KEP TRUST

INDEPENDENT AUDITOR'S REPORT

AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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INDEPENDENT AUDITORS' REPORT

To the Provisional Administrator of KEP Trust

1. We have audited the accompanying consolidated financial statements of KEP Trust (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards, 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.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

4. As detailed in note 27 to the consolidated financial statements, effective from January 5, 2011, Central Bank of Kosovo (CBK) has appointed a Provisional Administrator for the Group instead of actual management through its decision number "32-08/2010". This appointment was made owing to certain irregularities and violations of Laws and Regulations by the Group as notified by CBK through its examination report (work performed during November/December 2010) and further non compliance with CBK's decision to reconstitute the management board. Subsequent to and before the appointment of the Provisional Administrator, certain key management personnel has already left the Group including Executive Director, Group General Manager and Deputy Chief Executive Officer – Finance, Treasury and MIS and that some of the lenders have requested the Group to have forensic audit and review of the loan portfolio.

There is a possibility of the existence of unidentified improper transactions. The above matters raise substantial doubts about the validity of the balances and transactions undertaken by the Group as at and for the year ended December 31, 2010, which could materially impact the amounts reported in the consolidated financial statements. There is not sufficient information available to address these issues and we are unable to resolve the matters by other audit procedures.

5. As detailed in note 11 to the consolidated financial statements, the Group reported an accumulated loan loss impairment allowance of EUR 3,406,917 as at December 31,2010 and EUR 2,868,832 loan loss impairment expense for the year ended December 31, 2010. We were not able to satisfy ourselves to the percentages and other parameters used by the Group in the calculation of both individual and collective loan loss impairment allowance. Further, some of the lenders have requested the Group to have forensic audit and review of the loan portfolio as mentioned in paragraph 4 above. Therefore, we were unable to satisfy ourselves as to the valuation and fair presentation of loan loss impairment allowance for loans and advances to customers as at December 31, 2010 and for the year then ended.

6. As detailed in note 27 to the consolidated financial statements, the Group is in the process of closing down its subsidiaries. However, no provision for impairment has been made against Cumcula – intangible asset of EUR 203,693 (note 9) which were carried by ICCED Kosovo (one of the Group subsidiaries) as at December 31, 2010. This practice in our view is not in accordance with IAS 38, which requires that an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

7. Other receivables and prepayments include an amount of EUR 48,000 as at December 31, 2010, which was given as an advance to the then executive director of the Group who left during December 2010. No provision has been made against this balance and we were unable to satisfy ourselves as to the recoverability of this balance as at December 31,2010.

Disclaimer of Opinion

8. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements.

Emphasis of matter

9. As discussed in note 24 to the accompanying consolidated financial statements, NGO Registration and Liaison Department cancelled the public benefit status of the KEP Trust on July 15, 2009. KEP Trust appealed against its decision to appeal commission, which on January 25, 2010 revoked the decision of NGO Registration and Liaison Department and asked them to review it. The ultimate outcome of the matter cannot presently be determined.

Deloitte Kosova Sh.p.k

Deloitte Kosova Sh.p.k
Prishtina, Kosovo
September 30,2011

KEP TRUST

Consolidated statement of Comprehensive Income
Prepared in accordance with IFRS
For the year ended 31 December

In EUR	**Note**	**2010**	**2009**
Interest income		8,728,853	8,550,631
Interest expense		(2,253,646)	(2,485,783)
Net interest income	17	**6,475,207**	**6,064,848**
Fee and commission income		729,041	773,402
Fee and commission expense		(85,525)	(42,317)
Net fee and commission income	19	**643,516**	**731,085**
Income from services	18	127	9,442
Other operating income		84,356	70,918
Operating income		**7,203,206**	**6,876,293**
Impairment losses on loans and advances to customers	11	(2,868,832)	(588,493)
Personnel expenses	20	(3,186,126)	(3,062,775)
Operating lease expenses	21	(535,959)	(472,153)
Depreciation and amortisation	8, 9	(393,842)	(366,604)
Other expenses	22	(1,335,176)	(1,314,346)
Operating expenses		**(8,319,935)**	**(5,804,371)**
Operating (loss)/profit for the year before grant income		**(1,116,729)**	**1,071,922**
Grant income	23	13,107	17,087
Foreign exchange (loss) / profit		-	(22)
Net (deficit)/surplus for the year before income tax		**(1,103,622)**	**1,088,987**
Income tax expense	24	(403)	**-**
(Deficit)/surplus for the year		**(1,104,025)**	**1,088,987**
Other comprehensive income		**-**	**-**
Total comprehensive (deficit)/income from the year		**(1,104,025)**	**1,088,987**

The notes 1 to 27 are an integral part of these consolidated financial statements.

