



ANNUAL REPORT 2024

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



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MISSION

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

We are dedicated to supporting our clients in building a better future by creating opportunities, fostering financial empowerment, and serving those who need it most.

Our goal is to deliver services that are not only dependable and efficient, but also tailored to meet the unique needs of every client we serve.

KEP TRUST TODAY

KEP Trust stands as Kosovo's leading microfinance institution, deeply rooted in a mission to expand financial access, and empower underserved communities.

As of the end of 2024, KEP manages a robust and growing portfolio, with total assets reaching **€124.4 million** and an active loan portfolio of €116.1 million. This reflects a 27% year-over-year growth, exceeding the average market increase and solidifying KEP's market share at 28.4% by loan volume and 27.1% by client base.


Serving over 35,000 active clients, KEP remains committed to inclusivity, with women now representing 21% of its client base—an outcome of targeted efforts to close gender gaps in financial services. The institution disbursed €98 million in 28,183 loans during 2024 alone, directly supporting entrepreneurs, small businesses, farmers, and individuals across urban and rural areas.

KEP's strength lies not only in its financial performance but also in its strategic adaptability. Significant advances in digital services-such as online loan applications and expanded service access through partner networks-have streamlined client interactions and extended reach, especially in remote communities.

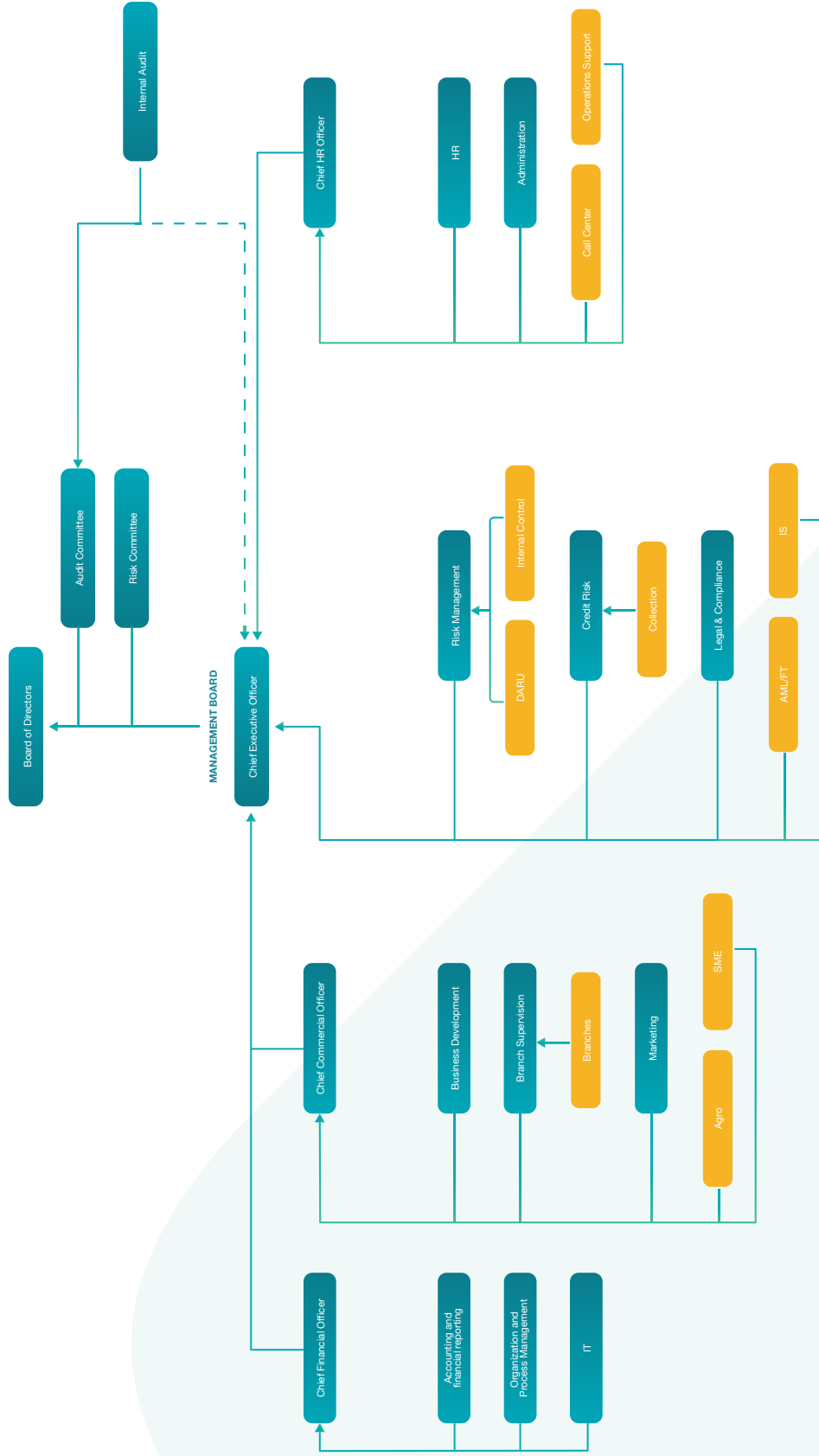
A hallmark of 2024 was KEP's enhanced focus on sustainability and ESG integration. The publication of its first standalone Sustainability Report and the launch of an internal ESG training program highlight a long-term commitment to responsible finance. KEP also initiated green financing products and conducted its first GHG emissions assessment, reflecting its dedication to environmental stewardship.

Internally, KEP continues to invest in its people, fostering a low-turnover environment with ongoing professional development, leadership training, and succession planning. Human resources strategies are aligned with broader institutional goals, including a growing emphasis on ethical practices and human rights.

Today, KEP Trust is more than a financial institution-it is a forward-thinking organization at the intersection of economic empowerment, digital innovation, and social responsibility. Guided by a strong leadership team and supported by committed staff, KEP is strategically positioned to navigate sector changes, deepen its impact, and continue building a financially inclusive future for Kosovo.

A large, light blue abstract shape, resembling a stylized 'C' or a partial circle, is positioned in the upper left quadrant of the page. It has a smooth, curved edge and a solid light blue color.

ORGANIZATIONAL STRUCTURE



LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS



As Chairman of the Board, it is my distinct pleasure to present the Annual Report for KEP Trust for the fiscal year ending 31 December 2024. This year marks another milestone in our ongoing journey of growth, innovation, and unwavering dedication to our mission-ensuring inclusive access to finance and empowering underserved communities across Kosova.

In 2024, KEP Trust continued to build on its strong foundation, demonstrating resilience and momentum across key performance indicators. Our total assets reached **€124.4 million**, reflecting a solid financial position that reinforces our capacity to serve an ever-growing client base.

We are proud to report that our active loan portfolio expanded by **27%**, reaching €116 million, with 35,000 active clients-a 13.3% increase from the previous year. Throughout the year, we disbursed approximately €98 million in financing through 28,183 loans, reaffirming our crucial role in supporting individual entrepreneurs and small businesses across the country.

Notably, we achieved significant progress in gender inclusion, with women now representing 21% of our client base, an increase that reflects our targeted efforts to expand financial access and opportunity to underserved groups.

This year was also marked by the meaningful integration of sustainability principles into our operations and product development. In collaboration with key partners, we designed and began implementing specialized green financing products, aligning our services with global standards for sustainable development.

Further, our strategic partnerships have enabled us to enhance service delivery through digital platforms, making financial services more accessible, faster, and user-friendly for clients across urban and rural areas. This digital transformation aligns with our commitment to innovation and continuous improvement in client experience.

At the core of everything we do remains our mission-to create inclusive financial solutions that improve the lives of our clients. This mission continues to guide our day-to-day decisions, inspire our strategic direction, and define our culture. We are proud that this commitment is not just aspirational but embedded in our work across all levels of the organization.

While we remain attentive to broader economic and regulatory developments, we are entering 2025 with a deep sense of purpose and cautious optimism. Importantly, we are well prepared and strategically positioned to respond to the anticipated changes in the legal infrastructure governing the microfinance sector in Kosova. Thanks to proactive planning and a forward-looking leadership team, we are confident in our ability to adapt effectively and continue delivering value to our clients under the new regulatory landscape.

Our priorities will include expanding our reach, maintaining prudent financial discipline, advancing ESG practices, and continuously adapting to meet the evolving needs of our clients. On behalf of the Board of Directors, I extend my heartfelt thanks to our exceptional staff for their dedication and professionalism, to our Management Board for their vision and leadership, and to our partners, lenders, and supporters-including the Central Bank of Kosova and the NGO Department-for their continued trust.

Together, we look forward to continuing our legacy of impact and building a stronger, more inclusive financial future for all. Thank you for your continued support!

Sincerely,
Korab R. Sejdiu
Chairman of the Board of Directors
KEP Trust



LETTER FROM THE CEO



It is with great pride that I present to you the Annual Report of KEP Trust for the past year, a year marked by significant growth, strengthened partnerships, and continued commitment to our mission of financial inclusion and economic development.

We are pleased to report that our loan portfolio has expanded to more than €116 million, reflecting our strong position as the leading microfinance institution in the country. Additionally, we have increased the number of customers we serve to an impressive 35,000, reaffirming our commitment to providing accessible financial solutions to individuals and businesses across the nation.

