

**AGENCY FOR FINANCE IN KOSOVO**

**Financial Statements for the year ended  
December 31, 2022 prepared according to  
International Financial Reporting Standards  
(IFRS)**

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**Building a better  
working world**

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Opinion**

We have audited the financial statements of Agency for Finance in Kosovo ("the Organization"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements presents fairly, in all material respects the financial position of the Organization as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### **Basis for opinion**

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

### **Other matters**

The financial statements of the Organization for the year ended 31 December 2021 have been audited by another auditor who issued an unmodified opinion on 24 March 2022.

### **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.

## Responsibilities of management and those charged with governance for the financial statements (continued)

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 Responsibility for audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Ernst & Young Certified Auditors Kosovo sh.p.k.  
*Ernst & Young Certified Auditors Kosovo*

7 April 2023  
Prishtina, Kosovo


Mario Vangjeli  
Certified Auditor

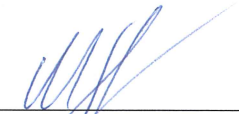


**Agency for Finance in Kosovo**  
**Statement of Financial Position**  
**As at December 31, 2022**

		31 December 2022	31 December 2021
	Note	(in EUR)	(in EUR)
<b>Assets</b>			
Cash and cash equivalents	7	3,243,874	4,315,113
Loans to customers	8	49,540,733	39,815,517
Property and equipment	9	347,332	332,747
Intangible assets	10	274,792	225,318
Right of use assets	11	793,451	321,106
Other assets	12	89,641	63,310
<b>Total assets</b>		<b>54,289,823</b>	<b>45,073,111</b>
<b>Liabilities</b>			
Borrowings	13	42,097,128	34,309,336
Lease liabilities	11	836,553	330,081
Other liabilities	14	157,833	160,509
Provisions	15	130,913	114,113
<b>Total liabilities</b>		<b>43,222,427</b>	<b>34,914,039</b>
<b>Fund balance</b>			
Donated funds	16	2,093,605	2,093,605
Retained surplus		8,973,791	8,065,467
<b>Total fund balance</b>		<b>11,067,396</b>	<b>10,159,072</b>
<b>Total liabilities and fund balance</b>		<b>54,289,823</b>	<b>45,073,111</b>

These financial statements are authorized for issue by the management of Agency for Finance in Kosovo, on March 31, 2023.

  
**Prof. Dr. Edmond Beqiri**  
**Chairmen of the Board of**  
**Directors**

  
**Mehribane Shala**  
**Chief Financial Officer**

The accompanying notes from 7 to 35 form an integral part of these financial statements.

**Agency for Finance in Kosovo**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended December 31, 2022**

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	Note	Year ended December 31, 2022 (in EUR)	Year ended December 31, 2021 (in EUR)
Interest income	17	8,405,931	6,860,296
Interest expenses	13	(1,905,820)	(1,708,503)
<b>Net interest income</b>		<b>6,500,111</b>	<b>5,151,793</b>
Other income	18	126,990	58,230
Credit Loss expense on financial assets	8	(775,073)	392,132
Personnel expenses	19	(3,185,191)	(2,670,531)
Depreciation and amortization	9-10	(218,529)	(191,564)
General and administrative expenses	20	(1,169,636)	(954,881)
Amortisation of Right of Use Asset	11	(370,348)	(372,752)
<b>Surplus for the year</b>		<b>908,324</b>	<b>1,412,427</b>
Other comprehensive income		-	-
<b>Total comprehensive surplus for the year</b>		<b>908,324</b>	<b>1,412,427</b>

The accompanying notes from 7 to 35 form an integral part of these financial statements.

**Agency for Finance in Kosovo**  
**Statement of Changes in Equity**  
**For the year ended December 31, 2022**

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	<b>Donated funds (in EUR)</b>	<b>Retained surplus (in EUR)</b>	<b>Total Fund Balance (in EUR)</b>
<b>Balance as at January 1, 2021</b>	<b>2,093,605</b>	<b>6,653,040</b>	<b>8,746,645</b>
Surplus for the year	-	1,412,427	<b>1,412,427</b>
Other comprehensive income	-	-	-
<b>Balance as at December 31, 2021</b>	<b>2,093,605</b>	<b>8,065,467</b>	<b>10,159,072</b>
Surplus for the year	-	908,324	<b>908,324</b>
Other comprehensive income	-	-	-
<b>Balance as at December 31, 2022</b>	<b>2,093,605</b>	<b>8,973,791</b>	<b>11,067,396</b>

The accompanying notes from 7 to 35 form an integral part of these financial statements.

