AGENCY FOR FINANCE IN KOSOVO

Independent Auditor's Report and Financial Statements for the year ended December 31, 2020 prepared according to International Financial Reporting Standards (IFRSs)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management of Agency for Finance in Kosovo

Opinion

We have audited the financial statements of Agency for Finance in Kosovo (the "Organization" or "AFK"), which comprise the statement of financial position as at December 31, 2020, 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 significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Kosova, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The Organization has prepared a separate set of financial statements for the year ended December 31, 2020 in accordance with the rules and regulations of the Central Bank of Kosovo, for which we have issued a separate audit report to the Board of Directors and management of the Organization on April 7, 2021.

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

BDO

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April 14, 2021

	Note	As at December 31, 2020 (in EUR)	As at December 31, 2019 (in EUR)
Assets			
Cash and cash equivalents	7	3,520,672	2,978,867
Loans to customers	8	35,169,361	33,705,600
Property,plant and equipment	9	329,570	322,024
Intangible assets	10	154,160	185,574
The right of use for assets	11	198,528	430,986
Other assets	12	43,885	139,387
Total assets		**39,416,176**	**37,762,438**
Liabilities			
Borrowings	13	30,231,544	28,813,480
Lease liabilities	11	201,575	436,767
Other liabilities	14	142,199	147,288
Provisions	15	94,213	82,213
Total liabilities		**30,669,531**	**29,479,748**
Fund balance			
Donated funds	16	2,093,605	2,093,605
Retained surplus		6,653,040	6,189,085
Total fund balance		**8,746,645**	**8,282,690**
Total liabilities and fund balance		**39,416,176**	**37,762,438**

These financial statements are authorized for issue by the management of Agency for Finance in Kosovo, on April 14, 2021.

Vahdet Anadolli
Chief Executive Officer

Mehribane Shala
Chief Financial Officer

	Note	Year ended December 31, 2020 (in EUR)	Year ended December 31, 2019 (in EUR)
Interest income	17	6,496,040	7,045,439
Interest expenses	13	(1,746,372)	(1,713,137)
Net interest income		**4,749,668**	**5,332,302**
Other income	18	102,140	105,466
Impairment losses on loans to customers	8	(552,353)	(110,996)
Personnel expenses	19	(2,494,556)	(2,368,931)
Depreciation and amortization	9-10	(209,206)	(171,387)
General and administrative expenses	20	(779,614)	(1,101,152)
Amortization and interest expenses on leases	11	(352,124)	(344,453)
Surplus for the year		**463,955**	**1,340,849**
Other comprehensive income		-	-
Total comprehensive surplus for the year		**463,955**	**1,340,849**

The accompanying notes from 1 to 23 form an integral part of these financial statements.

	Donated funds (in EUR)	Retained surplus (in EUR)	Total Fund Balance (in EUR)
Balance as at January 1, 2019	2,093,605	4,848,236	6,941,841
Surplus for the year	-	1,340,849	1,340,849
Other comprehensive income	-	-	-
Balance as at December 31, 2019	2,093,605	6,189,085	8,282,690
Surplus for the year	-	463,955	463,955
Other comprehensive income	-	-	-
Balance as at December 31, 2020	2,093,605	6,653,040	8,746,645

The accompanying notes from 1 to 23 form an integral part of these financial statements.

Agency for Finance in Kosovo
Statement of Cash Flows
For the year ended December 31, 2020

	Note	Year ended December 31, 2020 (in EUR)	Year ended December 31, 2019 (in EUR)
Cash flows from operating activities			
Surplus for the year		463,955	1,340,849
Adjustments for:			
Depreciation and amortization	9-10	209,206	171,387
Impairment losses on loans to customers	8	552,353	110,996
Loss from disposal of equipment	9	1,273	-
Provisions	15	12,000	12,000
Interest income	17	(6,496,040)	(7,045,439)
Interest expense	13	1,746,372	1,713,137
		(3,510,881)	**(3,697,070)**
Changes in:			
Loans to customers		(1,936,281)	(2,885,439)
Other assets		327,961	(469,414)
Other liabilities		(240,281)	466,112
Interest received		6,416,338	6,925,974
Net cash used in operating activities		**1,056,856**	**340,163**
Cash flow from investing activities			
Acquisitions of property	9	(153,852)	(63,669)
Acquisitions of intangible assets	10	(32,890)	(131,355)
Cash flow used in investing activities		**(186,742)**	**(195,024)**
Cash flow from financing activities			
Disbursments during the year	13	11,583,000	14,500,000
Payments during the year	13	(10,174,999)	(11,935,000)
Interest paid	13	(1,736,310)	(1,793,442)
Cash flow from financing activities		**(328,309)**	**771,558**
Net increase in cash and cash equivalents		541,805	916,697
Cash and casg equivalents at the beginning of the year		2,978,867	2,062,170
Cash and cash equivalents at the end of the year	7	**3,520,672**	**2,978,867**

The accompanying notes from 1 to 23 form an integral part of these financial statements.

1. GENERAL

The Agency for Finance in Kosovo (the "Organization" or "AFK") was established in Kosovo in October 2000 as a microfinance institution and was financed from contributions received through Mercy Corps ("MC"), a US-based Non-Governmental Organization. Its mission is to provide assistance and support for the development of small and medium sized enterprises in Kosovo through extending loans and providing advice on business related issues.

The respective roles and responsibilities of the Organization and Mercy Corps were outlined in a Memorandum of Understanding ("MOU") initially effective from 21 February 2002 to 30 June 2008, and further extended on 30 June 2008 for an initial period of five years, and renewable upon consent of both parties.

Based on a grant agreement signed by the Organization and Mercy Corps in December 2016, the loan amount of EUR 2,235,788 was donated to AFK (see Note 18). The grant is subject to the terms and conditions under Paragraph 5 of the grant agreement, which stipulates that Mercy Corps grants to AFK all its rights and interests related to the loan.

The organization operates with 24 offices (2019: 23) throughout Kosovo and its headquarters is located in Peja, street "Lidhja e Prizrenit", No.1. As of December 31, 2020, the Organization had 218 employees (2019: 216 employees).

2. BASIS OF PREPARATION

2.1. Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

2.2. Basis of preparation

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

2.3. Functional and presentation currency

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

2.4. Use of assessments and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Organization's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 5 and 6.