Our support for Small and Medium Enterprises (SMEs) and the agricultural sector has been a key driver of our growth. Through tailored financial products, we have facilitated business growth, job creation, and rural development, ensuring that entrepreneurs and farmers have the resources needed to grow. These sectors remain at the core of our strategy, and we are dedicated to further strengthening our role in their advancement.

This year, we have also taken significant steps in enhancing our partnerships. We are especially proud of our collaboration with the European Investment Bank (EIB) through the Risk Sharing Facility, which has further reinforced our capacity to extend financing to businesses in need. Furthermore, we have continued our long-standing relationships with International Financial Institutions (IFIs) and other funding partners, ensuring a stable foundation for our growth. Simultaneously, we have initiated and expanded relationships with local banks, creating new opportunities for cooperation and financial synergies.

Another milestone of this year is the publication of our first Sustainability Report in 2024, marking an important step towards fulfilling our Environmental, Social, and Governance (ESG) commitments. This initiative reflects our dedication to responsible and sustainable financial practices that align with global standards and contribute to a better future for our communities. None of these achievements would have been possible without the support and leadership of our Board of Directors. Their guidance has been instrumental in shaping our strategic direction and ensuring the long-term sustainability of KEP Trust. I extend my gratitude to them for their vision and dedication. Equally, I want to express my appreciation to our incredible staff. Their hard work, dedication, and commitment to our mission have been the driving force behind our success. As we look ahead to the coming year, we do so with confidence and optimism. We remain dedicated in our mission to empower individuals and businesses, contribute to the well-being of our communities, and support the overall economic development of our country. With the collective efforts of our team and stakeholders, we believe that KEP Trust will continue to be a pillar of financial inclusion and sustainable growth.

Thank you for your trust and support. We look forward to another year of progress and impact.

**Sincerely,
Shpend Nura
CEO,
KEP Trust**



LENDING

In 2024, KEP Trust continued to demonstrate solid growth in its lending operations, further strengthening its role as a key player in Kosovo's microfinance sector. By the end of the year, KEP's outstanding loan portfolio reached €116.1 million, marking a substantial increase of 27% compared to 2023, when the portfolio stood at €91.4 million.

This performance was slightly above the average growth of the MFI market. While the MFI market grew by approximately 26.7%, KEP's growth outpaced it slightly, reflecting strong demand for its financial products and effective lending practices.

In terms of market share by loan volume, KEP accounted for 28.4% of the total microfinance portfolio in Kosovo at the end of 2024. Similarly, KEP's share of active clients reached 27.1%, up from 26.5% in 2023. This increase in client base reflects KEP's ongoing commitment to financial inclusion, with a focus on expanding access to credit for underserved communities.

These results underscore KEP's ability to grow responsibly, balancing portfolio expansion with outreach to new and existing clients throughout the country.

LOAN PORTFOLIO MARKET SHARE 2024

KEP



A horizontal bar chart for KEP. The bar is divided into two segments: a teal segment on the left representing 28.4% and a pink segment on the right representing the remaining 71.6%.

Category	Market Share
KEP	28.4%
OTHER MFIs	71.6%

28.4%

OTHER MFIs



A horizontal bar chart for OTHER MFIs. The bar is divided into two segments: a teal segment on the left representing 71.6% and a pink segment on the right representing the remaining 28.4%.

Category	Market Share
KEP	28.4%
OTHER MFIs	71.6%

71.6%

ACTIVE CLIENTS MARKET SHARE 2024

KEP



A horizontal bar chart with two bars. The top bar is divided into a teal segment on the left and a pink segment on the right. The teal segment contains the text '27.1%'. The bottom bar is also divided into a teal segment on the left and a pink segment on the right. The teal segment contains the text '72.9%'. The bars are positioned below their respective category labels.

27.1%

OTHER MFIs

72.9%

The success of KEP's lending performance in 2024 was largely driven by a strategic focus on key sectors, with the main growth coming from the agricultural and business segments. A significant portion of the portfolio was concentrated in support of small and medium-sized enterprises (SMEs), micro businesses, and Agro small farmers. At the same time, KEP continued to advance personal and green loans, fostering both economic activity and environmentally sustainable investments across Kosovo.

KEP's advancements in digital services also contributed significantly to growth. Online loan applications became more widely adopted, offering clients a simple, fast, and secure way to access financing. The year 2024 saw important developments in digitalization, including more user-friendly application tools, improved client communication platforms, and back-office adjustments to speed up decision-making. These innovations are part of KEP's long-term strategy to offer fully digital and client-centered lending services.

In addition, strategic partnerships enabled clients to apply for loans and make installment payments at partner locations across the country. These collaborations enhance the customer experience by offering greater convenience and minimizing the need for travel, particularly for clients in remote areas. This approach not only elevates service quality but also strengthens operational efficiency and broadens KEP's outreach.

FINANCIAL RESULTS

In 2024, KEP achieved significant growth in its financial position, reflecting its strong operational performance and prudent financial management. Total assets increased by 20.7% compared to the previous year, reaching €121.3 million. The asset structure continued to be dominated by customer loans, which accounted for 92.8% of total assets after loan loss provisioning.

As of December 31, 2024, gross loans amounted to €115.5 million, representing a 26.5% increase compared to the previous year. Provisions for loan losses rose by 17.6%, demonstrating KEP's commitment to maintaining a healthy and stable loan portfolio, fully aligned with IFRS 9 standards. These provisions reflect management's best estimates for credit losses based on loans assessed as not fully recoverable at the reporting date.

Despite ongoing global economic challenges, KEP's total borrowing obligations increased by 24.5%, reaching €84.1 million. This growth supports the expansion of KEP's lending activities while ensuring a balanced funding structure.

The organization's surplus stood at **€35.0 million**, including €4.5 million generated through economic activities during the year. Net income after tax reached €4.5 million, an increase of approximately €0.65 million compared to 2023, reaffirming KEP's ability to deliver sustainable financial services tailored to client needs.

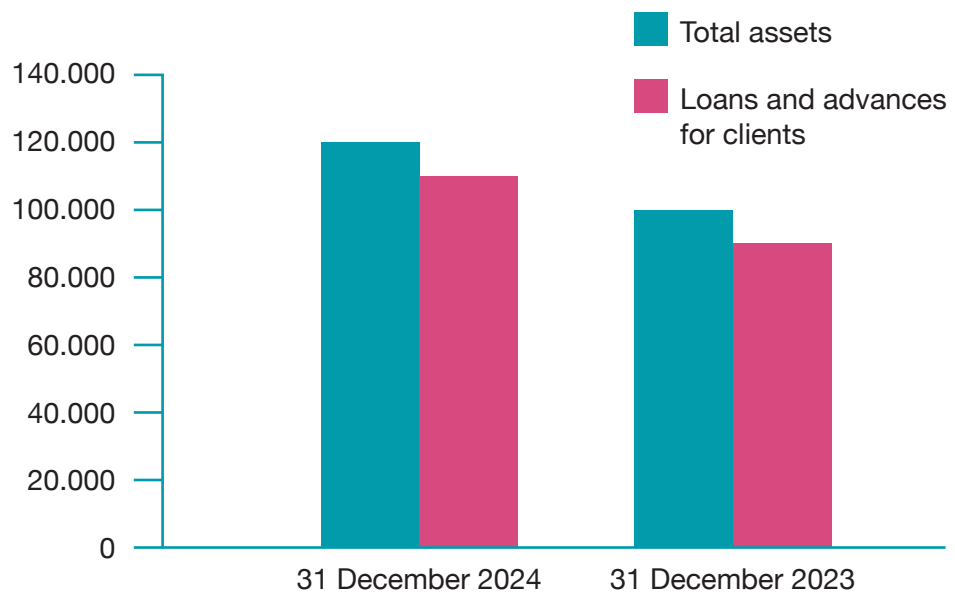
KEP's primary source of income remained interest from loans, representing a significant portion of total revenue. Staff expenses as of December 31, 2024, totaled €4.8 million, marking a 17.7% increase compared to the prior year. This rise was primarily due to salary adjustments in line with inflation and ongoing investments in staff training and professional development-both seen as critical for KEP's long-term growth.

General and administrative expenses, excluding loan loss provisions, amounted to €2.8 million, an increase of 10% compared to 2023. Nevertheless, the ratio of net income to general expenses (excluding provisioning costs) remained stable below 60%, highlighting KEP's ongoing commitment to operational efficiency and cost control.

