation, initially for loans up to 2,000 EUR. The responsibility of the Credit Risk Management Department is to manage, enhance and regularly test this scoring model based on new data and new credit risk factors. This credit scoring tool will be used for better decision-making at the branch level, and in the loan approval process in general.

Liquidity and Funding Risk Management

Liquidity risk means the risk that KEP may not be able to meet current and future liabilities in full or in due time. Financing risk means the risk that additional funding, in case it is necessary, may not be achieved or can only be obtained at very high interest rates.

KEP manages this risk through policies and procedures in accordance with the requirements of the regulatory authorities of the country. Liquidity risk control and reduction is based on the KEP's business model, as the loan portfolio is characterized by a large number of short-term exposures to clients.

Most of the loans have repayment plans in the form of annuity and are of high quality. From the liquidity risk point of view, this helps in its management as cash inflows are more predictable. On the other hand, loans from institutional lenders are our main source of funding, while the use of financial market instruments is not applied.

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

As a result of measures taken for the management of the COVID-19 pandemic in Kosovo, during 2021 KEP successfully managed the liquidity risk according to the liquidity management plan under stressful circumstances, while successfully ensuring the stability and continuity of the business.

Finally, KEP considers the financing risk to be low initially due to low leverage, where the debt-to-equity ratio is 1.6, as at 31 December 2021. This rate was maintained based on the KEP equity as well as the fact that the institution continues to have access to funding from various international sources, namely to loans from institutions specialized in MFI funding.

Currency Risk Management

Foreign currency risk means the risk of negative effects on financial results caused by changes in market exchange rates. Foreign currency risk is considered to be non-existent as all KEP financial assets and liabilities at the balance sheet date are denominated in EUR, as reporting currency.

Interest Rate Risk Management

The interest rate risk originates from the structural changes between the re-evaluation maturities of assets and liabilities. This may expose the institution to the risk that funding costs may increase, while return on assets may remain the same, or that return on assets decreases by not being reflected in the decrease of funding costs for a longer period of time, thus resulting in decreases of margin.

For this risk, KEP relies on the low leverage ratio and the equity base that ensures predictability and facilitates the management of the impact on economic value and interest income.

KEP performs analyzes of the maturity gap between assets and liabilities. The results of the analyses are regularly reported to the Risk Management Committee at the level of the Board of Directors.

Operational Risk Management

Operational risk management within KEP was established in order to prevent, minimize and/or detect operational loss cases, in order to protect the assets of the institution.

Some of the tasks included here are regular reporting of all operational risk incidents, collection, classification, analysis and tracking of data related to operational risk events, and regular identification and monitoring of key risk indicators (KRIs) as the main tool for identification and/or prevention of operational risk.

Human Resources

The year 2021 was successfully closed thanks to the good work of 242 employees distributed in departments and branches across the country. This year marked the return and engagement of KEP employees to their respective offices. Similar to the previous year, this year also was quite challenging for the institution and especially for human resources as extra care was required for the well-being of the staff, some of whom went through personal and family challenges as a result of the COVID-19 virus.

Despite certain difficulties, a number of employees were recruited and engaged as analysts in the small and medium enterprises credit department, in marketing, information technology and risk.

Within the organizational structure, the organization and process management unit was established with a special focus on digitalization project management. To implement the digitalization strategy, in addition to the members of the Management Board, a team composed of specialists in various fields has been established, which continues to make a great contribution to advancing this very important project.

Regarding professional development of the staff, various trainings have been organized according to the current needs of the staff and the institution. Motivation and communication was one of the trainings which was attended by the branch staff. On the other hand, the specialists of the head office attended trainings in relevant fields such as accounting in cooperation with SCAAK, Power BI, data protection, risk management, compliance and international financial reporting standards - IFRS.

The same trend is planned to continue next year, with a special focus on trainings related to current digitalization projects.

242 Employees

Information Technology

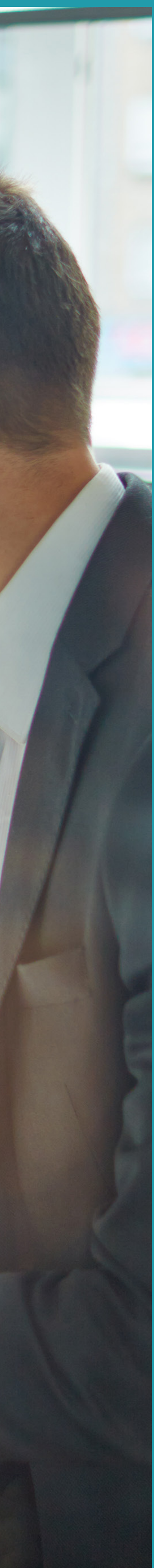
In 2021, the Information Technology Department continued its activity in three main areas:

- Applications - maintenance and development of applications
- Infrastructure - maintenance and investments in infrastructure
- Support - continuous support for colleagues from KEP branches and departments

Initiatives and innovations from different departments were implemented through adequate software developments, the functionality of which was enabled by significant investments in infrastructure (hardware, network capacity, etc.), while implementation was conducted through maximum support for all staff.