KEP TRUST

Consolidated statement of financial position
Prepared in accordance with IFRS
As at 31 December

In EUR	Note	2010	2009
ASSETS			
Cash and cash equivalents	10	1,676,838	5,046,563
Loans and advances to customers	11	39,041,864	41,307,565
Other receivables and prepayments	12	192,588	134,033
Property and equipment	8	1,205,864	1,274,888
Intangible assets	9	451,135	463,173
Total assets		**42,568,289**	**48,226,222**
LIABILITIES			
Borrowings	13	27,772,754	32,243,781
Deferred income	16	7,323	8,956
Liabilities to employees	14	112,736	98,296
Accruals and other short term liabilities	15	538,830	634,518
Total liabilities		**28,431,643**	**32,985,551**
Equity			
Retained surplus		**14,136,646**	**15,240,671**
Total equity		**14,136,646**	**15,240,671**
Total liabilities and equity		**42,568,289**	**48,226,222**

The notes 1 to **27** are an integral part of these consolidated financial statements.

These consolidated financial statements were authorised for issue by the management, on September 30, 2011 and signed on their behalf by:

Jacques Boribond
Provisionsal Administrator
*Appointed on 5, January 2011 by the Executive Board of the Central Bank of Kosovo. I was not an **officer** of the Company during the period covered by these Accounts. I have made enquiries of Financial Statements, and have relied on the results of these enquiries in satisfying myself that the Accounts give a true and fair view of KEP Trust as at 31, December 2010.*

Consolidated statement of cash flows
Prepared in accordance with IFRS
For the year ended 31 December

In EUR	**Retained Surplus**
Balance at 1 January 2008	10,378,108
Surplus for the year	3,773,576
Total recognised income and expense	3,773,576
Balance at 31 December 2008	**14,151,684**
Balance at 1 January 2009	**14,151,684**
Surplus for the year	1,088,987
Total recognised income and expense	1,088,987
Balance at 31 December 2009	**15,240,671**
Balance at 1 January 2010	**15,240,671**
Deficit for the year	(1,104,025)
Total recognised income and expense	(1,104,025)
Balance at 31 December 2010	**14,136,646**

The notes 1 to 27 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
Prepared in accordance with IFRS
For the year ended 31 December

In EUR	Note	2010	2009
Cash flows from operating activities			
Net (deficit)/surplus for the year		(1,104,025)	1,088,987
Adjustments for:			
Depreciation	8	381,805	348,585
Amortisation	9	12,038	18,019
Foreign exchange loss		-	22
Net impairment loss / (reversal) on loans and advances to customers	11	3,872,299	588,493
Net impairment loss on curricula	11	-	-
Provision for bed debts	22	-	28,736
Loss from disposal of PPE	8,9	28,068	1,989
Capitalisation of MFA loan	23	-	-
Grant income	16,23	(1,633)	(17,088)
Net interest income	17	(6,475,207)	(6,064,848)
		(3,286,655)	(4,007,105)
Change in loans and advances to customers		(1,535,683)	(1,817,653)
Change in other assets		(58,554)	75,159
Change in liabilities to employees		14,440	5,422
Change in other liabilities		7,835	142,429
		(4,858,617)	(5,601,748)
Interest received		8,657,936	8,388,579
Interest paid		(2,357,168)	(2,481,058)
Net cash from/(used in) operating activities		**1,442,151**	**305,773**
Cash flows from investing activities			
Acquisition of property and equipment	8	(340,849)	(474,122)
Acquisition of intangible assets	9	-	(250,976)
Net cash used in investing activities		**(340,849)**	**(725,098)**
Cash flows from financing activities			
Proceeds from borrowings		5,969,096	8,987,407
Repayment of borrowings		(10,440,123)	(5,159,219)
Proceeds from grants		-	-
Net cash (used in)/from financing activities		**(4,471,028)**	**3,828,188**
Net (decrease)/increase in cash and cash equivalents		**(3,369,725)**	**3,408,863**
Cash and cash equivalents at 1 January		5,046,563	1,637,700
Cash and cash equivalents at 31 December	**10**	**1,676,838**	**5,046,563**

The notes 1 to 27 are an integral part of these consolidated financial statements.