2.5. Going concern

The Management of the Organization has made an assessment on the ability of the Organization of going concern principle and thinks that there are sufficient resources to continue the activity for the foreseeable future. Also, management is unaware of any material uncertainties that may cast serious doubt on the Organization's ability to pursue the principle of continuity. Therefore, the financial statements continue to be prepared on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Foreign currency transactions

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

The foreign currency profit or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the prevailing foreign exchange rate at the date of the transaction.

3.2. Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial assets and liabilities and may be revised based on the contractual terms.

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

Interest income and expense presented in profit or loss include interest on financial assets and financial liabilities at amortized cost on an effective interest rate basis.

3.3. Fees and commissions

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period. Other fee and commission income is recognized when the related service is performed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. IFRS 16: Leases

The Organization decided to implement the standard from the mandatory date of its adoption on January 1, 2019 using the modified retrospective method, without restoring comparisons and using certain simplifications allowed by the standard. IFRS 16 presents the principles for recognizing, measuring, presenting and providing explanatory information on leases and requires lessees to account for all leases under a single balance sheet model, similar to accounting for financial leases under IAS 17. The standard includes two exemptions for lessees - leasing of "low value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). On the date of commencement of a lease, a lessee will recognize an obligation to make rent payments (i.e., lease liability) and an asset representing the right of use asset during the lease term (i.e., the right to use the property). Leasing accounting under IFRS 16 is essentially unchanged from today's accounting under IAS 17.
Lease liabilities under IFRS 16 may be significant depending on the value of the lease and the expected duration of the lease contracts, and may therefore affect how capital adequacy is calculated and other regulatory constraints.
The right of use assets for rent of property is measured in transition as if the new rules had always been applied. All rights of use asset are measured in the amount of the obligation to lease from the adaptation (adjusted for each prepaid or accrued expense).
In applying IFRS 16 for the first time, the Organization has used the following practical expeditions permitted by the standard:

- applying a single discount rate to a rental portfolio with similar reasonable characteristics,
- relying on previous estimates whether the rent is serious as an alternative to conduct a review of the fall in value - there have been no major contracts since January 1, 2019,
- excluding direct initial costs for measuring the right of use assets on the date of initial application, and
- using supervision in determining the term of the lease when the contract contains opportunities to extend or terminate the lease.

The Organization has also chosen not to re-evaluate whether it is a contract, or contains a lease on the date of initial application. On the contrary, for contracts entered into before the date of transition, the Organization relied on its assessment by using IAS 17, Rents, and KIRFN 4, determining whether an Agreement contains a Rent.
The weighted average borrowing rate applied by the Organization to leased liabilities on January 1, 2020 was 6.5%.

Right of use assets and lease liabilities
The Organization has 24 rented offices in Kosovo. Lease contracts are usually made for fixed periods from 1 year to 5 years, but may have the possibility of extension.Until December 31, 2018, rents of assets, plants and equipment were classified as either financial lease or operating lease. As of January 1, 2019, leases are recognized as a right of use assets and a corresponding obligation from the date the leased asset becomes available for use by the Organization.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Income tax

AFK was created as a non-profit Organization and obtained Public Beneficiary Status in 2006. Based on the Law on Corporate Income Tax no. 06/L-105, the Organization is not subject to income tax.

3.6. Financial assets and liabilities

a) Recognition

The organization initially recognizes loans to customers and borrowings on the date they are originated. All other financial assets and liabilities (including regular purchases and sales) are initially recognized on the trade date, which is the date on which the Organization becomes a party to the contractual terms of the instrument.
A financial asset or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

b) Classification and initial measurement of financial assets

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable).
Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

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

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets are recognized in profit or loss.

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

As per the new standard, one of the conditions for financial assets to be classified either under 'amortized cost' or 'Fair Value Through Profit or Loss ("FVTPL") category is that the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Organization has performed the SPPI test and has determined the business models for its financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial assets and liabilities (continued)

Business model assessment

There are three business models under IFRS 9 - 'Held to collect ("HTC")', 'Held to Collect and Sell ("HTCS")' and 'other ("Other BM")'.

1. Under the HTC model, cash flows result from collecting contractual payments. If an SPPI product is HTC, it is measured at amortized cost.
2. Under HTCS, cash flows result from contractual payments, as well as from selling the financial assets. If an SPPI product is HTCS, it is measured at fair value though other comprehensive income ("FVOCI").
3. Other BM are those that are neither HTC, nor HTCS. One example could be a model under which trading is the primary purpose with contractual payment collection not constituting an integral part of the model. If a product (SPPI or not) is held under Other BM, it is measured at fair value though profit or loss ("FVTPL").

The Organization has assessed the business model for its financial assets as below:

Loans and advances to customers

Loans and advances to customers consist of various financing facilities such as Agriculture, Services, consumer, trade, housing, and manufacturing. These products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are held for collection of contractual cash flows of principal and interest.
The fair value of the loans and advances to customers is not a critical aspect in the Organization's management of the portfolio.
The business model of the Organization under IFRS 9 is "HTC" and the loans and advances to customers shall be measured at amortized cost.

Classification - (comparative periods)

Financial assets are classified into the category 'loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortized cost using the effective interest method.Discounting is omitted where the effect of discounting is immaterial. The Organization's cash and cash equivalents, loans and most of other receivables fall into this category of financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial assets and liabilities (continued)

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments. The category also contains an equity investment. In the current financial year, the fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Organization determined that in the current period the Fair Value of these investments approximates to their carrying amount. The Organization has no assets classified in this category.

Financial assets at fair value through other comprehensive income (FVOCI)
The Organization accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognized in other comprehensive income (OCI) will be recycled upon derecognition of the asset. The Organization has no assets classified in this category.

c) De-recognition

The Organization derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Organization is recognized as a separate asset or liability.
The Organization derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

d) Offsetting

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position when, and only when, the Organization has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.
Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses created from a group of transactions similar to those in the trading activity of the company.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial assets and liabilities (continued)

e) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment (for financial assets).

f) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Organization has access at that date. The fair value of a liability reflects its non-performance risk.
When available, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.
If a market for a financial instrument is not active, the Organization establishes fair value by using a valuation technique. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. For these financial instruments, inputs into models are market observable.

g) Identification and measurement of impairment

The measurement of expected credit losses under IFRS 9 uses the information and approaches that the organisation uses to manage credit risk. Certain adjustments related to change in business in the last years are made in order to comply with the requirements of IFRS 9. Credit losses are calculated using a three stages impairment model, based on whether there has been a significant increase in the credit risk of a financial asset since its initial recognition.