**Agency for Finance in Kosovo**  
**Statement of Cash Flows**  
**For the year ended December 31, 2022**

	Note	31 December 2022 (in EUR)	31 December 2022 (in EUR)
<b>Cash flows from operating activities</b>			
Surplus for the year		908,324	1,412,427
<b>Adjustments for:</b>			
Depreciation and amortization	9-10	218,529	191,564
Amortisation of the right of use asset		370,348	372,752
Credit loss expense on financial assets	8	775,073	(392,132)
Loss from disposal of equipment	9	-	581
Provisions	15	130,913	19,900
Interest income	17	(8,405,931)	(6,860,296)
Interest expense	13	1,905,820	1,708,503
		<b>(4,096,924)</b>	<b>(3,546,701)</b>
<b>Changes in:</b>			
Loans to customers		(10,432,878)	(4,339,567)
Other assets		(26,331)	(142,003)
Other liabilities		(14,124)	194,559
Interest received		8,235,852	6,892,168
<b>Net cash used in operating activities</b>		<b>(6,334,405)</b>	<b>(941,544)</b>
<b>Cash flow from investing activities</b>			
Acquisitions of property	9	(144,117)	(127,739)
Acquisitions of intangible assets	10	(138,470)	(138,741)
<b>Cash flow used in investing activities</b>		<b>(282,587)</b>	<b>(266,480)</b>
<b>Cash flow from financing activities</b>			
Proceed from new borrowing during the year	13	20,500,000	18,735,167
Repayment of borrowings during the year	13	(12,836,318)	(14,600,995)
Repayment of lease liabilities		(375,410)	(387,620)
Interest paid from borrowing	13	(1,742,519)	(1,744,087)
<b>Cash flow from financing activities</b>		<b>5,545,753</b>	<b>2,002,465</b>
<b>Net increase in cash and cash equivalents</b>		<b>(1,071,239)</b>	<b>794,441</b>
Cash and cash equivalents at the beginning of the year		4,315,113	3,520,672
<b>Cash and cash equivalents at the end of the year</b>	7	<b>3,243,874</b>	<b>4,315,113</b>

The accompanying notes from 7 to 35 form an integral part of these financial statements.

**Agency for Finance in Kosovo**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2022**

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**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 16). 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 29 offices (2021: 24) throughout Kosovo and its headquarters is located in Peja, street "Lidhja e Prizrenit", No.1. As of December 31, 2022, the Organization had 252 employees (2021: 225 employees).

**2. BASIS OF PREPARATION**

**2.1. Basis of accounting**

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

**2.2. Basis of 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.

The Organization calculates interest income on financial assets, other than those considered credit impaired by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit impaired and is therefore regarded as stage 3 the organization calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit impaired, the Organization reverts to the calculating interest income on a gross 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 at an amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing the services. The performance obligations, timing of their satisfaction are identified and determined at the inception of the contract.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.4. IFRS 16: Leases**

The Organization recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated amortization and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less. Right-of-use assets are amortized on a straight-line basis over the lease term. The right-of-use assets are presented within a Note 11.

The weighted average borrowing rate applied by the Organization to leased liabilities on January 1, 2022 was 4.4%.

The Organization has 29 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.

#### **3.5. 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 are classified into the following categories:

- amortized cost (AC)
- 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.

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

Conditions for financial assets to be classified either under 'amortized cost', fair value through other comprehensive income (FVOCI), 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 through 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 through 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.

All financial assets are presently classified in the Amortised Cost category.

##### *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. The Organization’s cash and cash equivalents, loans and most of other receivables fall into this category of financial instruments.

##### *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.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6. Financial assets and liabilities (continued)**

##### *Subsequent measurement of financial assets (continued)*

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

All derivative financial instruments fall into this category, except for those designated and effective in a fair value hedge relationship, as hedging instruments, if any. The category would also contain any investments in equity instruments.