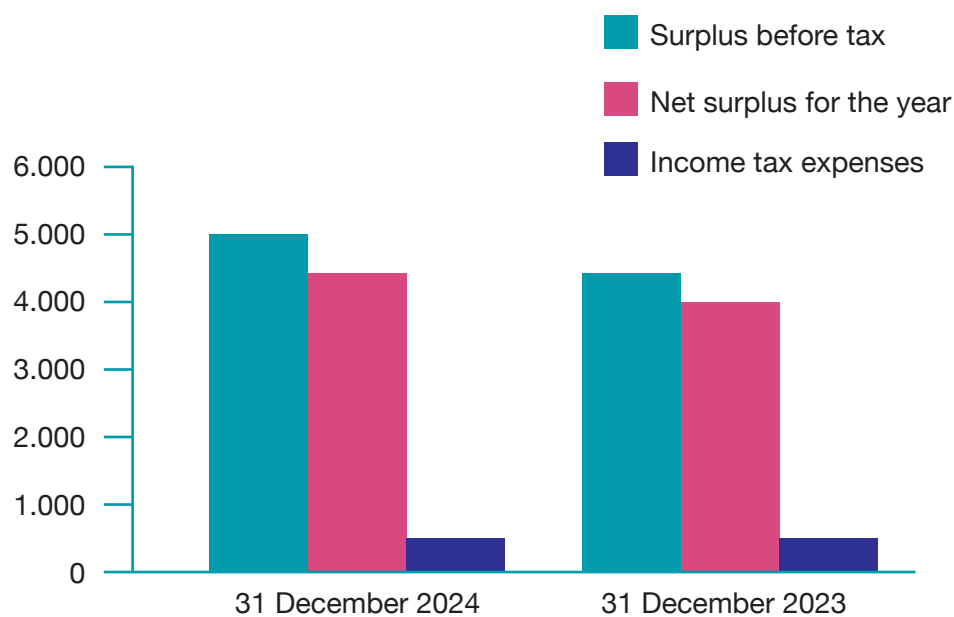
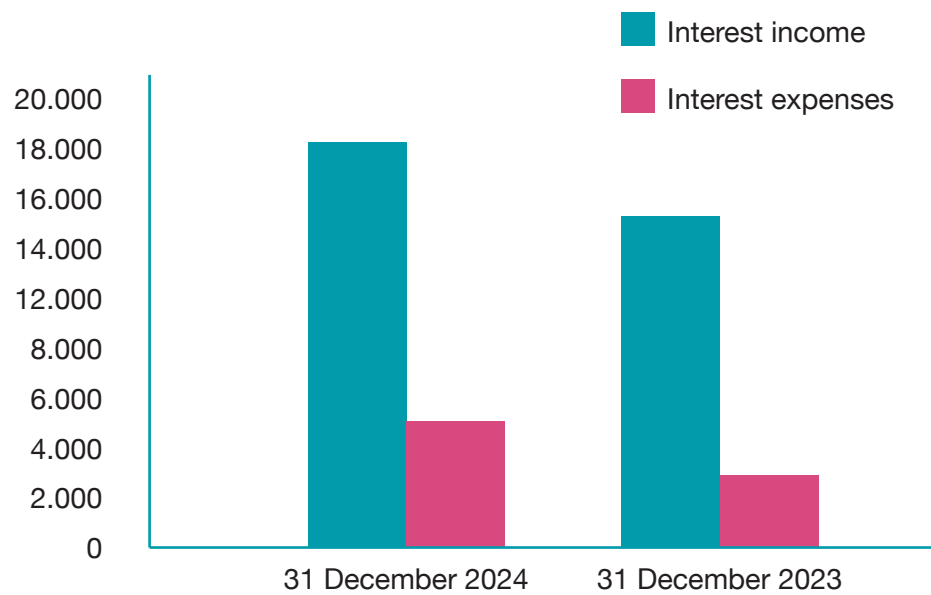
Regarding corporate income tax, KEP paid €495,000 during 2024, resulting in an effective tax rate of 9.9%.

All reported financial data for 2024 has been prepared and presented in accordance with International Financial Reporting Standards (IFRS) and the regulatory requirements of the Central Bank of Kosovo (CBK).

IN MILLION EUR



IN MILLION EUR



ACCOUNTING AND FINANCIAL REPORTING

In 2024, the Accounting and Financial Reporting Department remained a cornerstone of KEP's financial stability and transparency. The department continued to deliver on its core mission: maintaining accurate financial records, ensuring compliance with national regulations and international standards, supporting operational liquidity, and advancing digital solutions for financial efficiency.

A key priority throughout the year was maintaining accurate and timely financial reporting. The department ensured compliance with the Law on Accounting and the regulatory framework set by the Central Bank of Kosovo (CBK), while meeting all reporting obligations toward the CBK, the Tax Administration of Kosovo (TAK), and other stakeholders. The team also prepared financial statements for internal and external purposes, delivering data-driven insights to support strategic decision-making and operational planning.

The department's responsibilities extended to managing cash flow, strengthening internal controls, and supporting branches with financial operations to ensure liquidity for credit disbursement. Automated financial reporting and enhanced internal analytics provided management with clearer, faster, and more informed assessments of institutional performance.

One of the year's key milestones was the digitalization of fixed asset inventory, initiated in collaboration with the Administration Department. A centralized electronic registry was established, and all assets were labeled with barcodes, improving transparency, and reducing the risk of data errors or loss. This modernization step represents a long-term commitment to asset integrity and operational efficiency.

Another notable achievement was the strategic placement of excess funds into short-term deposits with licensed financial institutions. The department successfully completed the annual external audit process, receiving an unqualified opinion-further reflecting KEP's commitment to financial integrity.

Key achievements in 2024 include:

- Timely compliance with all legal and regulatory reporting requirements
- Ongoing digitalization of fixed asset management
- Strategic liquidity management through excess fund placement
- Strengthened internal reporting and financial analysis tools
- Reliable support to branch operations for credit and cash flow needs
- Positive external audit results with no qualifications

The department remains committed to innovation, accountability, and continuous improvement-ensuring that KEP's financial foundation remains strong, transparent, and adaptable to future challenges.

Risk Management

Risk management remains a fundamental component of KEP Trust's operational and strategic framework. Operating in a dynamic financial environment, KEP Trust faces a range of risks that may impact its operations and financial position. These include credit risk, operational risk, liquidity risk, foreign exchange risk, and interest rate risk.

To ensure long-term sustainability and stability, KEP has established internal policies and mechanisms for identifying, assessing, monitoring, and mitigating risks. Effective risk management is not only a regulatory requirement but a vital element in maintaining trust with investors, clients, and other stakeholders. Central to this approach is the cultivation of a risk-aware institutional culture that emphasizes prevention and accountability at all levels.

Credit Risk

Credit risk remains the primary risk exposure, given the nature of KEP's business and the market environment. It refers to the potential loss arising from a client's failure to meet their contractual loan obligations.

The main objectives of credit risk management are maintaining a high-quality loan portfolio, minimizing risk concentration, and ensuring adequate provisioning in line with IFRS 9. KEP's strategy includes rigorous creditworthiness assessments, prevention of over-indebtedness, continuous loan monitoring, and proactive management of non-performing exposures.

Technological tools play an increasing role. KEP currently uses an automated scoring system (“Scorecard”) for credit decisions up to EUR 2,000 and is piloting a similar tool for loans up to EUR 5,000. These tools have improved risk assessment accuracy and decision-making efficiency, reducing response time to clients.

Credit portfolio stress testing is also performed to evaluate the institution’s resilience under adverse scenarios. These simulations help identify vulnerabilities and enable preventive action.

Operational risk includes losses resulting from inadequate processes, human error, system failures, or external events. KEP has implemented dedicated structures and procedures for identifying, assessing, and monitoring operational risks. Incident reporting, root cause analysis, and preventive actions are integral parts of this process.

Operational Risk

Staff training, enhanced internal controls, and regular business continuity testing further strengthen KEP's ability to manage operational risk effectively.



Liquidity Risk

Liquidity risk management relies on robust policies and procedures aligned with regulatory standards. KEP's strong loan portfolio, small loan sizes, and short maturities enable predictable cash inflows. Emergency liquidity reserves and diversified funding sources-including local and international lenders-enhance institutional resilience.

Regular liquidity stress testing simulates internal or external shocks, ensuring KEP maintains a sound liquidity position and meets obligations without operational disruptions.



Interest Rate and Funding Risk

Fluctuations in market interest rates can impact KEP's cost of funding and financial sustainability. In 2024, the increase in EURIBOR posed challenges across the sector. However, KEP maintained stability through a balanced mix of fixed and variable rate loans and borrowings, reducing exposure to interest rate volatility.

The institution's strong capital base-built through sustained performance-has acted as a natural buffer against rising borrowing costs. KEP has also enhanced internal analytical capacity through regular sensitivity analysis and scenario simulations, supporting data-driven decisions and proactive risk management.

Through a proactive approach and strong internal systems, KEP Trust remains well-positioned to navigate market uncertainties and sustain long-term growth.

Human Resources

In 2024, the Human Resources Department continued to play a strategic role in supporting KEP's growth through targeted recruitment, capacity building, and staff development initiatives. Most recruitment efforts focused on credit analyst positions, reflecting the institution's expanding operational needs. Additionally, new roles were added to strengthen the IT, Data Analytics, and Reporting departments, in alignment with KEP's digital transformation objectives.

Staff turnover remained very low throughout the year, demonstrating a high level of employee engagement and satisfaction.

Training programs were tailored to enhance both technical and interpersonal skills. A major focus was placed on soft skills training, covering various roles across the institution. Branch managers and selected credit analysts received specialized coaching, while department leaders at the Head Office participated in leadership development sessions. As outlined in the previous year's training plan, several staff members also achieved internationally recognized certifications relevant to their professional roles within KEP.