Below is provided an overview of systems and applications:

- Loan management system
- Accounting system
- Human resources system
- Call Center system



Process support applications

- Reports application
- Help Desk
- Information sharing application - Intranet
- Online Training application (E-Learning)
- Internal Audit application
- Internal Controls application
- Operational Risk Management application

The Information Technology Department will continue to be an important pillar of KEP's journey, through the developments and support provided. Special emphasis will be given to the digitalization program where contribution of the IT Department will be of particular importance.

Organization and Process Management and Digitalization Project

Operating in an environment of numerous developments in the field of information technology, which during the COVID-19 pandemic had a direct impact on the continuity and progress of processes, KEP as an institution has also developed a strategy towards the development of an institution that will resist time and will be ready for any change. Within this strategy, the framework for the development of a inclusive digitalization program was prepared and approved. This program is set in four main pillars that will include expansion of the network of business partners, development of a modern database, optimization of processes in general, and development of additional electronic channels of client outreach.

As this is a complex program, KEP has planned this process to be ready in a medium term. With these projects, KEP aims to upgrade its scope of activity while maintaining the clients and the traditional way of doing business and at the same time creating and developing an additional action platform for a new generation.

Compliance

Compliance with Regulator – KEP ensures that in addition to application of regulatory requirements, to establish internal mechanisms by approving the legal procedure and compliance for the purpose of creating a safe place for clients in terms of legal infrastructure.

Costumer Protection – KEP is focused on providing quality services to its clients and in this regard it applies all regulatory and legal requirements in the area of customer protection. Furthermore, KEP pays special attention to the handling of client complaints, which are addressed carefully and with special transparency.

Anti-money laundering / CFT - In the field of anti-money laundering, high standards have been put in place against money laundering and financing of terrorism. These standards are in full compliance with Law No. 05/L-09 on the Prevention of Money Laundering and Combating Terrorist Financing, and the CBK's Regulation.

Based on the above mentioned legislation, KEP has put in place policies and procedures, which emphasize the importance of creating adequate systems to combat money laundering and financing of terrorism.

In addition to application of regulations and standards required by law, and internal protection mechanisms in order to raise awareness of the legality and compliance mentioned above, KEP has arranged trainings for all its staff, including the staff of Head Office and all branches. Among other things, this affects them to be vigilant in complying with the legal requirements.

Social Responsibility

The situation created as a result of the pandemic also affected KEP's activities in the field of social responsibility, on which occasion the demand from the organization and individuals was lower. However, during 2021 some sports and cultural activities restarted although at a lower intensity.

KEP continued to assess requests and boost planned projects in support of sports and culture. In this regard, cultural initiatives were supported mainly in rural areas, although urban area were not left out, while a number of individual or family requests in need of medical treatment abroad were also handled.

In addition to projects and activities to the benefit of sports and culture, KEP continued to support one of the most important projects aimed at properly informing the farming community in Kosovo, enabling financially the creation, maintenance and adding new functions to the AgroPortal, a highly valuable window for this community and the sector in general.

In 2022, similar projects are foreseen which facilitate the functioning of organizations, communities and individuals in the field of sports, culture and other important fields.

External Auditor's Report

KEP TRUST

FINANCIAL STATEMENTS

Prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2021 with the Independent Auditors' Report thereon

CONTENTS **PAGES**

Deloitte.

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")**, which comprise the statement of financial position as at December 31, 2021, and the statement profit or loss and other comprehensive income, statement of changes in fund balance and statement of cash flows for the year ended December 31, 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organisation as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organisation in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other matter

The Organisation has prepared a separate set of financial statements for the year ended December 31, 2021 in accordance with the Rules and Regulations of the Central Bank of the Republic of Kosova.

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

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

In preparing the financial statements, management is responsible for assessing the 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.

Deloitte.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Kosova sh.p.k.

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10000 Prishtine, Kosove

Engagement Partner
Arta Limani

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

	Note	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	6	2,941	6,470
Loans and advances to customers	7	56,984	48,172
Right of use of assets	11	884	1,036
Other assets	8	153	78
Property and equipment	9	660	830
Intangible assets	10	350	337
TOTAL ASSETS		**61,972**	**56,923**
LIABILITIES			
Borrowings	12	37,480	35,339
Lease liability	11	951	1,073
Provisions	13	247	225
Other liabilities	14	304	306
TOTAL LIABILITIES		**38,982**	**36,943**
FUND BALANCES			
Retained earning		22,990	19,980
TOTAL EQUITY		**22,990**	**19,980**
TOTAL		**61,972**	**56,923**

The financial statements were authorized for issue by the Board of Directors on 28 April 2022 and signed on its behalf by:

Shpend Nura
Chief Executive Officer

Adrian Alo
Chief Financial Officer

Notes from page 5 to 56 form an integral part of these financial statements.