1. General information

Organisation's operations

The Micro Finance Institution – KEP Trust ("KEP" or the "Organisation"), previously Kosovo Enterprise Program ("KEP") was founded by the humanitarian organisation International Catholic Migration Commission – Switzerland ("ICMC") and the Prizren Business Club in August 1999, obtaining authority to operate as a a non-banking institution (program)from the Central Bank of the Republic of Kosovo ("CBK"), previously Banking and Payment Authority of Kosovo on 19 May 2000 when new regulations for financial institutions came into effect in Kosovo.

KEP was registered as a separate local Non-Governmental Organisation on 4 March 2002 and is registered with the CBK as a non-bank micro financial institution as defined in section 2 of Regulation 1999/21. KEP's principal activity is to provide financial services to the people of Kosovo.

On 3 April 2002, approval was granted to register KEP with Banking and Payment Authority of Kosovo as a local NGO

During 2005 KEP established the International Center for Community and Enterprise Development ICCED headquartered in Dublin – Ireland ("ICCED"). This is a company which provides training and other consulting services to microcredit institutions mainly in Kosovo. ICCED is fully owned by KEP and is registered in Ireland as ICCED Dublin, a limited liability company. ICCED Dublin has three subsidiaries: Kosovo, Belgrade and Montenegro which operate under the status of limited liability companies.

During 2009 KEP established the KEP Holding Company L.L.C. ("KEP Holding"). KEP Holding is fully owned by KEP and is registered in state Delaware, USA as a limited liability company. KEP Holding has two subsidiaries, Hexagon Security Company L.L.C ("Hexagon") in Kosovo which operate under the status of limited liability companies and KEP BANK J.S.C which had no activity whatsoever. Hexagon Security Company, is registered in Kosovo on 13 November, 2009, while KEP BANK J.S.C., is registered on 24 February, 2010

The consolidated financial statements of the Organisation as at and for the year ended 31 December 2010 comprise the Organisation and ICCED Dublin, ICCED Kosovo, ICCED Belgrade, ICCED Montenegro and KEP Holding fully owned subsidiaries (together referred to as the "Group").

Board of directors

KEP was governed by the following persons:

Ken Patterson – Chairman of the Board

Albert Musliu – Member of the Board

Michael Conlon – Member of the Board

Leo MacGillivray – Member of the Board

Muriithi Kagai – Secretary of the Board

1. General information (continued)

Management

By the end of 2010 the Management of KEP comprises the following persons:

Muriithi Kagai	Executive Director
Elvis Ziu	Group General Manager
Arten Zikaj	Deputy Chief Executive Officer – Finance, Treasury and MIS
Agron Kelmendi	Head of Legal Department
Alert Godeni	Head of Branch Coordination and Support Department
Alket Gradeci	Head of MIS and Reporting
Argita Bojaxhiu	Regional Manager/Central Region
Arijeta Jusufi	Regional Manager/Eastern Region
Armend Bilalli	IT Manager
Arta Haxha	Marketing and Communications Manager
Ehad Gjinali	Regional Manager/Southern Region
Fatmire Dumoshi	Human Resource Manager
Hashim Sejdiu	Head of External Services
Ilir Guhelli	Regional Manager/Southwestern Region
Ismet Pireva	Administration Manager
Lulzim Buqa	Portfolio Quality Manager
Lulzim Shala	Regional Manager/Western Region
Menduh Lluka	Head of Lending
Safije Shala	Regional Manager/Northern Region
Silvana Berdufi	Head of Internal Audit

The Management of ICCED Dublin is represented by Michael Conlon.

The management of KEP Holding Company L.L.C is represented by Ken Patterson.

The Management of ICCED Limited Kosovo comprises the following persons:

Muriithi Kagai	Group Executive Director
Driton Berisha	ICCED Manager

1. General information (continued)

Number of authorised offices and registered addresses

The activities of KEP are distributed over 6 regions covering 27 branch offices throughout Kosovo, as follows:

a) Southern Region located in Prizren; branch offices: Prizren, Suhareka, Dragash and Recan; sub-branch offices: Gjonaj;
b) Western Region located in Peja; branch offices: Peje, Decan, Istog and Klina;
c) Central Region located in Prishtina; branch offices: Prishtina, Drenas, Gracanica, Komorani and Lipjan; sub-branch offices: Besiana and Kastrioti;
d) Eastern Region located in Ferizaj; branch offices: Ferizaj, Gjilan, Kacanik, Kamenica, Viti and Shtime; sub-branch offices: Shterpce;
e) Northern Region located in Mitrovica; branch offices: Mitrovica, Mitrovica North, Skenderaj, Vushtri and Zubin Potok,;
f) South West Region located in Rahovec; branch offices: Rahovec, Gjakova, Malisheve and Xerxe; sub-branch offices: Kijeva.