The internship program continued to provide valuable practical experience across both branches and departments, contributing to talent development and future recruitment.

Looking ahead to 2025, recruitment will remain centered around credit analyst positions. Training will shift toward more technical content, targeting branch managers, credit analysts, and SME lending staff. A key HR priority will be the advancement and implementation of internal policies, particularly those addressing Gender-Based Violence and Harassment (GBVH) and Human Rights.

Furthermore, internal capacity building will continue, with a renewed focus on succession planning, which is set to be updated in the coming period to ensure sustainable leadership development.

Information Technology

The IT Department continued to play a vital role in supporting the institution's goals and enabling the implementation of new initiatives throughout 2024. With a clear focus on reliability, performance, and innovation, IT has remained a fundamental pillar in enhancing the operational efficiency of KEP.

A major part of the department's efforts focused on maintaining and improving the network infrastructure. Continuous monitoring and upgrading ensured that KEP's services remain accessible, secure, and of high quality for both staff and clients. Ongoing support to staff across all branches was also provided, facilitating smooth day-to-day operations, and helping resolve technical issues promptly.

Strategic investments were made in upgrading the entire information technology infrastructure, aimed at ensuring long-term scalability and enhanced digital performance. These investments reflect KEP's commitment to technological advancement and a modern working environment.

Throughout the year, the department implemented significant improvements and updates to key internal systems. Notably, enhancements were made to the internal platform used for managing staff requests related to system development and modifications. In addition, improvements were carried out in the digital platform that supports cooperation with external partners, making interactions more streamlined and efficient.

By continuously evolving its technological capabilities, the IT Department has contributed meaningfully to KEP's strategic direction-ensuring that the institution remains agile, future-ready, and digitally empowered.



Organization and Process Management

The Department of Organization and Process Management remained committed throughout 2024 to enhancing operational efficiency, with a particular focus on Environmental, Social, and Governance (ESG) matters. Recognizing the growing importance of sustainability, the department undertook a comprehensive revision of KEP's ESG and sustainability strategy to align with industry best practices and evolving global standards.

A key milestone of the year was the development and publication of KEP's first standalone Sustainability Report. This significant step highlights the institution's dedication to transparency and accountability regarding its environmental and social performance. In addition, KEP successfully conducted a comprehensive Greenhouse Gas (GHG) emissions assessment, providing valuable insight into the organization's environmental footprint.

To further promote awareness and engagement across the institution, a dedicated ESG training module was designed and launched. The training equips employees with essential knowledge about ESG principles and sustainability practices, empowering them to drive meaningful change in their respective roles.

In parallel, KEP continued to invest in operational efficiency. The company's vehicle fleet underwent further modernization, incorporating newer, more energy-efficient models that contribute to fuel savings and emissions reduction. Significant progress was also made in upgrading heating and cooling systems across branch locations, enhancing both energy efficiency and environmental performance.

These initiatives, coupled with KEP's ongoing digital transformation and focus on continuous operational improvement, reflect the organization's broader vision of becoming a more sustainable, responsible, and future-ready institution. Looking ahead, KEP remains fully committed to embedding ESG principles across all areas of its operations, expanding access to inclusive financial services, and creating long-term value for clients and stakeholders alike.



Operational support

In 2024, the Operations Support Unit played a key role in ensuring the efficiency and accuracy of lending operations across KEP. The main achievements of the unit included minimizing errors in credit approval processes and enhancing overall work efficiency.

The time required to process credit applications from branches was reduced, contributing to faster and more efficient service delivery. The introduction of internal reporting tools made it easier to monitor access requests, improving control and accountability. Additionally, all collateral registration cases with the Ministry of Trade and Industry (MTI) were completed within the required deadlines.

For the upcoming year, the unit plans to transition into a formal department to better align with its expanding responsibilities. Furthermore, due to the increased volume of work, the Collateral Registration Unit (MTI) is expected to be expanded to improve capacity and maintain timely service.



Social Responsibility

KEP continued to demonstrate a strong commitment to social responsibility by actively supporting initiatives that contribute to the well-being and development of communities across Kosovo.

One of the main areas of focus remained the promotion of local culture. Through financial support and collaboration with local organizations, KEP helped organize cultural events, especially in smaller towns and rural areas, where such initiatives play a vital role in preserving heritage and strengthening local identity.

At the national level, the institution supported the development of sports by maintaining partnerships with major sports federations. These efforts contributed to the growth of talent and encouraged national pride through broader participation and increased visibility in competitive sports.

In the field of healthcare, KEP provided support for individuals and families in need, contributing to the coverage of urgent medical expenses and collaborating with organizations dedicated to improving access to healthcare services.

Environmental sustainability was also a key pillar of KEP's social responsibility agenda. Throughout the year, the institution supported organizations engaged in environmental protection and awareness campaigns, reinforcing its commitment to a greener and more sustainable future.

Recognizing the importance of education and innovation, KEP supported competitions in public schools, with a special focus on technology, digital skills, and robotics. These initiatives encouraged creativity, critical thinking, and interest in fields essential to Kosovo's future development. Additionally, KEP contributed to scholarship programs for students through AMIK, further supporting access to education and helping to strengthen the country's human capital and future workforce.



INDEPENDENT AUDITOR'S REPORT

KEP TRUST

**Independent Auditor's Report and
Financial Statements for the year
ended 31 December 2024
prepared in accordance with
International Financial Reporting
Standards (IFRSs)**



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of KEP Trust

Opinion

We have audited the financial statements of KEP Trust (the "Organisation" or "KEP"), which comprise the statement of financial position as at December 31, 2024, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organisation as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organisation in accordance with the International Ethics Standards Board for Accountant's International Code of Ethics for Professional Accountant's (including International Independence Standards, IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with IESBA Code.

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

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

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

In preparing the financial statements, management is responsible for assessing the Organisation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organisation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organisation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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




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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organisation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



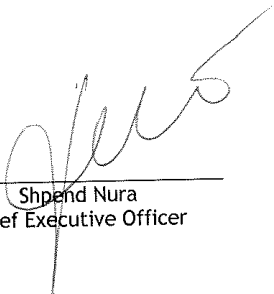
Burim Cena,
Engagement Partner

BDO Kosova L.L.C.
Str. Ukshin Hoti, Ob. C4/3, Ent. A, 2nd Floor,
10 000 Prishtinë, Kosovë
March 27, 2025


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

	Note	31 December 2024	31 December 2023
ASSETS			
Cash and cash equivalents	6	5,621	8,614
Loans and advances to customers	7	112,604	88,796
Right of use of assets	11	1,450	1,464
Other assets	8	191	175
Property and equipment	9	1,000	988
Intangible assets	10	510	514
TOTAL ASSETS		121,376	100,551
LIABILITIES			
Borrowings	12	84,148	67,574
Lease liability	11	1,489	1,477
Provisions	13	284	500
Other liabilities	14	425	465
TOTAL LIABILITIES		86,346	70,016
FUND BALANCES			
Retained earning		35,030	30,535
TOTAL FUND		35,030	30,535
TOTAL		121,376	100,551

The financial statements were authorized for issue by the Board of Directors on 27 March 2025 and signed on its behalf by:



Shpend Nura
Chief Executive Officer



Adrian Alo
Chief Financial Officer

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

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

	Note	Year ended 31 December 2024	Year ended 31 December 2023
Interest income at effective interest rate	15	17,933	14,688
Interest expense	12	(4,831)	(2,860)
Net interest income		13,102	11,828
Fee and commission income		87	61
Fee and commission expense		(54)	(53)
Net fee and commission income		33	8
Other income	16	399	398
Credit loss expense on loans and advances to customers	7	(1,110)	(1,086)
Personnel expenses	17	(4,846)	(4,115)
Administrative expenses	18	(1,875)	(1,758)
ROU depreciation	11	(469)	(387)
Depreciation and amortization	9,10	(364)	(318)
Loss on disposal of equipment		(1)	(15)
Lease liability cost	11	(95)	(60)
Provision expense for claims and litigations	13	216	(144)
Operating expenses		(8,544)	(7,883)
Profit before income tax		4,990	4,351
Income tax expense	19	(495)	(508)
Profit after income tax		4,495	3,843

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

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

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

	Retained Earning
Balance on 1 January 2023	26,692
Total comprehensive earning for the year	
Profit for the year	3,843
Other comprehensive income	-
Total comprehensive income for the year	3,843
Balance on 31 December 2023	30,535
Total comprehensive earning for the year	
Profit for the year	4,495
Other comprehensive income	-
Total comprehensive income for the year	4,495
Balance on 31 December 2024	35,030

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

KEP TRUST
Statement of Cash Flows
(All amounts are expressed in '000 Euro)