KEP TRUST
Statement of Profit or Loss and Other Comprehensive Income
(All amounts are expressed in '000 EUR)

	Note	Year ended 31 December 2021	Year ended 31 December 2020
Interest income at effective interest rate	15	10,300	9,683
Interest expense	12	(1,762)	(1,928)
Net interest income		**8,538**	**7,755**
Fee and commission income		43	32
Fee and commission expense		(36)	(28)
Net fee and commission income		**7**	**4**
Other income	16	392	298
Credit loss expense on loans and advances to customers	7	(380)	(1,384)
Personnel expenses	17	(3,260)	(2,964)
Administrative expenses	18	(1,104)	(943)
ROU depreciation	11	(387)	(398)
Depreciation and amortization	9,10	(335)	(334)
Loss on disposal of equipment		(2)	(1)
Lease liability cost	11	(72)	(76)
Provision charge for claims and litigations	13	(22)	(15)
Operating expenses		**(5,562)**	**(6,115)**
Profit before income tax		**3,375**	**1,942**
Income tax expense	19	(365)	(256)
Profit after income tax		**3,010**	**1,686**

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 5 to 56 form an integral part of these financial statements.

KEP TRUST
Statement of Changes in Fund Balance
(All amounts are expressed in '000 EUR)

	Retained Earning
Balance on 1 January 2020	**18,294**
Total comprehensive earning for the year	
Profit for the year	1,686
Total comprehensive income for the year	**1,686**
Balance on 31 December 2020	**19,980**
Total comprehensive earning for the year	
Profit for the year	3,010
Other comprehensive income	-
Total comprehensive income for the year	**3,010**
Balance on 31 December 2021	**22,990**

Notes from pages 5 to 56 form an integral part of these financial statements.

(All amounts are expressed in '000 Euro)

	Note	For the year ended 31 December 2021	For the year ended 31 December 2020
Cash flows from operating activities			
Profit before income tax		3,375	1,942
Adjustments for:			
Depreciation and amortization	9,10	335	334
ECL/Impairment of loans	7	380	1,384
Change in provision for legal claims	13	22	(15)
Loss on disposal of equipment		2	1
Other income		-	6
Interest income		(10,300)	(9,683)
Interest expenses		1,762	1,928
		(4,424)	**(4,103)**
Change in loans and advances to customers		(9,299)	836
Change in other assets		78	7
Change in other liabilities		(72)	34
		(13,717)	**(3,226)**
Interest received		10,408	9,500
Income tax paid		(418)	(217)
Net cash used in operating activities		**(3,727)**	**6,057**
Cash flows from investing activities			
Acquisition of equipment and leasehold improvements	9	(139)	(188)
Acquisition of intangible assets	10	(41)	(61)
Net cash used in investing activities		**(180)**	**(249)**
Cash flows from financing activities			
Disbursements during the year		19,786	16,500
Repayments during the year		(17,661)	(16,320)
Interest paid		(1,746)	(1,961)
Net cash from financing activities		**379**	**(1,781)**
Net increase/ (decrease) in cash and cash equivalents		**(3,528)**	**4,027**
Cash and cash equivalents at 1 January		6,469	2,443
Cash and cash equivalents at 31 December	6	**2,941**	**6,470**

Notes from pages 5 to 56 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 2021, the Organisation operated through 31 branches (2020: 31 branches)

The Head Office of the Organisation is located in Pashko Vasa str. No. 6, 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 Company's interests and activities.

Board of Directors

As of 31 December 2021, the following members composed the Board of Directors:
Andreas Thiele – Chairman of the Board
Florence Joigneault – Member of the Board
Birgit Rauleder – Member of the Board
Labinot Çoça – Member of the Board
Korab Sejdiu – 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 made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the 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 significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Interest income and expense

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. SIGNIFICANT ACCOUNTING POLICIES (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. SIGNIFICANT ACCOUNTING POLICIES (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 rate exchange rate at that date.
Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.
Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

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 ate fair value through profit or loss at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (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. SIGNIFICANT ACCOUNTING POLICIES (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. SIGNIFICANT ACCOUNTING POLICIES (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. SIGNIFICANT ACCOUNTING POLICIES (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. SIGNIFICANT ACCOUNTING POLICIES (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 entity 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. SIGNIFICANT ACCOUNTING POLICIES (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 teams such as: extended maturity, lower instalment, lower interest rate, waivers of accrued penalties and interest.

4. SIGNIFICANT ACCOUNTING POLICIES (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 group on the basis of:

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

KEP reviews on annual basis the set limits and criteria to ensure that they remain valid following possible changes in the 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. SIGNIFICANT ACCOUNTING POLICIES (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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Inputs into measurement of ECLs (continued)

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.

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 be 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. SIGNIFICANT ACCOUNTING POLICIES (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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

(i) Depreciation

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
Intangible assets acquired by the 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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. SIGNIFICANT ACCOUNTING POLICIES (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 OR REVISED STANDARDS AND INTERPRETATIONS

4.1 Standards and Interpretations effective in the current period

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

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" -** Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 16 "Leases" -** Covid-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted),

- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023).

The adoption of these amendments to the existing standards and interpretations has not led to any material changes in the Organisation's financial statements.

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

4.2 Standards and interpretations in issue not yet effective

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

- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 issued on 25 June 2020 and amendments to IFRS 17 "Initial Application of IFRS 17 and IFRS 9" issued on 9 December 2021 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

The Organisation has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Organisation anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Organisation in the period of initial application.

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.

Based on management's assessment, the COVID 19 pandemic has not significantly impacted the carrying amount of the Organisation's the loans and advances as at December 31, 2021 and the Loan loss provision recorded as of December 31, 2021 is appropriate.