The key inputs into measurement for expected credit losses are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD), and
- Exposure at default (EAD).

Probability of Default ("PD") - this is an estimate of the likelihood of default over a given time horizon (either 12 months or lifetime).
Loss Given Default ("LGD") - this is an estimate of the loss arising on default. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial assets and liabilities (continued)

g) Identification and measurement of impairment (continued)

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 the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.
However, factors to be considered when determining whether credit risk has increased significantly for all loans, and hence determine the staging of the loans are listed below:

- Credit risk classification
- Rebuttable presumption
- General indicators of credit risk changes as defined by the standard
- Forward looking information

Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment of financial assets (comparative period)

At each reporting date the Organization assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.
The Organization considers evidence for loans and advances of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

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

In assessing the collective loan loss allowance, the Organization uses statistical modelling of historical trends of probability of default, timing of recoveries and amount of loss incurred. The specific loan loss allowance is based on a loan's underlying collateral, evidence of cash flow for paying back the loan, management's judgment of current economic conditions, the value of underlying collateral, if any, and the credit rating of the loan portfolio. The management believes that these allowances are adequate for loan losses inherent in the loan portfolio.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial assets and liabilities (continued)

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate.
Losses are recognized in profit or loss and reflected in an allowance account against loans. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the profit or loss. The Organization writes off certain loans to customers when they are determined to be uncollectible.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Organization's financial liabilities were not impacted by the adoption of IFRS 9. The Organization's financial liabilities include borrowings from banks and other financial institutions and other payables.
Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Organization designated a financial liability at fair value through profit or loss.
Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

3.7. Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Organization in the management of its short-term commitments.
Cash and cash equivalents are carried at amortized cost in the statement of financial position.

3.8. Loans to customers

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

3.9. Equipment

(i) Recognition and measurement
Offices 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. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Equipment (continued)

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

(ii) Subsequent cost

The cost of replacing part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Organization and its cost can be measured reliably. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.

(iii) Impairment

At the end of each reporting period management assesses whether there is any indication of impairment of premises 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.

(iv) Depreciation

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

	2020	2019
Office equipment and other	20%	20%
Computers and IT Equipment	20%	20%
Vehicles	20%	20%

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period

3.10. Intangible assets

(i) Recognition and measurement

a) Intangible assets that are acquired by the Organization are stated at cost less accumulated amortization and impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10. Intangible assets (continued)

(ii) Subsequent expenditure

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

(iii) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the intangible assets are from 3 to 5 years.

3.11. Repossessed assets

Repossessed assets represent non-financial assets acquired by the Organization in the settlement of overdue loans and the Organization intends to sell them within a short period. The assets are initially recognized at the value at which are gained as inventories within other assets and are subsequently measured at the lower of cost and net realizable value and any reduction in their value is recognized as a loss.

3.12. Borrowings and subordinated debt

Borrowings and subordinated debts are part of the Organization's main source of finance. Borrowings and subordinated debts are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortized cost using the effective interest method.
The Organization pays withholding tax of 10% of gross amounts of interest paid to its lenders in accordance with the agreed terms and conditions.

3.13. Employee benefits

The local authorities are responsible for providing the legally set minimum threshold for pensions in Kosovo under a defined contribution pension plan. Obligations for compulsory contributions to that defined contribution pension plan are recognized as an expense in profit or loss when they are due.

3.14. Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15. New standards, interpretations and amendments adopted from 1 January 2020

New standards, amendments and interpretations that are effective for the first time for the period from, on or after January 1, 2020, but have no material effect on the Organization so are not discussed in detail in the notes to the financial statements:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Accounting Changes, Estimates and Errors (Amendment - Disclosure Initiative - Material Definition); and
- Conceptual Framework for Financial Reporting.

Other new and amended Standards and Interpretations, issued by the IASB to be applied for the first time in future annual financial statements, are not expected to affect the Financial Statements of the Organization as they are not relevant to the activities of the Organization and do not require accounting which is consistent with the current accounting policies of the Organization.

3.16. Standards and interpretations issued by the IASB but not yet effective and not previously applied by the Organization

There are a number of standards, changes in standards and interpretations that have been issued by the IASB that are effective in future accounting periods that the Organization has decided not to apply at the beginning.

The following changes are effective for the period beginning on January 1, 2022:
- Difficult Contracts - Contract Fulfillment Cost (Amendments to IAS 37);
- Property, plant and equipment: Revenue before intended use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- *References in the Conceptual Framework (Amendments to IFRS 3).*

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that the classification of current or non-current liabilities is based on whether an entity is entitled to defer payment of the liability for at least twelve months after the reporting period at the end of the reporting period. The amendments also clarify that 'settlement' involves the transfer of cash, goods, services or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability. of a composite financial instrument. The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022. However, in May 2020, the effective date was extended to annual reporting periods beginning on or after January 1, 2023.
An Organization chart is currently assessing the impact of these new accounting standards and changes. The entity does not believe that the amendments to IAS 1 will have a material impact on the classification of its liabilities, as the convertible feature in its convertible debt instruments is classified as an equity instrument and therefore does not affect the classification. of its convertible debt as a non-current liability.

The Organization does not expect any other standard issued by the IASB, but not yet effective, to have a material impact on the Organization's Financial Statements

4. FINANCIAL RISK MANAGEMENT

4.1. Introduction and general overview

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

- Credit risk
- Liquidity risk
- Market risk

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

Risk managment framework

The Board of Directors has overall responsibility for the establishment and oversight of the Organization's risk management framework. The board and management have set up various committees which are responsible for developing and monitoring risk policies as a whole.
The Organization's risk management policies are established to identify and analyze the risks faced by the Organization, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.
Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Organization, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

4.2. Credit risk

Credit risk is the risk that if a client or the counter party to a financial instrument will fail to repay the obligation and cause the Organization to incur a loss. The Organization manages credit risk by dealing only with approved counter parties under specific credit terms. The Organization's primary exposure to credit risk arises through its loans to customers.
Concentrations of credit risk (whether on or off balance sheet) arise from inability of customers to meet contractual obligations which might be affected from the operating environment or their business cycles. The Organization has no significant exposure to any individual customer or counterparty and typically lends no more than EUR 25,000 to any single customer.