		For the year ended	For the year ended
	Note	31 December 2024	31 December 2023
Cash flows from operating activities			
Profit before income tax		4,990	4,351
Adjustments for:			
Depreciation and amortization	9,10	364	318
ECL/Impairment of loans	7	1,110	1,086
Change in provision for legal claims	13	(216)	144
Loss on disposal of equipment		1	15
Interest income		(17,933)	(14,688)
Interest expenses		4,831	2,860
		<u>(6,853)</u>	<u>(5,914)</u>
Change in loans and advances to customers		(24,650)	(19,376)
Change in other assets		(2)	(836)
Change in other liabilities		31	981
		<u>(31,474)</u>	<u>(25,145)</u>
Interest received		17,665	14,488
Income tax paid		(554)	(549)
Net cash used in operating activities		<u>(14,363)</u>	<u>(11,206)</u>
Cash flows from investing activities			
Acquisition of equipment and leasehold improvements	9	(345)	(692)
Acquisition of intangible assets	10	(28)	(135)
Net cash used in investing activities		<u>(373)</u>	<u>(827)</u>
Cash flows from financing activities			
Disbursements during the year		47,929	36,280
Repayments during the year		(31,627)	(18,225)
Interest paid		(4,559)	(2,515)
Net cash from financing activities		<u>11,743</u>	<u>15,540</u>
Net increase in cash and cash equivalents		<u>(2,993)</u>	<u>3,507</u>
Cash and cash equivalents at 1 January		8,614	5,107
Cash and cash equivalents at 31 December	6	<u><u>5,621</u></u>	<u><u>8,614</u></u>

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

KEP Trust

Notes to the financial statements

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

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 2024, the Organisation operated through 31 branches (2023: 31 branches)

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

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

Board of Directors

As of 31 December 2024, the following members composed the Board of Directors:

Korab Sejdiu - Chairman of the Board

Birgit Rauleder - Member of the Board

Barbara Wasmus Sajet- Member of the Board

Elza Herman- Member of the Board

Arbër Hoti - Member of the Board

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

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

2.3 Going concern

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

2.4 Functional and presentation currency

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

2. BASIS OF PREPARATION (CONTINUED)

2.5 Use of estimates and judgments

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION

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

a) Interest income and expense

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

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

When calculating the effective interest rate for purchased or originated credit impaired financial assets (POCI), a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

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

However, under IFRS 9 for financial assets that have become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Under IFRS 9 for financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**b) Fees and commission**

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Under IFRS 15 the Organisation earns fee and commission income from financial services it provides to its customers. Fee and commission income are recognised at an amount that reflects the consideration to which the Organisation expects to be entitled in exchange for providing the services.

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

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

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

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

c) Tax expense

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority. Additional taxes that arise from the distribution of dividends by the Organisation are recognised at the same time as the liability to pay the related dividend is recognised.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

c) Tax expense (continued)

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

(iii) Uncertain tax positions

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

d) Foreign currency transactions

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

e) Financial assets and liabilities

(i) Recognition

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

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

The Organisation recognizes all its:

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through other Comprehensive Income (FVOCI) or Fair Value through Profit or loss (FVTPL).

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Organisation may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All Organisation's financial assets are classified as measured at amortised cost.

Business model assessment

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(ii) Classification (continued)

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Organisation considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Organisation considers:

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

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

Reclassifications

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

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

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

(iii) Derecognition

Financial assets

The Organisation derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Organisation neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organisation is recognised as a separate asset or liability.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(iii) Derecognition (continued)

Financial assets (continued)

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

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

The Organisation enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

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

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

Financial liabilities

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

(iv) Modifications of financial assets

If the terms of a financial asset are modified, the Organisation evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Organisation recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

(v) Offsetting

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

Financial liabilities (continued)

(vi) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

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

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Organisation determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Organisation measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment

Measurement of ECLs

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

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

Definition of default

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

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

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

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

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

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

Credit risk grades

The Organisation allocates each exposure to a credit risk grade based on requirements set forth by Credit Risk Management regulation by using qualitative and quantitative factors that are indicative of the risk of default. In addition to the risk classes introduced for regulatory purposes, the Organisation identifies and monitors separately standard loans in past due from standard loans not in past due.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Significant increase in credit risk

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**e) Financial assets and liabilities (continued)***(viii) Identification and measurement of impairment (continued)***Significant increase in credit risk (continued)**

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

The Organisation will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable; and
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired.

Determining whether credit risk has increased significantly

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

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

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

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

KEP Trust

Notes to the financial statements

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Significant increase in credit risk (continued)

Grouping of loans

Collective assessment of PD - Probability of Default

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

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

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

- Agro
- Business
- Consumer
- Housing

Collective assessment of LGD

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

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

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

Modified financial assets

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

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

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the Organisation will consider whether the asset's credit risk has increased significantly by analysing quantitative and qualitative factors affecting risk of default. More specifically, the Organisation shall assess whether there has been a significant increase in the credit risk of the financial instrument by comparing:
the risk of a default occurring at the reporting date (based on the modified contractual terms);
and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Modified financial assets (continued)

The Organisation renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Organisation's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and business loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of default and credit impairment, and expectations of forbearance are relevant to assessing whether there is a significant increase in credit.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over eight months before the exposure is measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

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

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

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

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Organisation has employed statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators are likely to include GDP growth, interest rates and unemployment. The Organisation's approach to incorporating forward-looking information into this assessment is discussed below.

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

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

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

Forward-looking information

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

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

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

The Organisation has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include interest rates, unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 years.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e) Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment (continued)

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

Loans are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Organisation determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Organisation's procedures for recovery of amounts due.

f) Cash and cash equivalents

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

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

g) Borrowings

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

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

h) Property and equipment

Items of Property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment. The cost of replacing part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Organisation and its cost can be measured reliably. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

h) Property and equipment (continued)

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

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

(i) Depreciation

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

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

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

Intangible assets acquired by the Organisation are stated at cost less accumulated amortization and accumulated impairment losses.

i) Intangible assets

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the assets. The estimated useful life of the intangible assets is determined as per the contract validity or 10 years.

j) Leases

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

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

The lease liability is initially measured at the present value of the lease payments

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

j) Leases (continued)

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

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

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

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

j) Leases (continued)

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

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

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

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

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

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

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

k) Provisions

A provision is recognised if, as a result of a past event, the Organisation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

l) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

In the current year, the Company has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2024.

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

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

4.2 Standards, amendments and interpretation issued but not yet effective

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

The following amendments are not effective for the period beginning 1 January 2024:

- Lack of Exchangeability (Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates);
- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 Financial Instruments);
- Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7);
- IFRS 18 Presentation and Disclosure in Financial Statements;
- IFRS 19 Subsidiaries without Public Accountability: Disclosures;

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

5. USE OF ESTIMATES AND JUDGMENTS

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

a) Expected Credit Losses

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

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

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

b) Determining fair values

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

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

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

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

c) Disclosure and estimation of fair value

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

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 2024		31 December 2023	
	Fair value Level 3	Carrying amount	Fair value Level 3	Carrying amount
Financial Assets				
Loans and advances to customers	113,083	112,604	89,166	88,796
Financial Liabilities				
Borrowings	84,268	84,148	68,082	67,574

The carrying amounts of loans and borrowings at 31 December 2024 are lower than the fair values for loans, because the current market rates of 18.7% (referring to Monthly Report of Financial System, CBK for Dec 2024) are lower for loans and 6% for borrowings are higher (2023: lower 19.1% for loans and lower 6.2% for borrowings).

KEP Trust**Notes to the financial statements***(All amounts are expressed in '000 Euro, unless otherwise stated)***6. CASH AND CASH EQUIVALENTS**

	31 December 2024	31 December 2023
Cash at banks	4,879	7,947
Cash on hand	742	667
	<u>5,621</u>	<u>8,614</u>

7. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2024	31 December 2023
Loans and advances to customers	115,563	91,311
Less: allowance for impairment	(2,959)	(2,515)
	<u>112,604</u>	<u>88,796</u>

Movements in the allowance for impairment are as follows:

	31 December 2024	31 December 2023
Balance at 1 January	2,515	1,879
Impairment charge	1,110	1,086
Amounts written-off	(666)	(450)
Balance at 31 December	<u>2,959</u>	<u>2,515</u>

The Organisation has secured overdrafts and loans with three local banks with a loan portfolio outstanding totalling EUR 10,160 as at end of December 2024 (overdraft 2023: EUR 3,750). The loan portfolios are required to have zero days past due and a collateral coverage ratio of at least 150% (note 12).