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 2021		31 December 2020	
	Fair value Level 3	Carrying amount	Fair value Level 3	Carrying amount
Financial Assets				
Loans and advances to customers	57,838	56,984	48,632	48,172
Financial Liabilities				
Borrowings	37,256	37,480	36,081	35,339

The carrying amounts of loans and borrowings at 31 December 2021 are lower than the fair values for loans, because the current market rates of 19.4% for loans and 3.3% for borrowings are lower (2020: lower 20.3% for loans and 3.4% for borrowings).

d) Impairment of PPE, intangible assets and Right of use Asset

The Organisation has assessed the impact of COVID 19 pandemic in the impairment of its non-financial assets. Based on the impairment analyses, the pandemic has not significantly impacted the carrying amount of the Organisation's property, plant and equipment, right of use assets and intangible assets. No impairment indicators have been noted that are triggered from the COVID 19 pandemic.

e) Interest income

During year ended December 31, 2021, interest income has not been impacted negatively from the COVID 19 pandemic.
The Organisation continued to operate normally, with an increase of 5.9% in interest income for the year.

f) War in Ukraine

The ongoing war in Ukraine and the related sanctions targeted against the Russian Federation may have impact on the European economies and globally. The entity does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require revisions of certain assumptions and estimates. This may lead to material adjustments to the carrying value of certain assets and liabilities including loans to customer and borrowings, within the next financial year. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day. The longer-term impact may also affect trading volumes, cash flows, and profitability. Nevertheless, at the date of these financial statements the Organisation continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

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

6. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash at banks	2,409	5,969
Cash on hand	532	501
	2,941	**6,470**

7. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2021	31 December 2020
Loans and advances to customers	59,229	50,567
Less: allowance for impairment	(2,245)	(2,395)
	56,984	**48,172**

Movements in the allowance for impairment are as follows:

	31 December 2021	31 December 2020
Balance at 1 January	2,395	1,508
Additional reserve adjustment for opening figures according to IFRS 9	-	-
Impairment charge	380	1,384
Amounts written-off	(530)	(497)
Balance at 31 December	**2,245**	**2,395**

The Organisation has secured overdraft with on local bank with a loan portfolio outstanding totalling EUR 775 at 31 December 2021 (borrowings 2020: EUR 83), based on the agreed contractual conditions which include a coverage of 150% of the actual exposure with a Portfolio-At-Zero Risk (see 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 2021	825	7	12	844
New assets originated or purchased	952	2	-	954
Assets de-recognised or repaid	(1,061)	(9)	(4)	(1,074)
Transfers to Stage 1	-	3	5	8
Transfers to Stage 2	-	-	1	1
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(6)	(6)
Total	**716**	**3**	**8**	**727**

Agro Loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2021 under IFRS 9	3	1	10	14
New assets originated or purchased	5	-	-	5
Assets de-recognised or repaid	(3)	(2)	(3)	(8)
Transfers to Stage 1	-	1	4	5
Transfers to Stage 2	-	-	1	1
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(4)	(4)
Total	**5**	**-**	**8**	**13**

Agro Loans >3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2021	7,272	77	233	7,582
New assets originated or purchased	6,757	78	17	6,852
Assets de-recognised or repaid	(4,992)	(111)	(63)	(5,166)
Transfers to Stage 1	-	41	94	135
Transfers to Stage 2	-	-	13	13
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(58)	(58)
Total	**9,037**	**85**	**236**	**9,358**

Agro Loans >3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2021 under IFRS 9	77	31	192	300
New assets originated or purchased	73	2	8	83
Assets de-recognised or repaid	(32)	(22)	(43)	(97)
Transfers to Stage 1	-	23	77	100
Transfers to Stage 2	-	-	19	19
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(53)	(53)
Total	**118**	**34**	**200**	**352**

(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 2021	1,692	21	81	1,794
New assets originated or purchased	1,820	-	-	1,820
Assets de-recognised or repaid	(1,884)	(14)	(19)	(1,917)
Transfers to Stage 1	-	9	29	38
Transfers to Stage 2	-	-	2	2
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(24)	(24)
Total	**1,628**	**16**	**69**	**1,713**

Business Loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2021 under IFRS 9	18	9	68	95
New assets originated or purchased	14	2	6	22
Assets de-recognised or repaid	(13)	(9)	(21)	(43)
Transfers to Stage 1	-	6	25	31
Transfers to Stage 2	-	-	3	3
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(21)	(21)
Total	**19**	**8**	**60**	**87**

Business Loans >3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2021	9,679	139	496	10,314
New assets originated or purchased	10,457	11	4	10,472
Assets de-recognised or repaid	(7,552)	(77)	(114)	(7,743)
Transfers to Stage 1	-	51	62	113
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	2	-	2
Amounts written off	-	-	(121)	(121)
Total	**12,584**	**126**	**327**	**13,037**

Business Loans >3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2021 under IFRS 9	172	57	412	641
New assets originated or purchased	142	1	4	147
Assets de-recognised or repaid	(101)	(30)	(97)	(228)
Transfers to Stage 1	-	29	55	84
Transfers to Stage 2	-	-	18	18
Transfers to Stage 3	-	-	1	1
Amounts written off	-	-	(108)	(108)
Total	**213**	**57**	**285**	**555**