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 Organization.

#### 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.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6. Financial assets and liabilities (continued)**

f) Fair value measurement (continued)

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 (Loss exposed on the case of non-payment).

An asset is considered as having defaulted if any repayment (principal or interest) is overdue for more than 90 days or if the counterparty is in a proven situation of default (bankruptcy).

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 that more than 30 days past due indicate a significant increase in credit risk).
- General indicators of credit risk changes as defined by the standard
- Forward looking information (GDP, unemployment rate, inflation)

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.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6. Financial assets and liabilities (continued)**

##### **g) Identification and measurement of impairment (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*

The Organization's financial liabilities include borrowings from banks and other financial institutions and other payables.

Financial liabilities are initially measured at FLPL. 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). The Organisation has not designated any liabilities as FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within interest expense and interest 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. Property and 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.

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.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.9. Property and equipment (continued)**

(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.

(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:

	2022	2021
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.

(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) Amortisation

Amortisation 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.

(iv) Impairment of non-financial assets

Impairment of non-financial assets property plant and equipment, Intangible assets and right of use of assets Organization assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, management estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal 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.

**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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **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.

#### **3.15. Reclassifications**

Where applicable, comparative figures have been reclassified to conform to changes in presentation in the current year and disclosed, in statement of comprehensive income interest expense on lease is moved from amortisation and interest on lease to interest expense and on statement of cash flow are reclassified lease payment, amortisation of lease and other asset.

#### **3.16. Adaption of new or revised standards and interpretations and amendments adopted from January 1, 2022**

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)** - The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The amendments had no impact on the financial statements of the Organization.

**3.16. Adaption of new or revised standards and interpretations and amendments adopted from January 1, 2022 (continued)**

• **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

**Standards issued but not yet effective and not early adopted**

- **IFRS 17: Insurance Contracts** - The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretionary participation contracts.
- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**-The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose ‘significant’ accounting policies with a requirement to disclose ‘material’ accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.
- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)** - The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.
- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)** - The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

**3.16. Adaption of new or revised standards and interpretations and amendments adopted from January 1, 2022 (continued)**

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

#### **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 management 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.

##### *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.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Credit risk (continued)**

*Credit risk management (continued)*

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 5%
- Risk coverage ratio (including PAR > 30 days and restructured loans) more than 100%. Divided amount of the Loan Loss Reserves of the Borrower by the Borrower's outstanding balance of Portfolio at risk more than 30 days past due and any rescheduled or refinanced loan claims that have not been overdue for more than 30 days.

*Exposure to credit risk*

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Collectively assessed loans	50,458,986	40,026,107
Impairment losses	(918,253)	(210,590)
	<b>49,540,733</b>	<b>39,815,517</b>
Loans assessed individually	-	-
Impairment on individually assessed loans	-	-
	<b>49,540,733</b>	<b>39,815,517</b>
<b>Net carrying amount of loans</b>	<b>49,540,733</b>	<b>39,815,517</b>
Loans with renegotiated terms		
Carrying amount	46,655	42,080
Allowance for impairment	(5,240)	(927)
<b>Net carrying amount</b>	<b>41,415</b>	<b>41,153</b>

*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.

*Allowances for impairment*

The Organization establishes an allowance for impairment losses that represents its expected credit 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.

ECL is estimated under three different scenarios: Baseline (typical), Best (favourable) and Adverse (unfavourable) condition, with weights 50%, 20% and 30% respectively. The final ECL is the probability-weighted ECL under those three scenarios.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Credit risk (continued)**

*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:

Loans by risk grading	December 31, 2022			December 31, 2021		
	Gross amount	Allowance for Impairment	Carrying amount	Gross amount	Allowance for Impairment	Carrying amount
A: 0	50,230,694	(797,447)	49,433,249	39,728,691	(68,077)	39,550,614
A: 1-30	80,000	(5,577)	74,423	101,161	(214)	100,947
B: 31-60	21,598	(1,016)	20,582	37,448	(413)	37,035
C: 61-90	18,208	(4,923)	13,285	21,624	(4,703)	16,921
D: 91-180	58,387	(58,348)	39	57,112	(57,112)	-
E: over 180	50,099	(50,944)	(844)	80,071	(80,071)	-
<b>Total</b>	<b>50,458,986</b>	<b>(918,253)</b>	<b>49,540,733</b>	<b>40,026,107</b>	<b>(210,590)</b>	<b>39,815,517</b>