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Notes to the financial statements

(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 2024	635	2	10	647
New assets originated or purchased	907	1	-	908
Assets de-recognised or repaid	(886)	(3)	(4)	(893)
Transfers to Stage 1	(7)	3	4	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(7)	(7)
Total	649	3	3	655

Agro Loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2024 under IFRS 9	5	1	7	13
New assets originated or purchased	4	-	-	4
Assets de-recognised or repaid	(1)	-	(1)	(2)
Transfers to Stage 1	(3)	1	2	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(6)	(6)
Total	5	2	2	9

Agro Loans >3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2024	15,652	54	154	15,860
New assets originated or purchased	16,177	14	-	16,191
Assets de-recognised or repaid	(10,285)	(41)	(38)	(10,364)
Transfers to Stage 1	(201)	104	97	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	6	(6)	-
Amounts written off	-	-	(53)	(53)
Total	21,343	137	154	21,634

Agro Loans >3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2024 under IFRS 9	184	20	116	320
New assets originated or purchased	115	12	24	151
Assets de-recognised or repaid	(18)	(27)	(63)	(108)
Transfers to Stage 1	(101)	34	67	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	1	(1)	-
Amounts written off	-	-	(40)	(40)
Total	180	40	103	323

7. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)Business Loans <=3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2024	981	79	26	1,086
New assets originated or purchased	1,067	-	-	1,067
Assets de-recognised or repaid	(1,056)	(60)	(7)	(1,123)
Transfers to Stage 1	(36)	14	22	-
Transfers to Stage 2	-	1	(1)	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(15)	(15)
Total	956	34	25	1,015

Business Loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2024 under IFRS 9	11	24	19	54
New assets originated or purchased	6	2	3	11
Assets de-recognised or repaid	12	(19)	(8)	(15)
Transfers to Stage 1	(21)	5	16	-
Transfers to Stage 2	-	1	(1)	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(12)	(12)
Total	8	13	17	38

Business Loans >3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2024	27,762	1,090	297	29,149
New assets originated or purchased	32,337	9	4	32,350
Assets de-recognised or repaid	(18,765)	(604)	(49)	(19,418)
Transfers to Stage 1	(652)	293	359	-
Transfers to Stage 2	-	(80)	80	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(144)	(144)
Total	40,682	708	547	41,937

Business Loans >3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2024 under IFRS 9	321	386	213	920
New assets originated or purchased	209	19	60	288
Assets de-recognised or repaid	139	(237)	(83)	(181)
Transfers to Stage 1	(351)	101	250	-
Transfers to Stage 2	-	(60)	60	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(114)	(114)
Total	318	209	386	913

KEP Trust
Notes to the financial statements

(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 2024	17,041	227	322	17,590
New assets originated or purchased	29,091	3	-	29,094
Assets de-recognised or repaid	(23,477)	(141)	(66)	(23,684)
Transfers to Stage 1	(738)	296	441	-
Transfers to Stage 2	-	(76)	76	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(191)	(191)
Total	21,917	309	583	22,809

Consumer loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2024 under IFRS 9	277	89	263	629
New assets originated or purchased	351	51	106	508
Assets de-recognised or repaid	258	(71)	(154)	33
Transfers to Stage 1	(471)	116	355	-
Transfers to Stage 2	-	(64)	64	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(165)	(165)
Total	415	121	469	1,005

Housing Loans <=3

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of 1 January 2024	2,214	32	78	2,324
New assets originated or purchased	1,337	2	-	1,339
Assets de-recognised or repaid	(2,064)	(18)	(21)	(2,103)
Transfers to Stage 1	(70)	43	27	-
Transfers to Stage 2	-	(15)	15	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(41)	(41)
Total	1,417	44	58	1,519

Housing Loans <=3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2024 under IFRS 9	23	10	59	92
New assets originated or purchased	9	1	3	13
Assets de-recognised or repaid	17	1	(16)	2
Transfers to Stage 1	(34)	13	21	-
Transfers to Stage 2	-	(12)	12	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(33)	(33)
Total	15	13	46	74

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Notes to the financial statements

(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 2024	24,157	237	262	24,656
New assets originated or purchased	17,005	16	-	17,021
Assets de-recognised or repaid	(15,373)	(120)	(58)	(15,551)
Transfers to Stage 1	(725)	554	171	-
Transfers to Stage 2	-	(59)	59	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(132)	(132)
Total	25,064	628	302	25,994

Housing Loans >3

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2024 under IFRS 9	209	79	197	485
New assets originated or purchased	97	25	24	146
Assets de-recognised or repaid	181	(38)	(76)	67
Transfers to Stage 1	(314)	181	133	-
Transfers to Stage 2	-	(47)	47	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(101)	(101)
Total	173	200	224	597

	As at 31 December 2024				As at 31 December 2023	
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Loans and advances	112,026	1,865	1,672	-	115,563	91,311
Low- fair risk	112,026	1,183	14	-	113,223	89,614
Monitoring	-	426	-	-	426	254
Substandard	-	256	24	-	280	296
Doubtful	-	-	554	-	554	324
Lost	-	-	1,080	-	1,080	823
Less: allowance	1,114	592	1,253	-	2,959	2,515
Carrying amount	110,912	1,273	419	-	112,604	88,796

KEP Trust

Notes to the financial statements

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

8. OTHER ASSETS

	31 December 2024	31 December 2023
Prepaid expenses	121	91
Advances to employees	17	20
Other receivables	53	64
	<u>191</u>	<u>175</u>

Prepaid expenses include prepayments of EUR 29 for Annual Microsoft 365 licence for 2025 and EUR 40 for Management Fee of international lender.

9. PROPERTY AND EQUIPMENT

	Motor vehicles	Computers and electronic equipment	Furniture and Fittings	Leasehold Improvements	Total
Cost					
Balance at 1 January 2023	643	630	1,027	470	2,770
Additions	-	85	241	367	693
Disposals	-	(23)	(86)	(55)	(164)
Balance at 31 December 2023	643	692	1,182	782	3,299
Additions	107	56	80	102	345
Disposals	-	(5)	(31)	-	(36)
Balance at 31 December 2024	750	743	1,231	884	3,608
Accumulated depreciation					
Balance at 1 January 2023	(508)	(463)	(827)	(377)	(2,175)
Charge for the year	(65)	(69)	(94)	(57)	(285)
Disposals	-	22	83	44	149
Balance at 31 December 2023	(573)	(510)	(838)	(390)	(2,311)
Charge for the year	(50)	(71)	(108)	(103)	(332)
Disposals	-	5	30	-	35
Balance at 31 December 2024	(623)	(576)	(916)	(493)	(2,608)
Carrying amounts					
At 31 December 2023	70	182	344	392	988
At 31 December 2024	127	167	315	391	1,000

As at 31 December 2024, the Organisation has not pledged any property or equipment as collateral (2023: nil).

10. INTANGIBLE ASSETS

	<i>Programs/Software</i>
Cost	
Balance at 1 January 2023	664
Additions	135
Balance at 31 December 2023	799
Additions	28
Balance at 31 December 2024	827
Accumulated amortization	
Balance at 1 January 2023	(252)
Amortization for the year	(33)
Balance at 31 December 2023	(285)
Amortization for the year	(32)
Balance at 31 December 2024	(317)
Carrying amounts	
At 31 December 2023	514
At 31 December 2024	510

11. RIGHT OF USE ASSET AND LEASE LIABILITY

	Right of use asset Building
Cost	
As at January 1, 2023	2,239
Additions	1,222
Disposals	(50)
As at December 31, 2023	3,411
Additions	455
Disposals	(1,571)
As at December 31, 2024	2,295
Accumulated depreciation	
As at January 1, 2023	(1,560)
Charge	(387)
As at December 31, 2023	(1,947)
Charge	(469)
Disposal	1,571
As at December 31, 2024	(845)
Carrying amounts	
December 31, 2023	1,464
December 31, 2024	1,450

KEP Trust

Notes to the financial statements

(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, 2023	683
Additions	1,222
Disposals	(50)
- Less lease payments	(438)
+ Interest on Lease Liabilities	60
Lease liability as at December 31, 2023	<u>1,477</u>
Additions	455
Disposals	-
- Less lease payments	(538)
+ Interest on Lease Liabilities	95
Lease liability as at December 31, 2024	<u>1,489</u>
Maturity of lease liability	
Not later than one year	503
Later than one year and not later than five years.	986
Later than five years	-
Total	<u>1,489</u>

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

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

All lease obligations are denominated in currency units.

Total cash outflow for leases in 2024 was EUR 538. (2023: EUR 438)

KEP Trust**Notes to the financial statements***(All amounts are expressed in '000 Euro, unless otherwise stated)***12. BORROWINGS**

As at 31 December 2023 and 2024, borrowings of the Organisation are composed as follows:

31 December 2023

	% Range	Maturity range	Amount
International lenders			
Fixed interest rate	3.30%-5.80%	17 - 49 months	38,393
Floating interest rates	3.30%-3.75% + Euribor 6M	33 - 51 months	25,776

Local Lenders	% Range	Maturity range	Amount
With Fixed rate	5.50%	24 - 36 months	1,642
Overdraft	4.50%-5.00%	3 - 12 months	1,446

Principal outstanding	67,257
Accrued interest	770
Deferred fee	(453)

Total	67,574
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31 December 2024

	% Range	Maturity range	Amount
International lenders			
Fixed interest rate	3.30%-6.20%	21 - 49 months	36,938
Floating interest rates	2.48%-3.75% + Euribor 6M	25 - 51 months	33,569

Local Lenders	% Range	Maturity range	Amount
With Fixed rate	5.20%-6.20%	24 - 37 months	12,109
Overdraft	4.80%-5.50%	12 months	943

Principal outstanding	83,559
Accrued interest	1,152
Deferred fee	(563)

Total	84,148
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The total interest expense for these borrowings in 2024 is EUR 4,831 (2023: EUR 2,860).