(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 2021	5,641	72	203	5,916
New assets originated or purchased	12,329	3	-	12,332
Assets de-recognised or repaid	(9,068)	(67)	(55)	(9,190)
Transfers to Stage 1	-	45	75	120
Transfers to Stage 2	-	-	23	23
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(65)	(65)
Total	**8,902**	**53**	**181**	**9,136**

Consumer loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2021 under IFRS 9	65	26	155	246
New assets originated or purchased	111	12	22	145
Assets de-recognised or repaid	(55)	(34)	(60)	(149)
Transfers to Stage 1	-	20	67	87
Transfers to Stage 2	-	-	24	24
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(51)	(51)
Total	**121**	**24**	**157**	**302**

Housing Loans <=3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2021	4,195	48	180	4,423
New assets originated or purchased	4,221	6	6	4,233
Assets de-recognised or repaid	(4,366)	(42)	(48)	(4,456)
Transfers to Stage 1	-	21	26	47
Transfers to Stage 2	-	-	19	19
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(43)	(43)
Total	**4,050**	**33**	**140**	**4,223**

Housing Loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2021 under IFRS 9	45	22	151	218
New assets originated or purchased	37	3	1	41
Assets de-recognised or repaid	(31)	(20)	(38)	(89)
Transfers to Stage 1	-	10	24	34
Transfers to Stage 2	-	-	20	20
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(38)	(38)
Total	**51**	**15**	**120**	**186**

(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 2021	18,867	207	620	19,694
New assets originated or purchased	13,597	26	30	13,653
Assets de-recognised or repaid	(12,074)	(91)	(170)	(12,335)
Transfers to Stage 1	-	67	86	153
Transfers to Stage 2	-	-	4	4
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(134)	(134)
Total	**20,390**	**209**	**436**	**21,035**

Housing Loans >3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2021 under IFRS 9	254	106	521	881
New assets originated or purchased	151	-	-	151
Assets de-recognised or repaid	(124)	(55)	(149)	(328)
Transfers to Stage 1	-	51	83	134
Transfers to Stage 2	-	-	29	29
Transfers to Stage 3	-	-	-	-
Amounts written off	(1)	-	(116)	(117)
Total	**280**	**102**	**368**	**750**

					As at 31 December 2021	As at 31 December 2020
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Loans and advances	57,307	525	1,397	-	59,229	50,567
Low- fair risk	57,283	201	-	-	57,484	48,444
Monitoring	24	165	3	-	192	328
Substandard		159	43	-	202	262
Doubtful			248	-	248	561
Lost			1,103	-	1,103	973
Less: allowance	807	240	1,198	-	2,245	2,395
Carrying amount	**56,497**	**288**	**199**	**-**	**56,984**	**48,172**

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

8. OTHER ASSETS

	31 December 2021	31 December 2020
Prepaid expenses	118	50
Advances to employees	15	7
Other receivables	20	21
	153	**78**

Prepaid expenses include prepayments of EUR 50 for a front end & management fee for loans contracted and not yet disbursed in 2021.

9. PROPERTY AND EQUIPMENT

	Motor vehicles	Computers and electronic equipment	Furniture and Fittings	Leasehold Improvements	Total
Cost					
Balance at 1 January 2020	592	509	894	395	**2,390**
Additions	11	102	36	39	**188**
Disposals	(10)	(51)	(29)	-	**(90)**
Balance at 31 December 2020	**593**	**560**	**901**	**434**	**2,488**
Additions	26	57	37	19	**139**
Disposals	-	(17)	(13)	-	**(30)**
Balance at 31 December 2021	**619**	**600**	**925**	**453**	**2,597**
Accumulated depreciation					
Balance at 1 January 2020	(192)	(357)	(617)	(269)	**(1,435)**
Charge for the year	(116)	(55)	(97)	(39)	**(307)**
Disposals	4	51	29	-	**84**
Balance at 31 December 2020	**(304)**	**(361)**	**(685)**	**(308)**	**(1,658)**
Charge for the year	(110)	(60)	(99)	(38)	**(307)**
Disposals	-	15	13	-	**28**
Balance at 31 December 2021	**(414)**	**(406)**	**(771)**	**(346)**	**(1,937)**
Carrying amounts					
At 1 January 2020	**400**	**152**	**277**	**126**	**955**
At 31 December 2020	**289**	**199**	**216**	**126**	**830**
At 31 December 2021	**205**	**194**	**154**	**107**	**660**

As at 31 December 2021, the Organisation has not pledged any property or equipment as collateral (2020: nil).

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

10. INTANGIBLE ASSETS

	Software
Cost	
Balance at 1 January 2020	471
Additions	61
Impairment	-
Balance at 31 December 2020	**532**
Additions	41
Impairment	-
Balance at 31 December 2021	**573**
Accumulated amortization	
Balance at 1 January 2020	(168)
Amortization for the year	(27)
Impairment	-
Balance at 31 December 2020	**(195)**
Amortization for the year	(28)
Disposal	-
Balance at 31 December 2021	**(223)**
Carrying amounts	
At 1 January 2020	**303**
At 31 December 2020	**337**
At 31 December 2021	**350**