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

	Stage 1	Stage 2	Stage 3	Total
<b>Initial balance at December 31, 2021</b>	39,826,715	56,736	142,395	40,025,847
Transfer to stage 1 (of 2 or 3)	17,290	(10,309)	(6,980)	-
Transfer to stage 2 (of 1 or 3)	(51,027)	51,027	-	-
Transfer to stage 3 (of 1 or 2)	(107,344)	(10,532)	117,876	-
New financial assets with originated	37,399,220	16,188	21,312	37,436,721
De-recognition of financial assets	(17,592,958)	(25,965)	(28,201)	(17,647,124)
Write-offs	(2,775)	(7,065)	(85,002)	(94,842)
Changes due to modifications that do not result in derecognition	(9,187,289)	(28,653)	(45,674)	(9,261,616)
<b>Final balance at December 31, 2022</b>	<b>50,301,832</b>	<b>41,427</b>	<b>115,727</b>	<b>50,458,986</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Credit risk (continued)**

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

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Initial balance at December 31, 2021</b>	65,414	2,780	142,396	210,590
Transfer to stage 1 (from 2 or 3)	5,355	(156)	(6,980)	(1,781)
Transfer to stage 2 (from 1 or 3)	(112)	155	-	43
Transfer to stage 3 (from 1 or 2)	(188)	(221)	128,630	128,221
Financial assets with origin or purchased	591,360	2,243	21,312	614,915
De-recognition of financial assets	(26,330)	(1,243)	(28,201)	(55,774)
Write-offs	(5)	(1,115)	(85,002)	(86,122)
Changes due to modifications that do not result in non-recognition	161,093	3,496	(56,428)	108,161
<b>Final balance at December 31, 2022</b>	<b>796,587</b>	<b>5,939</b>	<b>115,727</b>	<b>918,253</b>

*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.

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

<b>Sector</b>	<b>December 31, 2022</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Agriculture	13,766,278	10,625	22,676	13,799,579
Business	32,616,819	28,218	78,666	32,723,703
Family	1,356,584	497	12,657	1,369,738
Green Loan – Green Economy Financing Facility GEFF	395,028	-	-	395,028
Green Loan – Green for growth fund GF	139,992	2,087	-	142,079
Loan for car registration	228,047	-	-	228,047
Renovation	147,056	-	-	147,056
Women entrepreneur	1,651,745	-	1,638	1,653,383
Covid 19	283	-	90	373
<b>Gross book value</b>	<b>50,301,832</b>	<b>41,427</b>	<b>115,727</b>	<b>50,458,986</b>
Loss allowance	(796,587)	(5,939)	(115,727)	(918,253)
<b>Amortized Cost</b>	<b>49,505,245</b>	<b>35,488</b>	<b>-</b>	<b>49,540,733</b>

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**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, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Carrying amount of loans secured by:		
Vehicles	39,454,691	31,441,633
Property	398,476	53,068
Equipment	9,535,476	7,864,975
Non secured loans	1,070,342	666,431
<b>Loans for clients</b>	<b><u>50,458,985</u></b>	<b><u>40,026,107</u></b>

**Concentration**

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

	<b>Loans to customers</b>	
	<u>2022</u>	<u>2021</u>
<b>Book Value</b>		
Concentration by sector:		
Medium-sized enterprises	76,358	83,202
Small enterprises	3,168,223	2,946,798
Individuals	47,214,405	36,996,107
<b>Total</b>	<b><u>50,458,986</u></b>	<b><u>40,026,107</u></b>

**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.

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.

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.3. Liquidity risk (continued)**

###### **Management of liquidity risk (continued)**

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.

AFK did not renew the overdraft agreement with the local bank BpB during 2022. The reason was because we were overliquid and the interest rates offered by foreign investors were more affordable than the interest rate offered by BpB.

###### **Risk Limits**

The following are the main limits that the Agency monitors in order to be in compliance with the various loan covenants:

- 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.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.3. Liquidity Risk (continued)**

**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 contractual maturities of the interest-bearing financial assets and liabilities at the reporting date. The contractual cash flows are undiscounted.