The Head Office is located in Prishtina, Bajram Kelmendi, no 16, Kosovo.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

These consolidated financial statements are presented in euro (“EUR”), which is the Group’s functional currency.

(d) Use of estimates and judgments

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

2. Basis of preparation (Continued)

(d) Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in note 5.

e) Going concern - Management disclosure on difficulties and plans to overcome those

Due to governance problems during the year ended 31 December 2010, the CBK decided to appoint a Provisional Administrator with the decision No 32-08/2011, dated 31 December 2010, effective from date 5th of January 2011. The Provisional Administrator has a mandate to manage KEP Trust as a going concern with the focus on repaying long term creditors and restoring governance system.

IAS 1, paragraph 25 "Going Concern" states: "An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so."

Based on this definition, KEP Trust is a going concern because of the following:

- Provisional Administration mandate is to manage KEP Trust as a going concern and up to the moment when these financial statements are prepared there is no intention to liquidate.

- KEP Trust has not ceased trading and has no intention to do so. KEP Trust is intending to continue lending, though at a reduced rate in order to allow priority to repayment of borrowings.

- KEP Trust has no reason to believe that it will have either to liquidate or cease trading in the following 12 months. Provisional Administration intends to restore governance within its mandate.

- KEP has been in breach of covenants foreseen in contracts with lenders since at the last quarter of 2009. At 31 December 2009, KEP was in breach of PAR>30 days (5.54%) covenant with EFSE, EBRD, Deutche Bank, DWM and Triple Jump. The breach has continued during all 2010 as PAR>30 days increased to 7.9% at the end of 2010. PAR>30 days has continued to increase during administration in the first half of 2011 and all lenders are aware on the breaches of contractual covenants.

2. Basis of preparation (Continued)

e) Going concern - Management disclosure on difficulties and plans to overcome those (continued)

However, none of the lenders have formally called their outstanding borrowings as foreseen in contractual terms. Kosovo lending market and especially microfinance organization where many of KEP's lenders have lent their funds has been experiencing significant deterioration of loans portfolio over the last 2 years. As a conclusion, under normal circumstances, we do not have any reason to believe that the lenders will immediately call their funds for the following 12 months after the reporting period. That would be an extraordinary event that goes beyond the underlying assumptions of going concern.

- KEP Trust, though having to face some difficulties which will be disclosed below, has been profitable in first half of year 2011 as compared to the losses made in year 2010. There is a liquidity management plan in place which is being executed and foresees that KEP is able to repay its obligations to lenders and continue lending, while controlling strictly its operating costs.

Below are the main challenges of the provisional administration for the following 12 months and related plans to overcome those:

i. Management of liquidity

KEP has developed a liquidity plan for the coming 2 years which has been sent to lenders. According to this plan KEP will clear obligations to lenders at respectively 75% (up to September 2011) and 80% (October to December 2011) of the principal and 100% of scheduled interest in 2011 and at 100% plus all overdue amounts in 2012. The liquidity plan is reviewed on monthly basis in order to manage any unforeseen circumstances. There is no significant variance to this plan in the first half of 2011. KEP has repaid lenders as per plan and disbursed almost 10 million in new loans during the first half of 2011.

ii. Controlling of portfolio quality deterioration

The second challenge for the Administration will be to stop or at least keep portfolio deterioration at acceptable levels in order to avoid the negative impact of reduced repayment rates in the liquidity plan for 2011 and onwards. PAR>1 days was at EUR 5.3 million at the end of 2010 and stays at EUR 6.7 million at the end of June 2011, while overdue amount has increased by almost EUR 650 thousands. Despite the significant deterioration, KEP has not incurred any serious problems in meeting obligations to lenders. Even with PAR and overdue amounts going up at the same trend, KEP may mitigate the liquidity problems through reducing planned disbursements (more than 9 million are planned for the second half of 2011).

The Administration has established a new unit called Special Collection Unit, thus allocating dedicated resources for improving collection. Though results have not been outstanding in the first month, Administration is planning for other strategic and operational measures in the future months, including setting of higher targets, incentives, closer monitoring, etc.