The Organization also has exposure to banks in the form of bank accounts and deposits. The credit risk related to banks is managed through allocation of available funds to a number of retail banks operating in Kosovo.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Credit risk (continued)

Credit risk management

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. The credit department is required to implement credit policies and procedures and is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios. The Organization's policy is to require suitable collateral to be provided by the customers prior to the disbursement of approved loans. Collateral for loans is usually obtained in the form of vehicles/equipment and goods, or mortgages.

Performance limits - Borrowings covenants

- Portfolio at risk> 30 days: not more than 5%
- Portfolio at risk ('PAR')> 30 days and restructured loans: not more than 6%
- Risk coverage ratio (including PAR> 30 days and restructured loans) more than 75%.

Exposure to credit risk

	December 31, 2020	December 31, 2019
Individually assessed loans	35,987,862	34,051,582
Impairment losses on individually assessed loans	(818,501)	(345,982)
	35,169,361	33,705,600
Loans assessed on group basis	-	-
Impairment on collectively assessed loans	-	-
		-
Net carrying amount of loans	35,169,361	33,705,600
Loans with renegotiated terms		
Carrying amount	40,568	1,721
Allowance for impairment	585	(14)
Net carrying amount	41,153	1,707

Impaired loans

Impaired loans are loans for which the Organization determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are graded A to E in the Organization's internal credit risk grading system.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Organization has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Credit risk (continued)

Allowances for impairment
The Organization establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and 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.

Write-off policy
The Organization writes-off a loan balance (and any related allowances for impairment) when management determines that the loans are uncollectible. This conclusion 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 pay back the entire exposure. The Organization can also write-off a loan on the basis of a Board decision when all other measures taken to collect the loan have been unsuccessful.

Set out below is an analysis of amounts of loans by internal risk grading:

	December 31, 2020			December 31, 2019		
Loans by risk grading	Gross amount	Allowance for Impairment	Carrying amount	Gross amount	Allowance for Impairment	Carrying amount
A: 0	35,332,691	(464,307)	34,868,384	33,610,138	(204,520)	33,405,618
A: 1-30	153,162	(1,963)	151,199	155,472	(2,161)	153,311
B: 31-60	95,084	(5,734)	89,350	68,644	(2,887)	65,757
C: 61-90	88,960	(28,532)	60,428	38,755	(7,751)	31,004
D: 91-180	98,948	(98,948)	-	99,820	(49,910)	49,910
E: over 180	219,017	(219,017)	-	78,753	(78,753)	-
Total	**35,987,862**	**(818,501)**	**35,169,361**	**34,051,582**	**(345,982)**	**33,705,600**

Changes in the gross carrying amount of loans to customers at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Initial balance at December 31, 2019	33,758,498	111,984	182,374	34,052,856
Transfer to stage 1 (of 2 or 3)	7,643	(2,343)	(5,300)	-
Transfer to stage 2 (of 1 or 3)	(187,289)	187,289	-	-
Transfer to stage 3 (of 1 or 2)	(217,344)	(67,510)	284,854	-
Financial assets with origin or purchased	22,716,463	40,765	6,356	22,763,584
De-recognition of financial assets	(12,661,474)	(40,275)	(13,344)	(12,715,093)
Write-offs	-	-	(79,834)	(79,834)
Changes due to modifications that do not result in non-recognition	(7,930,645)	(45,865)	(57,141)	(8,033,651)
Foreign exchange and other changes	-	-	-	-
Final balance at December 31, 2020	**35,485,852**	**184,045**	**317,965**	**35,987,862**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Credit risk (continued)

Changes in the ECL amount for loans to customers at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Initial balance at December 31, 2019	154,591	9,017	182,374	345,982
Transfer to stage 1 (of 2 or 3)	4,042	(74)	(5,300)	(1,332)
Transfer to stage 2 (of 1 or 3)	(900)	1,197	-	297
Transfer to stage 3 (of 1 or 2)	(1,678)	(7,362)	299,811	290,771
Financial assets with origin or purchased	300,515	6,011	6,356	312,882
De-recognition of financial assets	(50,317)	(1,529)	(13,344)	(65,190)
Write-offs	-	-	(79,834)	(79,834)
Changes due to modifications that do not result in non-recognition	60,033	39,797	(230,742)	(130,912)
Foreign exchange and other changes	(14)	(12,793)	158,644	145,837
Final balance at December 31, 2020	**466,272**	**34,264**	**317,965**	**818,501**

Credit risk exposure

Maximum Credit Risk Exposure - Financial Instruments Subject to Impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which ECL assistance is recognized. The gross carrying amount of the financial assets below also represents the Organization's maximum exposure to credit risk for those assets before collateral and other credit improvements.

Sector				**December 31, 2020**
	Phase 1	**Phase 2**	**Phase 3**	**Total**
Agriculture	11,056,130	34,504	95,031	11,185,665
Business	18,700,058	119,975	198,555	19,018,588
Family	774,131	8,153	15,860	798,144
Green Loan - GEFF	117,657	9,331	0	126,988
Green Loan - GGF	1,543,985	9,442	3,517	1,556,944
Loan for car registration	332,364	387	1,761	334,512
Renovation	139,020	0	2,770	141,790
Women entrepreneur	2,736,573	0	0	2,736,573
Covid 19	85,934	2,254	470	88,658
Gross book valu	**35,485,852**	**184,046**	**317,964**	**35,987,862**
Loss reserve	(466,270)	(34,267)	(317,964)	(818,501)
Retained amount	**35,019,582**	**149,779**	-	**35,169,361**

The organization monitors credit risk concentrations by sector and by geographical location. The analysis of the concentration of credit risk for loans and advances to gross customers at the reporting date is presented below.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Credit risk (continued)

Collateral

The Organization holds collateral against loans to customers in the form of mortgages, vehicles and equipment. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. The collateral coverage is calculated when the loan is disbursed and is required at least 100% of the loan amount disbursed.