<b>December 31, 2022</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	3,243,874	-	-	-	<b>3,243,874</b>
Loans to customers	698,991	2,630,803	12,528,908	33,682,031	<b>49,540,733</b>
Other assets	89,641	-	-	-	<b>89,641</b>
	<b>4,032,506</b>	<b>2,630,803</b>	<b>12,528,908</b>	<b>33,682,031</b>	<b>52,874,248</b>
<b>Liabilities</b>					
Borrowings	500,000	2,492,000	13,315,985	24,089,969	<b>40,397,954</b>
Subordinated debt	-	-	350,000	1,349,174	<b>1,699,174</b>
Other liabilities	157,833	-	-	-	<b>157,833</b>
	<b>657,833</b>	<b>2,492,000</b>	<b>13,665,985</b>	<b>25,439,143</b>	<b>42,254,961</b>
<b>Net position</b>	<b>3,374,673</b>	<b>138,803</b>	<b>(1,137,077)</b>	<b>8,242,888</b>	<b>10,619,287</b>
<b>Cumulative gap</b>	<b>3,374,673</b>	<b>3,513,476</b>	<b>2,376,399</b>	<b>10,619,287</b>	<b>-</b>

<b>December 31, 2021</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	4,315,113	-	-	-	<b>4,315,113</b>
Loans to customers	559,121	1,417,299	9,133,540	28,705,557	<b>39,815,517</b>
	<b>4,874,234</b>	<b>1,417,299</b>	<b>9,133,540</b>	<b>28,705,557</b>	<b>44,130,630</b>
<b>Liabilities</b>					
Borrowings	-	1,361,000	7,875,319	23,374,841	<b>32,611,160</b>
Subordinated debt	-	-	-	1,698,176	<b>1,698,176</b>
	<b>-</b>	<b>1,361,000</b>	<b>7,875,319</b>	<b>25,073,017</b>	<b>34,309,336</b>
<b>Net position</b>	<b>4,874,234</b>	<b>56,299</b>	<b>1,258,221</b>	<b>3,632,540</b>	<b>9,821,294</b>
<b>Cumulative gap</b>	<b>4,874,234</b>	<b>4,930,533</b>	<b>6,188,754</b>	<b>9,821,294</b>	<b>-</b>

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**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:

	<u>2022</u>	<u>2021</u>
<b>Fixed-rate instruments</b>		
Loans to customers	49,540,732	39,815,517
Borrowings and subordinated debt	(42,097,129)	(34,309,336)
<b>Total</b>	<b><u>7,443,604</u></b>	<b><u>5,506,181</u></b>
<b>Variable-rate instruments</b>		
Borrowings and subordinated debt	(3,700,000)	(4,000,000)
<b>Total</b>	<b><u>(3,700,000)</u></b>	<b><u>(4,000,000)</u></b>

*Sensitivity analysis for instruments of variable interest*

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. Organization has few loans with variable interest rate with low impact on financial statements. .

*Exposure to the currency exchange rate*

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. Regulatory requirements**

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, 2022 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 16 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. The Organization makes judgments as to whether there is any observable data indicating that there is a significant increase in credit risk since initial recognition.

The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since the initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset. When determining whether the risk of default increased significantly since the initial recognition, the Organization considers reasonable and supportable information, qualitative information and days pas due.

### **(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 that require the disclosure of fair value*

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.

*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.

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**7. CASH AND CASH EQUIVALENTS**

	<b>As at December 31, 2022 (in EUR)</b>	<b>As at December 31, 2021 (in EUR)</b>
Cash on hand	99,398	129,074
Cash at bank	3,144,476	4,186,039
<b>Total</b>	<b>3,243,874</b>	<b>4,315,113</b>

**8. LOANS TO CUSTOMERS**

	<b>As at December 31, 2022 (in EUR)</b>	<b>As at December 31, 2021 (in EUR)</b>
Gross loans to customers	49,940,259	39,603,661
Deferred fee	1,314	(1,676)
Accrued interest	517,413	424,122
<b>Gross Carrying Amount</b>	<b>50,458,986</b>	<b>40,026,107</b>
Less: Allowance for impairment	(918,253)	(210,590)
<b>Total Amortised Cost</b>	<b>49,540,733</b>	<b>39,815,517</b>