2. Basis of preparation (Continued)

e) Going concern - Management disclosure on difficulties and plans to overcome those (continued)

iii. Protection of KEP's image

Though reduced, disbursements are spread over the year 2011 in such a manner as not to create any impression to the clients or in the market that KEP is closing. Two small premises have been acquired in strategic locations in the surroundings of Pristina, respectively in Fushe-Kosova and at the city center, that are intended to improve network presence and penetration while helping to protect KEP's image as a going concern.

iv. Governance issues

In terms of restoring corporate Governance in KEP the main focus in on:
a) Reconstituting a new board
b) Sale of KEP's microfinance business

v. Reconstituting a new board of KEP

Provisional Administrator's discussion with ICMC (one of the founders of KEP) is continuing.

Furthermore, ICMC has strongly suggested that a meeting should be held between CBK, NGO Office, ICMC, Prizren Business Club (another founder of KEP) and Provisional Administrator as soon as possible after receipt of the 2010 audited report, to review the current situation, address all the issues and ensure that all the legal aspects are covered as we move forward.

Further discussions with these parties are required, with the hope of reaching a consensus for a new board.

vi. Sale of KEP's microfinance business

The sale of KEP's microfinance business to another financial institution has been considered as a way of restoring corporate governance in KEP. Actually, visits of potential investors are taking place.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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 gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

The Group deals predominantly in EUR, while the foreign currency the Group deals with is Dinar. The exchange rates used for translation at 31 December 2010 and 2009 were as follows:

	2010	**2009**
	Dinar	**Dinar**
1 EUR	102	93

3. Significant accounting policies (continued)

(c) Interest

Interest income and expense are recognised in the income statement 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 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 the income statement include:

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

(d) Fees and commission

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. Other fees and commission income is recognised as the related services are performed.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(e) Income from services

Income from services rendered is recognised in the income statement in proportion of the stage of completion of the transaction at the end of the reporting period date. The stage of completion is assessed by reference to surveys of work performed.

(f) Grant income

A grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions associated with the grant. Loan grants used for loan purposes under specific conditions are recognised as revenue on a straight-line basis over the period until the conditions are fulfilled.

Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are recognised.

3. Significant accounting policies (continued)

(f) Grant income (continued)

Grants that compensate the Group for the cost of an asset are recognised in the income statement as revenue on a systematic basis over the useful life of the asset.

(g) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(h) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

3. Significant accounting policies (continued)

(i) Financial assets and liabilities

(i) Recognition

The Group initially recognises loans and advances and borrowings on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Group derecognises 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, if any, which is created or retained by the Group, is recognised as a separate asset or liability.

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

(iii) Offsetting

Financial assets and liabilities are set off and the net amount is presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

(iv) Amortised cost measurement

The amortised 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 amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. 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.

3. Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(vi) Identification and measurement of impairment

At the end of each reporting period the Group 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 Group considers evidence 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 (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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 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 impairment loss is reversed through profit or loss.

(j) Cash and cash equivalents

Cash and cash equivalents include cash balance on hand, demand deposits with banks and short-term highly liquid investments with maturities of three months or less when purchased and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortized cost in the balance sheet.

3. Significant accounting policies (continued)

(k) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group 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.

(l) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property and 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 Group and its cost can be measured reliably. The costs of the day-to-day servicing of the property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets and leasehold improvements are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives for the current and comparative periods are as follows:

Office equipment, including computers and IT equipment	5 years
Motor vehicles	5 years
Furniture and fittings	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

3. Significant accounting policies (continued)

(m) Intangible assets

Research and development

(i) Recognition and measurement

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in profit or loss as incurred. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets classified, other than goodwill, from the date that they are available for use. The classification of curricula based on their estimated useful life is as follow:

- indefinite life for those curricula where no foreseeable limit to the period over which the asset is expected to generate net cash inflows could be determined, and
- finite life for those curricula where a limited period of benefit could be determined.

The estimated useful lives for the internally generated curricula and capitalised development costs are from 5 to 10 years.

3. Significant accounting policies (continued)

(m) Intangible assets (continued)

Software

(i) Recognition and measurement

Items of intangible assets are measured at cost less accumulated amortisation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs

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

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the intangible asset. The estimated useful life of the intangible assets is 4 years for software (2009: 4 years).

(n) Leased assets

Leased assets represents assets leased under operating leases and are not recognised in the Group's balance sheet.

(o) Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Significant accounting policies (continued)

(o) Impairment of non financial assets (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(p) Borrowings

Borrowings comprise loans obtained from various organisations. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(q) Provisions

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(r) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

3. Significant accounting policies (continued)

(r) Employee benefits (continued)

(i) Defined contribution plans (continued)

The Group contributes to its employees' post retirement plans as prescribed by the national legislation. Contributions, based on salaries, are made to the national organisations responsible for the payment of pensions.