Information on loans by type of collateral as at December 31, 2020 and 2019 is as follows:

	2020	2019
Secured loans		
Vehicles	28,040,483	25,645,880
Property	157,057	33,325
Equipment	6,949,333	7,541,373
Non secured loans	840,989	831,004
Loans for clients	35,987,862	34,051,582

Collateral

Set out below is an analysis of estimated fair value of collateral as at year end:

	2020	2019
Property	157,057	10,280
Vehicles and equipment	34,989,817	27,839,646
Total	35,146,874	27,849,926

Concentration

The concentration of credit risk by sector at the reporting date is shown below:

	Loans to customers 2020	2019
Book Value		
Concentration by sector:		
Medium-sized enterprises	96,820	172,861
Small enterprises	3,286,552	3,156,348
Individuals	32,604,490	30,722,373
Total	35,987,862	34,051,582

4.3. Liquidity risk

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

Management of liquidity risk

The Organization's approach to liquidity risk management is to ensure that, as far as possible, that it has sufficient liquidity to meet its obligations when necessary, under normal circumstances and under pressure, without incurring unreasonable losses or damage the reputation of the Organization.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

Management of liquidity risk (continued)

The main responsibility for the management of the Organization's liquidity position remains with Asset and Liability Committee ("ALCO") which is composed of 5 permanent members and other invitees as necessary. The ALCO members meet on a monthly basis to discuss the reports prepared by Finance Department and suggest appropriate measures in order to better manage financial risk in order minimize business disruption due to liquidity issues and to optimize financial performance.

Responsibility for selecting and implementing emergency plans lie with the Finance Manager, conjunction with the Executive Director and the Assets and Liabilities Committee, and the Board. Indicators used by the Organization to measure the liquidity risk are as follows:

Maturity of assets and liabilities - AFK will evaluate the actual maturity mismatch on the inflow and outflow of funds on an ongoing basis. This analysis considers liquidity risk by showing in which periods AFK has a shortage or low liquidity. This allows the AFK treasurer sufficient time to obtain additional funds to cover the liability needs and any potential shortage. Compliance with the assets and liabilities by maturity is a key tool in monitoring the current liquidity position of the AFK.

Concentration of funding - This indicator is linked to the analysis of the concentrations of the major sources of funding and debt instruments entered into by AFK. The soft limit is that no single funder will exceed 30% of the total liabilities of AFK. As a hard limit, no single funder can ever exceed 35% of total liabilities for 3 consecutive months.

Additionally, AFK monitors the amount of liabilities to be replaced on a month-by-month basis projecting out 12 months. Beyond that duration, projections are made on a quarterly and annual, basis. The soft limit on the percentage of liabilities to be refinanced in the next 12 months/total liabilities is 40%.

Liquidity assurance - This indicator is used to ensure AFK has sufficient levels of liquid asset that can be easily converted into cash to meet organizational needs.

Currently, the number of week of liquidity (cash) that AFK should keep available is 1.5 weeks, given the base case conditions of stress test scenario.

This excludes the overdraft available, which currently stands at EUR 300,000. With the line of credit, the limit of cash coverage is 2 weeks.

Stress tests - Stress tests are designed to quantify the possible impact of events on the balance sheet arising from liquidity issues. This allows AFK to better manage under which possible scenarios might there be liquidity issues, and the contingency plans to deal with those situations. These stress tests are prepared at least quarterly, and updated as necessary based on changes in the balance sheet structure. The results of the stress tests are presented to the Asset and Liability Committee (ALC) based on simulation of a "typical" scenario for AFK and at minimum, one "stress" scenario based on change in market conditions (natural disaster, banking crisis, renewal of non-financial funds).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity Risk (continued)

Risk Limits

- Fund balance to borrowed funds should not be less than 18%
- Cumulative gap should be no less than (-100%)
- Liquid assets ratio should not be less than 5% of total assets
- Cash reserve of at least 1.5 weeks
- Single creditor/total liabilities should not exceed 30% Performance limit.

The Organization has also designed three different Contingency funding plans to cover potential liquidity issues due to any unexpected external shock like economic crisis, natural disaster.

Exposure to liquidity risk

Borrowings and debts are the main source of finance. In addition the founder has donated funds to the Organization in the previous years. The Organization continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals any targets set in terms of the overall Organization strategy.

The following are the remaining maturities between the contractual and expected interest-bearing financial assets and liabilities at the reporting date.

December 31, 2020	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
Assets					
Cash and cash equivalents	3,520,672	-	-	-	3,520,672
Loans to customers	625,804	1,117,281	9,937,753	23,488,523	35,169,361
	4,146,476	1,117,281	9,937,753	23,488,523	38,690,033
Liabilities					
Borrowings	333,333	1,629,000	12,384,333	14,187,702	28,534,368
Subordinated debt	-	-	-	1,697,175	1,697,175
	333,333	1,629,000	12,384,333	15,884,876	30,231,543
Net position	3,813,143	(511,719)	(2,446,580)	7,603,647	8,458,490
Cumulative gap	3,813,143	3,301,424	854,844	8,458,490	-

December 31, 2019	Deri në 1 muaj	1 deri në 3 muaj	3 deri në 12 muaj	1 deri në 5 vite	Total
Assets					
Cash and cash equivalents	2,978,867	-	-	-	2,978,867
Loans to customers	403,141	514,434	6,826,318	25,961,707	33,705,600
	3,382,008	514,434	6,826,318	25,961,707	36,684,467
Liabilities					
Borrowings	833,333	1,883,333	8,742,332	15,658,306	27,117,304
Subordinated debt	-	-	-	1,696,175	1,696,175
	833,333	1,883,333	8,742,332	17,354,481	28,813,479
Net position	2,548,675	(1,368,899)	(1,916,014)	8,607,226	7,870,988
Cumulative gap	2,548,675	1,179,776	(736,238)	7,870,988	-

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.4. Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads will affect the Organization's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Exposure to interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates.

The Organization manages interest rate risk by monitoring market conditions and making appropriate pricing or reallocation decisions. All loans are at fixed rates and have maturities ranging between one month to five years.

The interest rate profile of the Organization's interest-bearing financial instruments is as follows:

Fixed-rate instruments	**2020**	**2019**
Loans to customers	35,169,361	33,705,600
Borrowings and subordinated debt	(30,231,543)	(28,813,480)
Total	**4,937,818**	**4,892,120**
Variable-rate instruments		
Borrowings and subordinated debt	(4,000,000)	(2,500,000)
Total	**(4,000,000)**	**(2,500,000)**

Analiza e ndjeshmërisë për instrumentet me interes të ndryshueshëm

The Organization does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, and the Organization does not use derivatives (interest rate swaps) as hedging instruments. Therefore, a change in interest rates at the reporting date would not affect profit or loss for fixed rate instruments.