Movements in the allowance for impairment are as follows:

	<b>As at December 31, 2022 (in EUR)</b>	<b>As at December 31, 2021 (in EUR)</b>
Opening balance on 1st of January	210,590	818,501
Charge during the year	775,073	(392,132)
Written off loans, net of recoveries	(67,410)	(215,779)
<b>Total</b>	<b>918,253</b>	<b>210,590</b>

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**9. PROPERTY PLANT AND EQUIPMENT**

	<b>Vehicles</b>	<b>Furniture and supplies</b>	<b>Computers and electronic equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<b>(in EUR)</b>	<b>(in EUR)</b>	<b>(in EUR)</b>	<b>(in EUR)</b>	<b>(in EUR)</b>
<b>Historical cost</b>					
January 1, 2021	711,351	226,995	165,240	167,174	<b>1,270,760</b>
Additions during the year	25,290	12,770	75,180	14,499	<b>127,739</b>
Disposals during the year	-	(11,408)	(7,655)	(2,340)	<b>(21,403)</b>
<b>December 31, 2021</b>	<b>736,641</b>	<b>228,357</b>	<b>232,765</b>	<b>179,333</b>	<b>1,377,096</b>
Additions during the year	71,400	3,346	14,981	54,390	<b>144,117</b>
Disposals during the year	-	-	-	-	-
<b>December 31, 2022</b>	<b>808,041</b>	<b>231,703</b>	<b>247,746</b>	<b>233,723</b>	<b>1,521,213</b>
<b>Accumulated depreciation:</b>					
January 1, 2021	493,805	179,083	121,839	146,555	<b>941,282</b>
Depreciation for the year	66,869	19,387	25,360	12,288	<b>123,904</b>
Disposals during the year	-	(11,217)	(7,267)	(2,354)	<b>(20,838)</b>
<b>December 31, 2021</b>	<b>560,674</b>	<b>187,253</b>	<b>139,932</b>	<b>156,489</b>	<b>1,044,348</b>
Depreciation for the year	72,101	17,094	29,572	10,767	<b>129,534</b>
Disposals during the year	-	-	-	-	-
<b>December 31, 2022</b>	<b>632,775</b>	<b>204,347</b>	<b>169,504</b>	<b>167,256</b>	<b>1,173,882</b>
<b>Net book value:</b>					
<b>December 31, 2021</b>	<b>175,967</b>	<b>41,104</b>	<b>92,832</b>	<b>22,844</b>	<b>332,747</b>
<b>December 31, 2022</b>	<b>175,266</b>	<b>27,356</b>	<b>78,242</b>	<b>66,467</b>	<b>347,332</b>

As at December 31, 2022 and 2021, AFK does not have any property or equipment pledged as collateral.

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**10. INTANGIBLE ASSETS**

	<b>Software (in EUR)</b>
<b>Historical Cost:</b>	
January 1, 2021	<u>454,667</u>
Additions during the year	<u>138,741</u>
<b>December 31, 2021</b>	<b>593,408</b>
Additions during the year	<u>138,470</u>
<b>December 31, 2022</b>	<b>731,878</b>
<b>Accumulated amortization:</b>	
January 1, 2021	300,507
Amortisation for the year	<u>67,583</u>
<b>December 31, 2021</b>	<b>368,090</b>
Amortisation for the year	<u>88,996</u>
<b>December 31, 2022</b>	<b>457,086</b>
<b>Assets net book value :</b>	<b>154,160</b>
<b>As at December 31, 2021</b>	<u>225,318</u>
<b>As at December 31, 2022</b>	<b>274,792</b>

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

Right-of-use for assets

	<b>As at December 31, 2022 (in EUR)</b>	<b>As at December 31, 2021 (in EUR)</b>
<b>January 1,</b>	<u>1,335,514</u>	<u>840,184</u>
Additions	816,552	495,330
Reassessment	339	-
Modification	25,802	-
Disposal	<u>(963,377)</u>	<u>-</u>
<b>Total</b>	<b>1,214,830</b>	<b>1,335,514</b>
<b>Accumulated amortisation</b>		
<b>January 1,</b>	(1,014,408)	(641,656)
Amortisation for the year	(370,348)	(372,752)
Disposal	<u>963,377</u>	<u>-</u>
<b>As at December 31,</b>	<b>(421,379)</b>	<b>(1,014,408)</b>
<b>Total net value</b>	<b>793,451</b>	<b>321,106</b>