Additionally the Group recognises a fixed contribution payable into a separate pension fund which is maintained by Group.

There is no additional liability in respect of these plans. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing services within a particular economic environment which is subject to risks and returns that are different from those of other segments. The Group’s primary format for segment reporting is based on business segments. The business segments are determined based on the Group’s management and internal reporting structure.

3. Significant accounting policies (continued)

(t) Adoption of new and revised international financial reporting standards

i) Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **IFRS 1 (revised) “First-time Adoption of IFRS”** (effective for annual periods beginning on or after 1 July 2009),
- **IFRS 3 (revised) “Business Combinations”** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”-** Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IFRS 2 “Share-based Payment” -** Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IAS 27 “Consolidated and Separate Financial Statements”** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” -** Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to various standards and interpretations “Improvements to IFRSs (2009)”** resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- **IFRIC 17 “Distributions of Non-Cash Assets to Owners”** (effective for annual periods beginning on or after 1 July 2009),
- **IFRIC 18 “Transfers of Assets from Customers”** (effective for transfer of assets from customers received on or after 1 July 2009)

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Group`s accounting policies.

3. Significant accounting policies (continued)

(t) Adoption of new and revised international financial reporting standards

ii) Standards and interpretations in issue not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"-** Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"-** Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 24 "Related Party Disclosures" -** Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 32 "Financial Instruments: Presentation"** – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),
- **Amendments to various standards and interpretations "Improvements to IFRSs (2010)"** resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011),
- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" **-** Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

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

4. Financial risk management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board and the management have established different committees which are responsible for developing and monitoring the overall Group's risk management policies. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet.

The Group has no significant exposure to any individual customer or counterparty. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The Group'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 movable assets, mainly vehicles, as well as mortgages and household equipments.

4. Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the management.

Regular audits of business units and Group Credit processes are undertaken by the Internal Audit Department.

Exposure to credit risk

	Note	**Loans and advances to customers**	
		2010	**2009**
Carrying amount	**11**	**39,041,864**	**41,307,565**
Individually Impaired		5,594,340	3,018,760
Collectively impaired		36,854,441	39,110,000
Gross amount	**11**	**42,448,781**	**42,128,760**
Allowance for impairment		(3,406,917)	(821,195)
Carrying amount	**11**	**39,041,864**	**41,307,565**
Neither past due nor impaired		**-**	**-**
Total carrying amount	**11**	**39,041,864**	**41,307,565**

Impaired loans

Impaired loans are loans for which the Group 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 agreement(s).

Allowances for impairment

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Write-off policy

The Group writes off a loan balance (and any related allowances for impairment losses) when it is estimated that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Group holds collateral against loans and advances to customers in the form of mortgages, vehicles/equipment and goods. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. The collateral exposure is at least 100% of the loan amount disbursed.

An estimate of the fair value of collateral held against financial assets is shown below:

	Loans and advances to customers	
	2010	**2009**
Vehicles	93,640,787	92,931,631
Properties (buildings and land)	10,679,690	11,175,462
Goods	2,022,046	1,050,491
Total	**106,342,523**	**105,157,584**

4. Financial risk management (continued)

(b) Credit risk (continued)

The Group monitors concentrations of credit risk by loan product and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Note	Loans and advances to customers	
		2010	**2009**
Carrying amount	**11**	**39,041,864**	**41,307,565**
Concentration by loan product			
Individual loans		14,009,933	16,831,471
Consumer loans		4,723,200	5,532,348
Group loans		75,041	94,760
Agricultural loans		8,059,567	8,527,480
Village banking		14,843	89,582
Livestock loans		567,086	784,663
Housing		5,174,948	3,810,193
Start up loans		-	20,908
Express women loan		3,275,197	804,395
Loan for women (LFW)		2,857,909	4,505,010
		38,757,724	**41,000,810**
Staff loans		284,140	306,755
Total	**11**	**39,041,864**	**41,307,565**

4. Financial risk management (continued)

(b) Credit risk (continued)