11. RIGHT OF USE ASSET AND LEASE LIABILITY

	Right of use asset Building
Cost	
As at January 1, 2020	1,418
Additions	510
Disposals	(101)
As at December 31, 2020	**1,827**
Additions	235
Disposals	-
As at December 31, 2021	**2,062**
Accumulated depreciation	
As at January 1, 2020	393
Charge	398
As at December 31, 2020	**791**
Charge	387
As at December 31, 2021	**1,178**
Net book value as at	
December 31, 2020	**1,036**
December 31, 2021	**884**

(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, 2020	1,051
Additions	510
Disposals	(101)
-Covid-19-Related Rent Concessions	(23)
- Less lease payments	(440)
+ Interest on Lease Liabilities	76
Lease liability as at December 31, 2020	**1,073**
Additions	235
Disposals	-
- Less lease payments	(429)
+ Interest on Lease Liabilities	72
Lease liability as at December 31, 2021	**951**

Maturity of lease liability	
Not later than one year	424
Later than one year and not later than five years.	527
Later than five years	-
Total	**951**

The Organisation leases several assets which consist of premises. The average lease term is 4 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 2021 was EUR 429 (2020: EUR 440)

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

12. BORROWINGS

As at 31 December 2021 and 2020, borrowings of the Organisation are composed as follows:

	Interest rate	31 December 2021	31 December 2020
Responsibility	3.40% -4.15%	5,565	3,833
Triple Jump	3.95% - 4.35%	5,000	6,000
Symbiotics	4.15%	1,000	2,500
Finance In Motion	3.60% - 4%	6,716	6,500
Frankfurt School FSFS	3.40% - 4.15%	4,000	1,000
Blue Orchard	3.40%	3,000	1,000
Microvest	4.70%	1,000	1,500
CARITAS Switzerland	1%	-	85
Banka Ekonomike	5.70%	-	83
DWM	3.40% - 4%	7,125	6,000
IFC	3.85% - 4.95%	2,600	3,600
INCOFIN	3.95%	500	2,000
EBRD	5.20%	-	1,250
Banka Ekonomike (overdraft)	4.70%	971	-
		37,477	**35,351**
Accrued interest		260	228
Deferred fee		(257)	(240)
Total		**37,480**	**35,339**

The total interest expense for these borrowings in 2021 is EUR 1,762 million (2020: EUR 1,928 million).

	2021	2020
Principal outstanding at 1 January	35,352	35,172
Disbursements during the year	19,786	16,500
Repayments during the year	(17,661)	(16,320)
Principal outstanding 31 December	**37,477**	**35,352**
Accrued interest and fees at 1 January	(13)	20
Interest expense	1,762	1,928
Interest paid	(1,746)	(1,961)
Accrued interest and fees at 31 December	**3**	**(13)**
Total	**37,480**	**35,339**

The Organisation has an overdraft facility from one local bank of EUR 1,000 with an interest rate of 4.7 % on the utilised amount, and maturity on 13 January 2022. As at 31 December 2021, the Organisation has utilized this overdraft in amount of EUR 971.

As at 31 December 2021 all the loan payments are made on time.

As at 31 December 2021 the Organisation is in compliance with financial covenants attached to the agreements with borrowers except for covenant Minimum Liquid Assets to DWM, for which a no action letter was received for the respective breach on April 28, 2022. While as at 31 December 2020 the Organisation is in compliance with all financial covenants attached to the agreements with borrowers.

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

13. PROVISIONS

	31 December 2021	31 December 2020
Legal claims	240	218
Other provisions for losses	7	7
As at December 31	**247**	**225**

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 (2020: EUR 7), relates 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 2021	31 December 2020
At 1 January	225	240
Provision charge	22	(15)
At 31 December	**247**	**225**

14. OTHER LIABILITIES

	31 December 2021	31 December 2020
Accrued expenses	26	28
Withholding tax on interest	37	33
Pension contributions and personal income tax payable	72	38
Income Tax payable	41	94
Accounts payable	28	52
Other payables	100	61
Total	**304**	**306**

15. INTEREST INCOME

	31 December 2021	31 December 2020
Interest income from loans and advances	10,278	9,671
Interest income from banks	22	12
Total	**10,300**	**9,683**

At 31 December 2021, the Organisation has accrued interest of EUR 78 (2020: EUR 93) for past due loans.

16. OTHER INCOME

	31 December 2021	31 December 2020
Recoveries from loans written off	377	255
Proceeds from sale of fixed assets	1	12
Other operating income	14	31
Total	**392**	**298**

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

17. PERSONNEL EXPENSES

	31 December 2021	31 December 2020
Wages and salaries	2,842	2,720
Compulsory social and health insurance	156	142
Other	262	102
Total	**3,260**	**2,964**

At 31 December 2021, the Organisation employed 247 employees (2020: 244).

18. ADMINISTRATIVE EXPENSES

	31 December 2021	31 December 2020
Security	172	171
Utilities	133	137
Legal, consultancy and professional fees	198	169
Repairs and maintenance	50	49
Communication	116	102
Board compensation and travelling	71	64
Fuel and parking	60	41
Advertisement (Marketing expenses)	104	68
Office supplies	51	48
Insurance	65	53
Staff development	14	10
Travel	2	3
Accommodation	-	1
Representation expenses	2	2
Other	66	25
Total	**1,104**	**943**

19. INCOME TAX

	31 December 2021	31 December 2020
Profit before tax	3,375	1,942
Non-deductible expenses	276	614
Taxable profit	3,651	2,556
Income tax	**365**	**256**
Effective tax rate	**10.82%**	**13.16%**

Following the decision of Organisation Board that 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, 2021 was EUR 365 (2020: EUR 256).