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

Amounts recognized in profit and loss:

	Year ended December 31, 2022 (in EUR)	Year ended December 31, 2021 (in EUR)
Amortisation expense on right-of-use assets	370,348	372,752
Interest expenses on lease liabilities	39,189	20,796
<b>Total</b>	<b>409,537</b>	<b>393,548</b>

Lease liabilities

	As at December 31, 2022 (in EUR)	As at December 31, 2021 (in EUR)
Short term lease liabilities	343,784	177,831
Long term lease liabilities	492,770	152,250
<b>Total</b>	<b>836,554</b>	<b>330,081</b>

Movement of Lease liability

	2022	2021
<b>Oppening Balance 01 January</b>	<b>330,081</b>	<b>201,575</b>
Additions	816,553	495,330
Modification	25,802	-
Interest expense	39,189	20,796
Payments	(375,410)	(387,620)
<b>Lease liability at 31 December 2022</b>	<b>836,554</b>	<b>330,081</b>

**12. OTHER ASSETS**

	As at December 31, 2022 (in EUR)	As at December 31, 2021 (in EUR)
Prepaid expenses	74,341	44,963
Other receivables	15,300	18,347
<b>Total</b>	<b>89,641</b>	<b>63,310</b>

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**13. BORROWINGS**

Borrowings and subordinated debt by the lender are presented below:

	<b>2022</b>	<b>Interest rate p.a.</b>	<b>2021</b>	<b>Interest rate p.a.</b>
Borrowings and overdraft:				
Symbiotics	2,625,000	3.80 - 4.45%	2,625,000	3.80 - 4.45%
ResponsAbility Sicav Lux	4,166,668	3.35 - 3.60%	3,666,666	3.60 - 3.90%
Coopest	1,450,000	3.50%	2,300,000	3.50 - 4.90%
Incofin	2,000,000	4.10%	2,000,000	4.10%
Triple Jump	4,000,000	3.30%	2,250,000	4.60%
Bank IM Bistum Esse EG	3,000,000	3.50%	1,500,000	3.50%
DWM Asset Management LLC	5,667,000	3.25 - 4.00%	3,555,667	4.50%
Frankfurt School Financial Services	3,000,000	3.50 - 3.60%	3,000,000	3.50%
EFSE	400,000	4.85%	1,200,000	4.85%
GGF (Green for Growth Fund)	1,600,000	3.95%	1,000,000	3.95%
Blue Orchard Microfinance Fund	5,000,000	3.40 - 4.00%	2,000,000	3.40%
EBRD	3,200,000	3.75 - 4.50%	2,066,667	4.50 - 5.00%
Internation Finance Cooperation	1,600,000	3.85 - 4.95%	1,800,000	4.95%
Fondation Grameen Credit Agricole	1,125,000	4.10%	1,500,000	4.10%
Financing for Healthier Lives DAC	1,412,182	3.30%	2,118,167	3.30%
<b>Subordinated debt:</b>				
Helenos	1,000,000	8.00%	1,000,000	8.00%
Coopest	700,000	8.00%	700,000	8.00%
	<b>41,945,850</b>		<b>34,282,173</b>	
Accrued Interest	389,045		260,699	
Deferred fees	(237,764)		(233,530)	
<b>Total</b>	<b>42,097,130</b>		<b>34,309,336</b>	

Interest expenses for the year ended December 31, 2022, of EUR 1,866,631 (2021: EUR 1,687,707), represent interest expense for borrowings and subordinated debt received from lenders.