Ekspozimi ndaj normës së këmbimit valutor

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Organization manages this risk by ensuring that all its assets and liabilities are in EUR. The Organization does not have any foreign currency exposure as all assets and liabilities, expenses and revenues are in Euro.

4.5. Market risk

The Organization is in compliance with the minimum capital of EUR 200 thousand required by the Central Bank of Kosovo. The Organization's policy is to maintain stability of its fund base so as to maintain creditor and market confidence and to sustain future development of the business. There were no changes in the Organization's approach to fund balance management during the year.

5. USE OF PROFESSIONAL EVALUATION AND JUDGEMENT

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. 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 assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending December 31, 2020 is included in the following notes.

(i) Contributions received from third parties

Contributions received from third parties, include forgiven loans that may or may not have conditions or restrictions attached, and donors may requests that the donation is used for a particular purpose. Government grant accounting is applied by analogy to contributions from third parties other than shareholders or governments. Transfers without conditions from non-shareholders are recognized in profit or loss once such transfers become receivable. Transfers with conditions are recognized by recipients as a liability until such time as the conditions are met, at which point they are recognized as other income. See Note 18 for further details.

(ii) Allowances for impairment losses on loans and advances

The Organization reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded, the Organization makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5. USE OF PROFESSIONAL EVALUATION AND JUDGEMENT (CONTINUED)

(ii) Determination of fair values

A number of accounting policies and disclosures of the Organization require the measurement of fair values for financial assets and liabilities. In measuring the fair value of an asset or liability, the Organization uses observable market data as much as possible. Fair values are categorized at different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices in an active market for an identical instrument.

Level 2: Data other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (e.g. as prices) or indirectly (i.e. derived from prices).

Level 3: Data on the asset or liability that are not based on observable market data (unobservable data).

If the inputs used to measure the fair value of an asset or liability fall at different levels of the fair value hierarchy, then the fair value measurement is categorized entirely at the same level of the fair value hierarchy as the inputs of the lowest level that is relevant to the entire measurement.

The organization recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

6. DETERMINATION OF FAIR VALUES

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.

Financial assets carried at amortized cost

The estimated fair value of cash and cash equivalents, which include deposits with no stated maturity, is the amount repayable on demand. For short-term deposits, their fair value is considered to approximate their carrying amount.

Loans to customers are net of allowances for impairment. The loan portfolio has an estimated fair value approximately equal to its book value due to either their short-term nature or underlying interest rates, which approximate market rates. The fair value of loans is estimated using discounted cash flow techniques, applying the rates that are offered for loans of similar terms.

Financial liabilities carried at amortized cost

Because no active market exists for borrowings and subordinated debt, the fair value has been estimated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

7. CASH AND CASH EQUIVALENTS

	As at December 31, 2020 (in EUR)	As at December 31, 2019 (in EUR)
Cash on hand	37,928	25,255
Cash at bank	3,482,744	2,953,612
Total	**3,520,672**	**2,978,867**

8. LOANS TO CUSTOMERS

	As at December 31, 2020 (in EUR)	As at December 31, 2019 (in EUR)
Gross loans to customers	35,597,255	33,660,035
Deferred fee	(2,643)	(20,445)
Accrued interest	393,250	411,992
Total	**35,987,862**	**34,051,582**
Less: Allowance for impairment	(818,501)	(345,982)
Total	**35,169,361**	**33,705,600**

Movements in the allowance for impairment are as follows:

	As at December 31, 2020 (in EUR)	As at December 31, 2019 (in EUR)
Opening balance on 1st of January	345,982	354,451
Net depreciation charge	552,353	110,996
Written off loans	(79,834)	(119,465)
Total	**818,501**	**345,982**

9. PROPERTY, PLANT AND EQUIPMENT

	Vehicles (in EUR)	Furniture and supplies (in EUR)	Computers and electronic equipment (in EUR)	Leasehold improvements (in EUR)	Total (in EUR)
Historical cost					
January 1, 2019	611,351	213,621	172,480	147,786	1,145,238
Additions during the year	30,600	1,115	16,090	15,864	63,669
December 31, 2019	**641,951**	**214,736**	**188,570**	**163,650**	**1,208,907**
Additions during the year	123,400	19,209	6,950	4,294	153,853
Disposals during the year	(54,000)	(6,950)	(30,281)	(770)	(92,001)
December 31, 2020	**711,351**	**226,995**	**165,239**	**167,174**	**1,270,759**
Accumulated depreciation:					
January 1, 2019	414,018	135,344	102,091	105,038	756,491
Depreciation for the year	56,464	26,861	25,999	21,068	130,392
December 31, 2019	**470,482**	**162,205**	**128,090**	**126,106**	**886,883**
Depreciation for the year	77,323	23,330	23,316	20,933	144,902
Disposals during the year	(54,000)	(6,452)	(29,567)	(577)	(90,596)
December 31, 2020	**493,805**	**179,083**	**121,839**	**146,462**	**941,189**
Net book value:					
December 31, 2019	**171,469**	**52,531**	**60,480**	**37,544**	**322,024**
December 31, 2020	**217,546**	**47,912**	**43,400**	**20,712**	**329,570**

As at December 31, 2020 and 2019, AFK does not have any property or equipment pledged as collateral.

10. INTANGIBLE ASSETS

	Software (in EUR)
Historical Cost:	
January 1, 2019	290,422
Additions during the year	131,355
December 31, 2019	421,777
Additions during the year	32,890
December 31, 2020	454,667
Accumulated depreciation:	
January 1, 2019	195,208
Depreciation for the year	40,995
December 31, 2019	236,203
Depreciation for the year	64,304
December 31, 2020	300,507
Assets net book value :	
As at December 31, 2019	**185,574**
As at December 31, 2020	**154,160**

11. RIGHT-OF-USE FOR ASSETS AND LEASE LIABILITIES

Right-of-use for assets

	As at December 31, 2020 (in EUR)	As at December 31, 2019 (in EUR)
January 1	740,048	697,864
Additions	100,136	42,184
Total	**840,184**	**740,048**
Accumulated depreciation		
January 1	(309,062)	-
Depreciation for the year	(332,594)	(309,062)
As at December 31, 2020	**(641,656)**	**(309,062)**
Total net value	**198,528**	**430,986**

Amounts recognized in profit and loss:

	As at December 31, 2020 (in EUR)	As at December 31, 2019 (in EUR)
Amortization expense on right-of-use assets	332,594	309,062
Interest expenses on lease liabilities	19,530	35,391
Total	**352,124**	**344,453**

11. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

Lease liabilities

	As at December 31, 2020 (in EUR)	As at December 31, 2019 (in EUR)
Short term lease liabilities	163,848	299,650
Long term lease liabilities	37,727	137,117
Total	**201,575**	**436,767**

12. OTHER ASSETS

	As at December 31, 2020 (in EUR)	As at December 31, 2019 (in EUR)
Prepaid expenses	34,524	123,482
Other receivables	9,361	15,905
Total	**43,885**	**139,387**

13. BORROWINGS

Borrowings and subordinated debt by the lender are presented below:

	2020	Interest rate p.a.	2019	Interest rate p.a.
Borrowings and overdraft:				
Symbiotics	4,250,000	3.80 - 4.45%	2,750,000	5.20 - 5.90%
ResponsAbility Sicav Lux	4,166,667	3.60 - 3.90%	3,100,000	5.30 - 5.50%
Coopest	2,300,000	4.90 - 3.50%	1,800,000	5.50 - 6.75%
Oiko Credit	-	-	-	
Triple Jump	3,000,000	4.60%	3,000,000	4.60%
Bank IM Bistum Esse EG	1,500,000	5.00%	1,500,000	5.00%
DWM Asset Management LLC	3,668,000	4.50%	4,500,000	4.50%
Frankfurt School Financial Services	1,000,000	4.00%	2,000,000	4.00%
EFSE	2,800,000	5.20 - 4.85%	1,600,000	5.20%
VDK Bank	333,335	5.10%	1,000,000	5.10%
GGF (Green for Growth Fund)	800,000	4.50%	1,600,000	4.50%
Blue Orchard Microfinance F.	750,000	4.50 - 4.65%	1,750,000	4.50 - 4.60%
EBRD	1,800,000	-	-	
International Finance Corporation	1,800,000	6.15 - 4.95%	1,600,000	4.95 - 6.15%
Fondation Grameen Credit Agricole	280,000	4.90%	840,000	4.90%
Subordinated debt:				
Helenos	1,000,000	8.00%	1,000,000	8.00%
Coopest	700,000	8.00%	700,000	8.00%
	30,148,002		**28,740,000**	
Accrued Interest	244,405		257,545	
Deffered fees	(160,863)		(184,065)	
Total	**30,231,544**		**28,813,480**	

13. BORROWINGS (CONTINUED)

Interest expenses for the year ended December 31, 2020, of EUR 1,746,372 (2019: EUR 1,713,137), represent interest expense for borrowings and subordinaed debt received from lenders.

	As at December 31, 2020 (in EUR)	As at December 31, 2019 (in EUR)
Balance at January 1, including accrued interest	28,740,000	26,175,000
Disbursements during the year	11,583,000	14,500,000
Repayments during the year	(10,174,999)	(11,935,000)
Balance at December 31, including accrued interest	**30,148,001**	**28,740,000**
Accrued interest (deferred fee) at January 1	73,480	153,785
Interest expenses	1,746,372	1,713,137
Interest paid	(1,736,309)	(1,793,442)
Accrued interest (deferred fee) at December 31	**83,543**	**73,480**
Total	30,231,544	28,813,480

14. OTHER LIABILITIES

	As at December 31, 2020 (in EUR)	As at December 31, 2019 (in EUR)
Payables to suppliers	80,825	86,585
Due to personnel	53,774	50,062
Other	7,600	10,641
Total	142,199	147,288

15. PROVISIONS

	As at December 31, 2020 (in EUR)	As at December 31, 2019 (in EUR)
Opening balance	82,213	70,213
Additional provision (note 22)	12,000	12,000
Closing balance	94,213	82,213

The Organization is involved in a legal dispute brought by a former employee that was dismissed by the court in 2012. Based on the Decision No. C.nr.1046 /12, dated October 8, 2016, of the Basic Court of Peja that ruled in favor of the employee, the Organization should pay a compensation starting from the day when the employee was dismissed and onwards, and should also hire the employee with the same salary as at the dismissal date. The Organization has appealed against that decision at the Court of Appeal in Pristina, and the appeal is in process. As at December 31, 2020, the Organization has recognized a provision of EUR 94,213 (2019: EUR 82,213) for this case.
Also during January, the legal office received confirmation that the court responded to the lawsuit against the plaintiff and charged us with damages in the amount of EUR 5,500.

16. DONATED FUNDS

On February 21, 2002, Mercy Corps and Agency for Finance in Kosovo (AFK) entered into a Memorandum of Understanding based on which the Organization would provide lending services to Mercy Corps whereby the Organization would process loans in a Mercy Corps Loan Fund Account, owned by Mercy Corps to individuals in need.

Based on a loan agreement with Mercy Corps signed on June 30, 2008 the balance of the Loan Fund Account and all retained earnings accumulated under that account, were lent to the Organization. The loan agreement did not state any maturity or interest rate. On July 29, 2009, Mercy Corps and the Organization amended the 2008 loan agreement to establish subordination of the loan with maturity date as of June 17, 2017. On December 13, 2013, Mercy Corps and the Organization signed a second amendment to the June 30, 2008 loan agreement, based on which the loan was payable on demand, only after full repayment of all high debts.

During 2016, the Organization and Mercy Corps signed an agreement, based on which the loan amount of EUR 2,235,788 was donated to AFK (see Note 1). The terms and conditions of that agreement specify that the proceeds of the grant shall be used exclusively in support of the Mission statement, goals and values contained in the statute of the Organization. Such amount is recognized as donated funds, within the fund balance in 2016. Movements in the Mercy Corps loan fund account and the total amount converted into a loan in 2008, and subsequently donated to AFK in 2016. After adjustment made on January 1, 2018, a portion of the funds donated by Mercy Corps are recognized as retained earnings, i.e. as at December 31, 2018 EUR 1,537,574 are counted as donated funds, while the amount of EUR 698,214 is counted as retained earnings.