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%.

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

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 2021 and 2020 is as follows:

	31 December 2021		**31 December 2020**	
	Remuneration	**Other expenses**	**Remuneration**	**Other expenses**
Executive Management	210	2	207	4
Board of Directors	39	25	39	25
Total	**249**	**27**	**246**	**29**

21. COMMITMENT AND CONTINGENCIES

Legal

Except for provisions created as at 31 December 2021 (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. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

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 2021, the loans with renegotiated terms are EUR 297 (2020: EUR 241). The impairment allowance for loans with renegotiated terms as at 31 December 2021 is EUR 103 (2020: EUR 83).

(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 (2020: 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 2021	Interest rate	31 December 2020	Interest rate
Agriculture	9,721	17.9%	8,112	18.1%
Consumer	14,563	21.8%	11,632	21.6%
Housing	20,284	19.6%	18,816	19.7%
Individual Business	12,416	16.0%	9,612	18.4%
	56,984		**48,172**	

a) Financial assets impairment

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

- Loans to customers, and
- Deposits with Banks

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

1. Financial assets measured at fair value through other comprehensive income (FVOCI) 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.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

b) Main principles

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

c) The three-stage model

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

Stage 1	**Stage 2**	**Stage 3**	**POCI**
Newly originated financial assets non-credit-impaired Existing financial assets with **no significant increase in risk** since origination	Existing financial assets with **significant increase in risk** since origination.	Credit impaired financial assets (in **default)**	Credit impaired financial assets at acquisition Credit impaired financial assets at origination
Recognition of expected credit losses			
12-month expected credit losses	**Lifetime expected credit losses**	**Lifetime expected credit losses**	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 assess whether there has been a significant increase in credit risk by comparing:

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

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

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

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

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.

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

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

e) Unlikeliness to pay

Unlikeliness to pay includes the following:

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

Events that may indicate unlikeness to pay or existence of credit impaired financial instrument are presented 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 in order to collect debt
	license of the borrower is withdrawn
	the borrower is a co-debtor when the main debtor is in default or a guarantor of a debtor in default.
	postponements/ extensions of loans beyond economic lifetime
	multiple restructurings on one exposure
	a borrower's sources of recurring income are no longer available to meet the instalment payments; customer becomes unemployed and repayment is unlikely
	the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage; equity reduced by 50% within a reporting period due to losses
	for exposures to an individual: default of a company fully owned by a single individual where this individual provided the institution with a personal guarantee for all obligations of the company
	a financial asset was purchased or originated at a material discount that reflects the deteriorated credit quality of the debtor

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

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 Trust's normal credit risk management actions. In such cases, to determine the maximum period of exposure to credit risk, KEP considers factors such as historical information and experience about:

- the period over which KEP Trust was exposed to credit risk on similar deposits;
- Time from significant increase in credit risk to default on similar deposits; and
- Potential recall of the amounts deposited when credit risk of the bank has increased.

c. Probability-weighed scenario

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

d. Consideration of time value of money

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

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

e. Consideration of collateral

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

f. Reasonable and supportable information

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

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

g. Special considerations

a) Modification of financial instruments

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

KEP Trust derecognizes a loan when:

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

b) Derecognition rules

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

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

In case at least one of the above criteria is present, derecognition should be performed.
On derecognition of a loan in its entirety, the difference between:

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

c) Modification that leads to derecognition

When the modification results in the derecognition of the existing loan(s) and the subsequent recognition of a new modified loan, KEP 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 Trust 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.

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 limit to:

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

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

h. Expected Credit Loss model

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)**

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

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

**Individual assessment of the PiT probability of default and the lifetime losses is inherently difficult when there is no objective evidence of impairment. However, for significant exposures classified in Stage 1 and*

Stage 2, KEP may wish to corroborate LGD assessed on a collective basis to the expected recovery from the collateral foreclosure strategy in a default event.

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.

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

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:

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

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

Individual vs. collective assessment

KEP assesses ECL on individual basis for all outstanding loans in default exceeding 10 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 debtors' ability to pay all amounts due according to the contractual terms. Such may include the basis of a credit risk evaluation or grading process that considers product type, customer type, collateral type, past-due status and other relevant factors.

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

h. Expected Credit Loss model (continued)

Grouping of loans (continued)

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

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

In line with Credit risk manual loans KEP requires collateral for all loans granted with an amount in exceed of EUR 3. 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 group on the basis of:

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

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

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

Individual assessment of ECL

KEP assesses individual exposures when reasonable and supportable information is available without undue cost. Such would require individual forecast of timing and extend of cash shortfalls considering at least two scenarios: 1) *the scenario that results in a loss* and 2) *the scenario that results with no loss.*

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, 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 is measured as the ultimate loss after consideration of all potential repayments over the recovery horizon, reflected by the LGD in each month in default.