KEP Trust**Notes to the financial statements***(All amounts are expressed in '000 Euro, unless otherwise stated)***12 BORROWINGS (CONTINUED)**

	31 December 2024	31 December 2023
Principal outstanding at 1 January	67,257	49,203
Disbursements during the year	47,929	36,280
Repayments during the year	(31,627)	(18,226)
Principal outstanding 31 December	83,559	67,257
Accrued interest and fees at 1 January	317	(28)
Interest expense	4,831	2,860
Interest paid	(4,559)	(2,515)
Accrued interest and fees at 31 December	589	317
Total	84,148	67,574

The Organisation has an overdraft facility from two local banks of EUR 2,000 in total, and maturity on 24 October 2025 and 28 October 2025. As at 31 December 2024, the Organisation has utilized these overdrafts in total amount of EUR 943 (2023: EUR 1,446).

As at 31 December 2024, all the loan payments are made on time. As at 31 December 2024 the Organisation is in compliance with financial covenants attached to the agreements with borrowers. While as at 31 December 2023 the Organisation was in compliance with all financial covenants attached to the agreements with borrowers.

13. PROVISIONS

	31 December 2024	31 December 2023
Legal claims	277	493
Other provisions for losses	7	7
As at December 31	284	500

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 (2023: EUR 7) relate to legal cases that were won by the Organisation in the past and were subsequently appealed by third parties, which management believes that will be lost.

Movements in the provision charge are as follows:

	31 December 2024	31 December 2023
At 1 January	500	356
Provision charge	(216)	144
At 31 December	284	500

14. OTHER LIABILITIES

	31 December 2024	31 December 2023
Accrued expenses	31	30
Withholding tax on interest	58	48
Pension contributions and personal income tax payable	125	84
Income tax	(27)	31
Accounts payable	27	49
Other payables	211	223
Total	425	465

Other liabilities payables include payables to suppliers of EUR 25 mostly for leaseholds improvements in Gjilan office and EUR 12 equipment and furniture for Gjilan and Prizren, also EUR 80 for Management fee for international lender.

KEP Trust**Notes to the financial statements***(All amounts are expressed in '000 Euro, unless otherwise stated)***15. INTEREST INCOME**

	Year ended 31 December 2024	Year ended 31 December 2023
Interest income from loans and advances	17,840	14,641
Interest income from banks	93	47
Total	17,933	14,688

At 31 December 2024, the Organisation has accrued interest of EUR 93 (2023: EUR 67) for past due loans.

16. OTHER INCOME

	Year ended 31 December 2024	Year ended 31 December 2023
Recoveries from loans written off	366	377
Proceeds from sale of fixed assets	6	-
Other operating income	27	21
Total	399	398

17. PERSONNEL EXPENSES

	Year ended 31 December 2024	Year ended 31 December 2023
Wages and salaries	4,157	3,625
Compulsory social and health insurance	232	198
Other	457	292
Total	4,846	4,115

At 31 December 2024, the Organisation employed 273 employees (2023: 255).

18. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2024	Year ended 31 December 2023
Advertisement (marketing expenses)	307	244
Communication	283	278
Security	252	180
Legal, consultancy and professional fees	239	294
Utilities	158	132
Fuel and parking	88	89
Board compensation and travelling	85	84
Repairs and maintenance	78	64
Office supplies	71	65
Insurance policy expenses	63	66
Staff development	19	45
Travel	15	14
Accommodation	10	15
Representation expenses	7	7
Other	200	181
Total	1,875	1,758

KEP Trust

Notes to the financial statements

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

19. INCOME TAX

	Year ended 31 December 2024	Year ended 31 December 2023
Profit before tax	4,990	4,351
Corrections	(41)	731
Taxable profit	4,949	5,082
Income tax	495	508
Effective tax rate	9.92%	11.68%

Following the decision of the Organisation's Board, starting from year 2018, the Organisation recognises and pays Income tax voluntarily despite the Public Benefit Status. Income tax expense for the year December 31, 2024 was EUR 495 (2023: EUR 508).

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

20. RELATED PARTY TRANSACTIONS

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

Transactions with related parties

A summary of remuneration and benefits of directors and key management for the years ended 31 December 2024 and 2023 is as follows:

	Year ended 31 December 2024		Year ended 31 December 2023	
	Remuneration	Other expenses	Remuneration	Other expenses
Executive Management	247	10	233	7
Board of Directors	45	40	44	44
Total	292	50	277	51

21. COMMITMENT AND CONTINGENCIES

Legal

Except for provisions created as at 31 December 2024 (see note 13), management believes that there are no other litigations or claims brought by third parties that may result in significant future cash outflows or losses in the future.

22. FINANCIAL RISK MANAGEMENT**22.1 Introduction and overview**

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

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

22.2 Credit risk***Allowances for impairment***

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

Loans with renegotiated terms

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

Once the loan is restructured, it must be classified at the minimum substandard category or worse and will continue to be classified at the same category until stable performance is observed (regarding repayment of principal and interest as per repayment schedule). As at 31 December 2024, the loans with renegotiated terms are EUR 167 (2023: EUR 185). The impairment allowance for loans with renegotiated terms as at 31 December 2024 is EUR 45 (2023: EUR 57).

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 (2023: 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 2024	Interest rate	31 December 2023	Interest rate
Agriculture	21,957	16.4%	16,173	16.9%
Consumer	24,244	23.1%	20,286	23.0%
Housing	25,394	19.1%	24,170	19.4%
Individual Business	41,009	16.1%	28,167	16.7%
	<u>112,604</u>		<u>88,796</u>	

a) Financial assets impairment

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

- Loans to customers, and
- Deposits with Banks

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

1. Financial assets measured at fair value through other comprehensive income (FVOCI) other than investments in equity instruments elected to FVTOCI option upon the initial recognition
2. Loan commitments not measured at fair value through profit or loss (FVPL);
3. Financial guarantee contracts to which IFRS 9 is applied and that are not accounted for at fair value through profit or loss; and
4. Lease receivables that are within the scope of IFRS 16, Leases, and trade receivables or contract assets within the scope of IFRS 15.

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

b) Main principles

Measurement of the ECLs pattern reflects the general pattern of deterioration in the credit quality, expressed in terms of significant increase in credit risk.

When the loans are initially originated, loss allowance is measured at an amount equal to 12-month expected credit losses. When the instrument's risk of default has significantly increased since its origination, KEP measure loss allowance at an amount equal to lifetime expected credit losses.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)**22.2 Credit risk (continued)****c) The three-stage model**

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

Stage 1	Stage 2	Stage 3	POCI
Newly originated financial assets non-credit-impaired			Credit impaired financial assets at acquisition
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 origination
Recognition of expected credit losses			
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Cumulative changes in lifetime ECL
Interest revenue			
Effective interest on gross carrying amount	Effective interest on gross carrying amount	Effective interest on amortized cost	Credit-adjusted effective interest on amortized cost

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

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

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

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

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

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

d) Definition of default

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

- The borrower is assessed as **unlikely to pay its credit obligations** in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due;
- The loans are credit impaired as defined in IFRS 9 requirements and linked with unlikelihood to pay;

KEP Trust**Notes to the financial statements**

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

22. FINANCIAL RISK MANAGEMENT (CONTINUED)**22.2 Credit risk (continued)****d) Definition of default(continued)**

- The loan(s) of the credit client is(are) restructured within the last 4 months, due to financial difficulties evidenced by delays of more than 90 days in past due on any of the outstanding loans before the restructuring event.

Groups of related clients are all classified 'in default', when the debtor being classified as in default has a material effect on the repayment capabilities of the other related debtors belonging to the same group.

Any deviation from the above rules should be very well supported and documented.

e) Unlikelihood to pay

Unlikelihood to pay includes the following:

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

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

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

22. FINANCIAL RISK MANAGEMENT (CONTINUED)**22.2 Credit risk (continued)****e) Unlikelihood to pay (continued)**

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

a. Measurement of expected credit losses

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

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

22 FINANCIAL RISK MANAGEMENT (CONTINUED)**22.2 Credit risk (continued)****b. Period over which to estimate expected credit losses**

KEP measures the expected credit losses over the maximum period exposed to credit risk. For KEP loans, such period, would be contractual period for which KEP has a present contractual obligation to extend credit.