	<b>As at December 31, 2022 (in EUR)</b>	<b>As at December 31, 2021 (in EUR)</b>
Balance at January 1, including accrued interest	34,282,173	30,148,001
Disbursements during the year	20,500,000	18,735,167
Repayments during the year	(12,836,318)	(10,174,999)
<b>Balance at December 31</b>	<b>41,945,855</b>	<b>34,242,173</b>
Accrued interest (deferred fee) at January 1	27,163	83,543
Interest expenses	1,866,631	1,687,707
Interest paid	(1,742,521)	(1,744,087)
Accrued interest (deferred fee) at December 31	<b>151,273</b>	<b>27,163</b>
<b>Total</b>	<b>42,097,128</b>	<b>34,309,336</b>

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**14. OTHER LIABILITIES**

	<b>As at December 31, 2022 (in EUR)</b>	<b>As at December 31, 2021 (in EUR)</b>
Payables to suppliers	45,220	85,878
Due to personnel	85,740	59,045
Other	26,873	15,586
<b>Total</b>	<b>157,833</b>	<b>160,509</b>

**15. PROVISIONS**

	<b>As at December 31, 2022 (in EUR)</b>	<b>As at December 31, 2021 (in EUR)</b>
Opening balance	114,113	94,213
Additional provision (note 22)	16,800	19,900
<b>Closing balance</b>	<b>130,913</b>	<b>114,113</b>

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, 2022, the Organization has recognized a provision of EUR 130,913 (2021: EUR 114,113) for this case.

Also during January 2021, 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.

During 2021 AFK has also received a lawsuit (labor dispute), with No. C no.376 / 21 and the preparatory review session was held on 19.11.2021. Based on this AFK has started to accrue compensation for the worker in question in the amount of 4,800 Euros for 18 months.

**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.

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**17. INTEREST INCOME**

	<b>Year ended December 31, 2022 (in EUR)</b>	<b>Year ended December 31, 2021 (in EUR)</b>
Interest income from loans	8,391,919	6,860,328
Penalty income/expenses from loans	14,012	(32)
<b>Total</b>	<b>8,405,931</b>	<b>6,860,296</b>

**18. OTHER INCOME**

	<b>Year ended December 31, 2022 (in EUR)</b>	<b>Year ended December 31, 2021 (in EUR)</b>
Recoveries from written off loans	122,828	47,517
Other income	4,162	10,713
<b>Total</b>	<b>126,990</b>	<b>58,230</b>

**19. PERSONNEL EXPENSES**

	<b>Year ended December 31, 2022 (in EUR)</b>	<b>Year ended December 31, 2021 (in EUR)</b>
Wages and salaries	1,895,294	1,720,341
Bonuses	1,028,131	696,159
Pension contributions	151,730	126,947
Health insurance	110,036	127,084
<b>Total</b>	<b>3,185,191</b>	<b>2,670,531</b>

**20. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>Year ended December 31, 2022 (in EUR)</b>	<b>Year ended December 31, 2021 (in EUR)</b>
Marketing expenses	175,833	163,660
Transportation and business trip expenses	121,637	92,308
Consultancy, legal fees and other services	105,195	98,899
Maintenance and repairs	119,428	99,292
Office supplies	76,783	67,830
Board expenses	112,268	88,649
Phone and electricity expenses	67,795	62,091
Utilities	58,782	57,520
Small inventory	80,730	41,844
Security expenses	29,120	40,479
Donation and sponsorships	45,823	28,329
Value added tax	46,055	47,740
Staff Trainings and other related costs	40,445	19,638
Provision charges	16,800	19,900
Representation and staff retreat	47,448	19,321
Other expenses	25,494	7,381
<b>Total</b>	<b>1,169,636</b>	<b>954,881</b>

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**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 2022 and 2021.

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

<b>Related party</b>	<b>2022</b>	<b>2021</b>
Managment compensations	243,510	216,000
Compensation to the Board	103,476	84,177
Other board expenses	8,791	4,472
<b>Total</b>	<b>355,777</b>	<b>304,649</b>

**22. COMMITMENTS AND CONTIGENCIES**

(i) *Litigations*

The organization is is defendant in 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, 2022, with the exception of provisions of EUR 130,913 (see Note 15) recognized until December 31, 2021 (2021: 114,113 Euros).

<b>2022</b>	<b>2021</b>
130,913	114,113
<b>130,913</b>	<b>114,113</b>

(ii) *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, other than income tax for which the Organisiaiton is exempt, if any that may be levied cannot be determined with any reasonable accuracy at this stage.

**23. SUBSEQUENT EVENTS**

There are no significant events after the reporting date that may require adjustment or additional disclosures in the financial statements.