Forward-looking and macro-economic adjustment

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

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 2021 and 2020, is as follows:

In EUR	Agriculture	Consumer	Housing	Individual Business	Total
Secured loans					
Vehicles	2,745	162	3,383	2,597	**8,887**
Real estate	-	-	21	71	**92**
Goods	3,097	611	4,799	4,251	**12,758**
Un-secured loans	3,879	13,790	12,081	5,497	**35,247**
Total loans and advances to customers	**9,721**	**14,563**	**20,284**	**12,416**	**56,984**

In EUR	Agriculture	Consumer	Housing	Individual Business	Total
Secured loans					
Vehicles	2,028	166	3,250	1,948	**7,392**
Real estate	-	-	42	88	**130**
Goods	2,075	392	3,068	2,317	**7,852**
Un-secured loans	4,010	11,073	12,456	5,259	**32,798**
Total loans and advances to customers	**8,113**	**11,631**	**18,816**	**9,612**	**48,172**

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

	31 December 2021	31 December 2020
Vehicles	16,958	13,881
Real estate	639	812
Goods	14,356	9,900
	31,953	**24,593**

(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 2021 is as follows:

In EUR	Agriculture	Consumer	Housing	Individual Business	Total
Neither past due nor impaired					
Loans to individuals below 3 EUR	711	14,492	-	-	**15,203**
Loans to individuals over 3 EUR	9,081	63	20,453	12,536	**42,133**
Total neither past due nor impaired	**9,792**	**14,555**	**20,453**	**12,536**	**57,336**
Past due but not impaired					
- less than 30 days overdue	54	119	89	57	**319**
- 30 to 90 days overdue	28	84	81	61	**254**
- 91 to 180 days overdue	34	64	61	44	**203**
- 181 to 360 days overdue	43	108	145	109	**405**
- over 360 days overdue	90	208	208	144	**650**
Total past due but not impaired	**249**	**583**	**584**	**415**	**1,831**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	44	-	-	-	**44**
- 30 to 90 days overdue	-	-	-	-	**-**
- 91 to 180 days overdue	-	-	-	18	**18**
- 181 to 360 days overdue	-	-	-	-	**-**
- over 360 days overdue	-	-	-	-	**-**
Total individually impaired loans (gross)	**44**	**-**	**-**	**18**	**62**
Less impairment provisions	**364**	**575**	**753**	**553**	**2,245**
Total loans and advances to customers	**9,721**	**14,563**	**20,284**	**12,416**	**56,984**

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

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

As at December 31, 2021, the restructured loans according to the Guideline for loan restructuring due to COVID 19 dated 08 June 2020 which was repealed with that of 27 August 2020 issued by the CBK are EUR 734 (2020: EUR 1,030) and allowance for impairment for these loans is EUR 261 (2020: 293).

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 2021					
Borrowings	1,856	5,581	8,622	21,421	**37,480**
Other liabilities	263	41	-	-	**304**
	2,119	**5,622**	**8,622**	**21,421**	**37,784**
31 December 2020					
Borrowings	728	7,130	9,817	17,664	**35,339**
Other liabilities	212	95	-	-	**307**
	940	**7,225**	**9,817**	**17,664**	**35,646**

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 2021 and 2020 are as follows:

	Up to 1 month	1 to 6 months	6 months to 1 year	Over one year	Carrying amount
31 December 2021					
Loans and advances to customers	3,037	11,868	12,695	29,384	**56,984**
	3,037	**11,868**	**12,695**	**29,384**	**56,984**
Borrowings	1,856	5,581	8,622	21,421	**37,480**
	1,856	**5,581**	**8,622**	**21,421**	**37,480**
Net position	**1,181**	**6,287**	**4,073**	**7,963**	**19,504**

	Up to 1 month	Up to 6 months	6 months to 1 year	Over one year	Carrying amount
31 December 2020					
Loans and advances to customers	2,853	10,330	10,946	24,043	**48,172**
	2,853	**10,330**	**10,946**	**24,043**	**48,172**
Borrowings	728	7,130	9,817	17,664	**35,339**
	728	**7,130**	**9,817**	**17,664**	**35,339**
Net position	**2,125**	**3,200**	**1,129**	**6,379**	**12,833**

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:

	2021	**2020**
Profit: 1% increase	195	128
Loss: 1% decrease	(195)	(128)

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 January 21st 2022, the Organisation received contractual agreement with an international lender in amount of EUR 1,000 with an interest rate of 3.3%.

On January 25th 2022, the Organisation entered into overdraft contractual agreement in amount of EUR 1,000 with a local bank with an interest rate of 4.5%.

On February 14th 2022, the Organisation entered into loan contractual agreement with an international lender in amount of EUR 1,000 with an interest rate of 3.3%.

On February 21st 2022, the Organisation received from an international lender 3rd tranche (EUR 1,000) of contracted total loan amount of EUR 4,000 signed in September 23rd 2021 with an interest rate of 3.60%.

On February 2022, Russia launched a war in Ukraine. The ongoing war in Ukraine and the related sanctions targeted against the Russian Federation may have impact on the European economies and globally. The entity does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require revisions of certain assumptions and estimates. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day. For further details please refer to the Note "Use of estimates and judgments.

On March 23rd 2022, the Organisation received from an international lender 1st tranche (EUR 2,000) of contracted total loan amount of EUR 4,000 signed in December 22nd 2021 with an interest rate of 3.70%.

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