Concentration by location

Besiana		250,175	-
Deqan		545,298	548,648
Dragash		222,170	254,464
Drenas		2,182,291	3,264,775
Ferizaj		2,170,822	2,307,107
Gjakova		1,790,462	1,684,404
Gjilan		903,905	1,382,009
Gjonaj		489,832	-
Gracanica		1,346,600	980,691
Istog		1,725,120	1,950,209
Kamenica		674,385	572,262
Kaqanik		1,392,037	1,219,407
Kastrioti		392,849	-
Kijeva		330,528	-
Klina		1,799,172	1,988,845
Komoran		898,311	-
Lipjani		575,645	-
Malisheva		1,274,790	2,453,724
Mitrovica		1,135,426	2,158,853
Mitrovica veriut		1,993,353	-
Peja		3,104,336	3,925,219
Prishtina		1,938,884	3,884,808
Prizren		2,207,258	3,497,488
Rahovec		615,784	801,442
Reçan		413,524	557,157
Shterpce		366,123	-
Shtimje		890,145	860,055
Skenderaj		1,094,410	833,072
Suhareka		2,262,584	2,618,805
Viti		611,938	-
Vushtrri		940,491	635,606
Xerxe		793,513	1,331,697
Zubin Potok		1,661,703	1,596,818
HQ		48,000	-
Total	**11**	**39,041,864**	**41,307,565**

4. Financial risk management (continued)

Concentration by location for loans and advances is measured based on the location of the Group entity holding the asset, which has a high correlation with the location of the borrower. During the years 2010 and 2009 the balance of staff loans has been distributed to each location.

(c) Liquidity risk

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

Management of liquidity risk

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

The Group's liquidity position is monitored by the Finance Department on a weekly basis and directly from the management systematically, through managing cash availability for loan disbursement and ensuring adequate funds are available for each account based on expected inflows and outflows to meet the Group's obligations.

Exposure to liquidity risk

The main funding bases of the Group are borrowings. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

In addition the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Residual contractual maturities of financial liabilities

	Note	Carrying amount	Gross nominal outflow	On demand	Up to 6 months	6 months to 1 year	Over one year
31 December 2010							
Non-derivative liabilities							
Borrowings	13	**27,772,754**	(27,772,754)	-	4,538,658	6,173,853	17,060,243
Liabilities to employees	14	**112,736**	(112,736)	-	-	-	112,736
Accruals and other short term liabilities	15	**538,830**	(538,830)	-	538,830	-	-
		28,424,320	**(28,424,320)**	**-**	**5,077,488**	**6,173,853**	**17,172,979**

4. Financial risk management (continued)

(c) Liquidity risk

31 December 2009

Non-derivative liabilities

Borrowings	13	**32,243,781**	(32,243,781)	-	4,682,585	5,431,526	22,129,670
Liabilities to employees	14	**98,296**	(98,296)	-	-	-	98,296
Accruals and other short term liabilities	15	**634,518**	(634,518)	-	634,518	**-**	**-**
		32,976,595	**(32,976,595)**	**-**	**5,317,103**	**5,431,526**	**22,227,966**

The previous table shows the undiscounted cash flows of the Group's financial liabilities on the basis of their earliest possible contractual maturity.

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group'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.

Management of market risks

Exposure to interest rate risk – non-trading portfolios

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities, the Group is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices, such as the interest rate, EURIBOR and different types of interest.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Group's business strategies.

Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. In general, the Group is asset sensitive because of the majority of the interest-earning assets and liabilities; the Group has the right simultaneously to change the interest rates. In decreasing interest rate environments, margins earned will narrow as liability interest rates will decrease with a lower percentage compared to asset interest rates. However the actual effect will depend on various factors, including stability of the economy, environment and level of inflation.

Notes to the consolidated financial statements
Prepared in accordance with IFRS
Amounts in EUR unless otherwise stated

4. Financial risk management (continued)

(d) Market risks (continued)

A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

	Note	**Carrying amount**	**On demand**	**Up to 6 months**	**6 months to 1 year**	**Over one year**
31 December 2010						
Financial assets						
Cash and cash equivalent	10	1,676,838	1,676,838	-	-	-
Loans and advances to customers	11	39,041,864	-	11,792,930	9,196,429	18,484,505
Other receivables	12	192,588	-	192,588	-	-
		40,911,290	**1,676,838**	**11,985,518**	**9,196,429**	**18,484,505**
Financial liabilities						
Borrowings	13	**27,772,754**	-	11,753,451	7,855,285	8,164,017
Liabilities to employees	14	**112,736**	-	-	-	112,736
Accruals and other short term liabilities	15	**538,830**	-	538,831	-	-
		28,424,320	**-**	**12,292,282**	**7,855,285**	**8,276,753**
Net difference		**12,486,968**	**1,676,838**	**(306,765)**	**1,341,144**	**10,207,752**
31 December 2009						
Financial assets						
Cash and cash equivalent	10	5,046,563	2,746,563	2,300,000	-	-
Loans and advances to customers	11	41,307,565	-	13,374,241	10,389,505	17,543,819
Other receivables	12	134,033	-	134,033	-	-
		46,488,161	**2,746,563**	**15,808,274**	**10,389,505**	**17,543,819**
Financial liabilities						
Borrowings	13	32,243,781	-	15,593,101	3,523,207	13,127,473
Liabilities to employees	14	98,296	-	-	-	98,296
Accruals and other short term liabilities	15	634,518	-	634,518	-	-
		32,976,595	**-**	**16,227,619**	**3,523,207**	**13,225,769**
Net difference		**13,511,566**	**2,746,563**	**(419,345)**	**6,866,298**	**4,318,050**