17. INTEREST INCOME

	Year ended December 31, 2020 (in EUR)	Year ended December 31, 2019 (in EUR)
Interest income from loans	6,494,887	6,925,951
Penalty income from loans	1,153	119,488
Total	6,496,040	7,045,439

18. OTHER INCOME

	Year ended December 31, 2020 (in EUR)	Year ended December 31, 2019 (in EUR)
Recoveries from written off loans	79,343	85,320
Other income	22,797	20,146
Total	102,140	105,466

19. PERSONNEL EXPENSES

	Year ended December 31, 2020 (in EUR)	Year ended December 31, 2019 (in EUR)
Wages and salaries	2,277,695	2,164,595
Pension contributions	118,767	112,862
Health insurance	98,094	91,474
Total	**2,494,556**	**2,368,931**

20. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2020 (in EUR)	Year ended December 31, 2019 (in EUR)
Marketing expenses	128,210	268,326
Consultancy, legal fees and other services	79,722	121,451
Transportation and business trip expenses	81,971	94,166
Maintenance and repairs	78,618	89,351
Board expenses	74,999	77,760
Office expenses	78,143	64,197
Phone and electricity expenses	59,735	62,404
Inventory	34,723	61,965
Donation and sponsorships	18,709	51,398
Utilities	49,077	49,701
Staff trainings and other related costs	15,682	42,691
Representation	5,435	35,144
Withholding tax for non-residents	15,868	25,302
Security expenses	31,284	22,309
Provision charges (see note 15)	12,000	12,000
Oother expenses	15,438	22,987
Total	**779,614**	**1,101,152**

21. RELATED PARTY TRANSACTIONS

Related parties include the main donor and founder of the Organization, Mercy Corps and key management. There were no balances and transactions with Mercy Corps during 2020 and 2019.

Total remuneration to the Organization's key management personnel is as follows:

Related party	**2020**	**2019**
Short-term employee benefits	216,000	216,600
Compensation to the Board	70,071	62,907
Other board expenses	4,927	14,853
Total	**290,998**	**294,360**

22. COMITTMENTS AND CONTIGENCIES

(i) Litigations

The organization is protected from the latest legal events affecting the normal course of business. Based on legal advice, management believes that there will be no material loss in respect of outstanding legal claims as at December 31, 2019, with the exception of provisions of EUR 94,713 (see Note 15) recognized until December 31, 2020 (2019: 82,213 Euros).

(ii) Operating lease commitments

The Organization has entered into lease agreements for its headquarters and regional offices. Generally, the Organization may cancel these leases upon giving 1 to 3 months prior notice. Therefore, the maximum non-cancellable commitment payable not later than one year is as follows:

	2020	2019
During 1 year	36,292	83,155
	36,292	83,155

(iii) Tax liabilities

Financial statements and the accounting records of the Organization have not been audited by the tax authorities since the year ended December 31, 2005. Hence, the Organization tax liabilities may not be considered finalized. A provision for additional taxes and penalties, if any that may be levied cannot be determined with any reasonable accuracy at this stage.

23. SUBSEQUENT EVENTS

Except as described below, no other event or transaction has occurred since December 31, 2020 or is not expected to occur, which would have material effect on the Organization's financial statements on that date or for the period completed after, or that have significant importance related to the Organization's issues as to be described in a note to the financial statements.

The impact of COVID-19 on the Organization

Since the outbreak of the COVID-19 epidemic, the Organization closely monitors the development of the situation at the local, european and global level. Furthermore, the Organization monitors and implements the measures proposed by the Government of the Republic of Kosovo and its respective institutions, as well as additional preventive measures to protect its employees, suppliers and ongoing business processes.

Despite the planned crisis scenarios and the Organization's continuity plans, the pandemic spread of COVID-19 could have negative consequences for the Organization's business, mainly in terms of closing certain business activities, employees who are affected by this business closure , free movement of people and supplies, government measures will have an effect on the economy as a whole, including the Organization's sector. Given the dynamics of the spread of this pandemic and the dynamic measures that have been taken to prevent and manage it, we expect it to have an impact on the results of our business, but it is currently impossible to assess the financial impact.

23. SUBSEQUENT EVENTS (CONTINUED)

The impact of COVID-19 on the Organization (continued)

Based on the decision of the Government of the Republic of Kosovo no. 01/07, dated 11.03.2020, and No. 01/09, dated 13.03.2020, for emergency measures related to the corona virus pandemic COVID-19 have an impact on the overall economic activity in the country, including lending and repayment of loans. To take the necessary regulatory actions for the current situation, on 16.03.2020 the Central Bank Board has approved a special authorization for the Executive Board. Within its competencies for determining and approving the policies of the Central Bank to promote and maintain financial system, the Executive Board temporarily suspends (until November 30, 2020) the applicability of the regulatory provisions specified in the enacting clause of this decision in relation to: the temporary suspension of the applicability of certain provisions of the seven supervisory regulations of lending institutions as follows:

1. Credit Risk Management Regulation:
   - Subparagraphs 1.1, 1.3 and 1.7 of paragraph 1 of Article 2 (Definitions);
   - Paragraph 3 of Article 3 (Credit Risk Management System);
   - Article 7 (Credit risk classification process and grouping);
   - Article 8 (Reserve methodologies for loan losses);
   - Article 10 (Reserve for credit losses in an amount equal to Expected 12 Month Credit Losses);
   - Article 13 (Adequacy of the reserve).

2. Regulation on Non-Performing Exposures and Restructuring
   - All provisions.

3. Regulation on the Application of the International Financial Reporting Standard 9
   - All provisions related to credit classification and provisioning.
4. Regulation on Liquidity Risk Management
   - Paragraph 3 of Article 17 (Liquidity rates):

5. Regulation on Credit Risk Management for Microfinance Institutions
   - Paragraph 3 of Article 3 (Credit risk management system)
   - Article 6 (Credit classification)
   - Article 7 (Reprogramming of credit exposures)
   - Article 13 (Provisions for securing loan losses)

6. Regulation on Credit Risk Management for Non-Bank Financial Institutions
   - Paragraph 3 of Article 3 (Credit risk management system)
   - Article 6 (Credit classification)
   - Article 7 (Re-programming of credit exposures)
   - Article 12 (Provisions for securing loan losses)

7. Regulation on the Credit Registry
   - Subparagraph 1.3 of paragraph 1 of Article 5 (Permitted and Prohibited Collection of credit information)
   - Paragraph 1 of Article 7 (Credit information reporting and reporting standard) only in terms of classification according to the criteria and conditions temporarily suspended through this decision.

The organization has strictly implemented all decisions according to the above CBK guidelines to provide relief to its clients.