However, for some accounts/deposits with banks, period over which KEP is exposed to credit risk may be longer than their contractual term due to the following characteristics:

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

c. Probability-weighted scenario

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

d. Consideration of time value of money

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

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

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

e. Consideration of collateral

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

f. Reasonable and supportable information

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

g. Special considerations

a) Modification of financial instruments

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

KEP derecognizes a loan when:

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

b) Derecognition rules

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

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

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

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

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

c) Modification that leads to derecognition

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

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

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

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

d) Credit-impaired loans

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

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

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

e) Modification that does not lead to derecognition

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

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

h. Expected Credit Loss model

a) Impairment methodology

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

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

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

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

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

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

22 MENAXHIMI I RREZIKUT FINANCIAR (VAZHDIM)

22.2 Rreziku kreditor (vazhdim)

Në datën e raportimit, KEP njihet vetëm ndryshimet kumulative në humbjet e pritura të kredisë nga jeta që nga njohja fillestare si një humbje humbjeje për aktivet financiare të dëmtuara nga kredia të blera ose me origjinë.

d) Kredi të rëna në vlerë

Njohja e pasurive të klasifikuara tashmë si "Kredi e dëmtuar" e shkaktuar nga modifikimet, përfshirë ndryshimin e debitorit, nuk mund të çojë në njohjen e një Kredie të blerë ose të krijuar (POCI) pas një vlerësimi për të verifikuar që:

- Debitori i Ri ka përmirësuar vlerësimin e kredisë në krahasim me mëparshëm, dhe
- Debitori i Ri nuk është në vështirësi financiare, dhe
- flukset e parashikuara të parave të debitorit të Ri janë të mjaftueshme

Më shumë analiza për POCI përshkruhen në Politikën e Klasifikimit dhe Matjes.

e) Modifikimi që nuk çon në çregjistrim

Kur flukset monetare kontraktuale në një kredi janë rinegociuar ose modifikuar ndryshe dhe të tilla nuk kanë çuar në çregjistrim të kredisë, KEP vlerëson nëse ka pasur një rritje të konsiderueshme të rrezikut të kredisë që nga njohja fillestare mbi bazën e të gjitha informacioneve të arsyeshme dhe të mbështetshme që janë në dispozicion pa kosto ose përpjekje të panevojshme, e cila përfshin por nuk kufizohet në:

- informacion në lidhje me rrethanat që çuan në modifikim;
- historia e shlyerjes së kredisë para ilaçeve (pagesa të humbura ose të parregullta);

h. Modeli i pritshëm i humbjes kreditore

a) Metodologjia e zhvlerësimit

Për qëllimet e matjes së HPK, KEP kryen parameterizimin e nevojshëm të modelit bazuar në të dhënat e vëzhguara të pikave në kohë mbi një kokrrizë të intervalit tremujor kohor, i cili konsiderohet i përshtatshëm për rrethanat. Llogaritjet e HPK bazohen në parametrat e mëposhtëm të hyrjes:

Probabiliteti i dështimit (PD): Kjo shpreh mundësinë e vlerësimit të parazgjedhur të kushteve ekonomike mbizotëruese në datën e raportimit, të rregulluar për të marrë parasysh vlerësimet e kushteve të ardhshme ekonomike që ka të ngjarë të ndikojnë në rrezikun e parazgjedhjes, gjatë një horizonti të caktuar kohor, d.m.th. mbi 12 muaj për kreditë e **Fazës 1** dhe gjatë gjithë jetës për kreditë e **Fazës 2**.

Ekspozimi në mos-permbushje (EAD): Ky është një vlerësim i ekspozimit në një datë të ardhshme të paracaktuar, duke marrë parasysh ndryshimet e pritura në ekspozim pas datës së raportimit, përfshirë ripagimet e principalit dhe interesit dhe zbritjet e pritura në objektet e angazhuara.

Humbja në momentin e dështimit në pagesë (HKND): Kjo paraqet një vlerësim të humbjes që del nga një vonesë. Ajo bazohet në diferencën midis rrjedhave të parasë të gatshme të kontraktuara dhe atyre që kredidhënësi do të priste për të marrë në bazë të kushteve ekonomike aktuale dhe të ardhshme, duke përfshirë çdo kolateral. Zakonisht shprehet si përqindje e EAD.

Shkalla e kurës: Kjo shpreh mundësinë e daljes nga statusi i fazës 3.

Shkalla e zbritjes: Kjo përdoret në zbritjen e një humbjeje të pritshme të kredisë në një vlerë aktuale në datën e raportimit. Shih seksionin I.

KEP Trust**Notes to the financial statements**

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

22. FINANCIAL RISK MANAGEMENT (CONTINUED)**22.2 Credit risk (continued)**

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.

h. Expected Credit Loss model (continued)**Default has occurred (exposure in default - EID)**

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

Default has not occurred (exposure at default - EAD)

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

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

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

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

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

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

Individual vs. collective assessment

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

KEP performs collective assessment of the:

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

Grouping of loans

Collective assessment of PD

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

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

h. Expected Credit Loss model (continued)

Grouping of loans (continued)

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

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

In line with Credit risk policy loans KEP requires collateral for all loans granted with an amount in exceed of EUR 3. Accordingly, this amount is a key determinant to the risk of the loan, depending on whether the loan is secured by collateral or not. Based on the criteria adopted KEP loans are grouped as follows for the purpose of PD modelling:

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

Collective assessment of LGD

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

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

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

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

Individual assessment of ECL

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

Consideration of multiple scenarios

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

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

i) Cash Flows received from the Borrower

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

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

h. Expected Credit Loss model (continued)

Consideration of multiple scenarios (continued)

ii) Liquidation of Collaterals

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

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

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

Collective assessment of ECL

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

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

Stage 1 - 12 months ECL

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

Stage 2 - Lifetime ECL

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

Stage 3 - Lifetime ECL

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

Forward-looking and macro-economic adjustment

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

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

h. Expected Credit Loss model (continued)

Consideration of multiple scenarios (continued)

ECL assessments for bank deposits

Stage 1

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

Stage 2

The variables at each reporting date represent as described below:

If there is a significant increase in credit risk associated with a specific bank deposit compared 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.

KEP Trust

Notes to the financial statements

(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 2024 and 2023, is as follows:

<i>In EUR</i>	Agriculture	Consumer	Housing	Individual Business	Total
Secured loans					
Vehicles	4,375	40	4,469	7,690	16,574
Real estate	16	-	12	40	68
Goods	6,690	158	5,443	9,970	22,260
Un-secured loans	10,876	24,045	15,471	23,309	73,701
Total loans and advances to customers	21,957	24,243	25,395	41,009	112,604

<i>In EUR</i>	Agriculture	Consumer	Housing	Individual Business	Total
Secured loans					
Vehicles	3,426	54	3,778	5,968	13,226
Real estate	24	-	17	84	125
Goods	5,594	214	5,143	8,469	19,420
Un-secured loans	7,129	20,018	15,232	13,646	56,025
Total loans and advances to customers	16,173	20,286	24,170	28,167	88,796

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

	31 December 2024	31 December 2023
Vehicles	22,892	13,519
Real estate	392	126
Goods	14,971	19,902
	38,255	33,547

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Notes to the financial statements

(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 2024 is as follows:

<i>In EUR</i>	Agriculture	Consumer	Housing	Individual Business	Total
<i>Neither past due nor impaired</i>					
Loans to individuals below 3 EUR	641	24,177	-	2	24,820
Loans to individuals over 3 EUR	21,348	19	25,429	40,978	87,774
Total neither past due nor impaired	21,989	24,196	25,429	40,980	112,594
<i>Past due but not impaired</i>					
- less than 30 days overdue	84	289	126	186	685
- 30 to 90 days overdue	52	209	130	175	566
- 91 to 180 days overdue	36	208	105	150	499
- 181 to 360 days overdue	39	294	137	223	693
- over 360 days overdue	55	165	54	81	355
Total past due but not impaired	266	1,165	552	815	2,798
<i>Loans individually determined to be impaired (gross)</i>					
- less than 30 days overdue	14	-	12	123	149
- 30 to 90 days overdue	-	-	-	-	-
- 91 to 180 days overdue	22	-	-	-	22
- 181 to 360 days overdue	-	-	-	-	-
- over 360 days overdue	-	-	-	-	-
Total individually impaired loans (gross)	36	-	13	122	171
Less impairment provisions	334	1,117	599	909	2,959
Total loans and advances to customers	21,957	24,244	25,394	41,009	112,604

22. FINANCIAL RISK MANAGEMENT (CONTINUED)**22.3 Liquidity risk**

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

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

The Organisation's liquidity position is monitored by the Accounting and Financial Reporting 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 2024					
Borrowings	2,188	16,068	15,755	50,137	84,148
Other liabilities	425	-	-	-	425
	2,613	16,068	15,755	50,137	84,573
31 December 2023					
Borrowings	1,436	11,844	16,903	37,391	67,574
Other liabilities	433	31	-	-	464
	1,869	11,875	16,903	37,391	68,038

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.

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Notes to the financial statements

(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 2024 and 2023 are as follows:

	Up to 1 month	1 to 6 months	6 months to 1 year	Over one year	Carrying amount
31 December 2024					
Loans and advances to customers	5,761	21,137	23,009	62,697	112,604
	5,761	21,137	23,009	62,697	112,604
Borrowings	2,187	16,069	15,755	50,137	84,148
	2,187	16,069	15,755	50,137	84,148
Net position	3,574	5,068	7,254	12,560	28,456
	Up to 1 month	Up to 6 months	6 months to 1 year	Over one year	Carrying amount
31 December 2023					
Loans and advances to customers	3,534	17,355	18,612	49,295	88,796
	3,534	17,355	18,612	49,295	88,796
Borrowings	1,436	11,844	16,903	37,391	67,574
	1,436	11,844	16,903	37,391	67,574
Net position	2,098	5,511	1,709	11,904	21,222

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:

	2024	2023
Profit: 1% increase	285	212
Loss: 1% decrease	(285)	(212)

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 2025, the Organisation entered into contractual agreement with a local bank 3rd tranche of contracted loan agreement signed in October 28th 2024 in amount of EUR 1,000.

On February 11^h 2025, the Organisation entered into a loan contractual agreement with an international lender of an amount of EUR 1,000.

On February 12th 2025, the Organisation entered into a loan contractual agreement with an international lender of an amount of EUR 4,000.

On February 25th 2025, the Organisation entered into a loan contractual agreement with an international lender of an amount of EUR 1,000.

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

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