4. Financial risk management (continued)

(d) Market risks (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios include a 1% parallel fall or rise in all yield curves.

An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	(Loss) / profit for the period
2010	
Interest income (1% increase)	104,947
Interest income (1% decrease)	(104,947)
Interest expense (1% increase)	98,200
Interest expense (1% decrease)	(98,200)
2009	
Interest income (1% increase)	237,708
Interest income (1% decrease)	(237,708)
Interest expense (1% increase)	191,163
Interest expense (1% decrease)	(191,163)

Exposure to currency risk – non-trading portfolios

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group manages this risk by ensuring that all its assets and liabilities are in EUR.

4. Financial risk management (continued)

(e) Capital management

Regulatory capital

The Group is not subject to externally imposed capital requirements. However, the Group is subject to a periodic supervision by the Central Bank of Kosovo.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of equity on its return is also recognized and the Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound equity position.

There have been no changes in the Group's approach to capital management during the year.

5. Use of estimates and judgments

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, 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.

These disclosures supplement the commentary on financial risk management (see note 4).

Key sources of uncertainty estimation

Allowance for credit losses

Assets accounted for at amortized cost are evaluated for impairment on the basis described in accounting policy 3(i) *(vi)*.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans with similar economic characteristics when there is objective evidence to suggest that they may contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, trends and behavior of loans portfolio and economic factors. In order to estimate the required allowance, assumptions are made based on historical experience, patterns of credit risk in the organization and micro credit organizations in Kosovo market and current economic conditions. The accuracy of the allowances depends on how well assumptions and parameters used in determining collective allowances are determined.

5. Use of estimates and judgments (continued)

Determination of fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(i)*(v)*. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, contractual and expected cash flows, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Details of the Group's fair value of financial assets and liabilities are given in note 7.

6. Segment reporting

Segment information is presented in respect of the Group's business which is based on the Group's management and internal reporting structure.

Business segments

The Group comprises the following two business segments:

- Micro credit activity (KEP): Providing micro credit loans to individuals and small and medium enterprises in Kosovo, mainly to finance small business activities.

- Training and other services (ICCED and other entities of the Group): The main activities of ICCED Limited Kosovo are to provide training and other consulting services such as: facilitating self-employment and access to loans, advancing adult-centered education to marginalized communities, capacity building, program design and implementation, research and development to different institutions in Kosovo. Hexagon Security Company has as its main activity providing physical security services to entities of the Group and to other entities in the Kosovo Territory.

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6. Segment reporting (continued)

Business segments for the year ended 31 December 2010 are comprised as follows:

	Micro credit activity (KEP)	Training and other services (ICCED+KEP Holding)	Elimination	Consolidated
Interest income	8,740,290	-	(11,437)	8,728,853
Interest expenses	(2,253,646)	(11,437)	11,437	(2,253,646)
Net interest income	**6,486,644**	**(11,437)**	**-**	**6,475,207**
Fee income, net	643,721	(205)		643,516
Income from services	-	399,613	(399,486)	127
Other operating income, net	69,465	36,795	(21,904)	84,356
Gross operating surplus	**7,199,830**	**424,766**	**(421,390)**	**7,203,206**
Impairment losses	(3,872,299)	-	1,003,467	(2,868,832)
Personnel expenses	(2,885,879)	(300,247)		(3,186,126)
Operating lease expenses	(501,241)	(41,061)	6,343	(535,959)
Depreciation and amortisation	(365,823)	(28,020)	-	(393,842)
Other expenses	(1,601,385)	(148,837)	415,047	(1,335,175)
Operating expenses	**(9,226,627)**	**(518,165)**	**1,424,857**	**(8,319,934)**
Operating surplus/(deficit) for the year before grant income	**(2,026,798)**	**(93,397)**	**1,003,467**	**(1,116,728)**
Grant income	15,234	17,092	(6,524)	25,802
Grant expense	(8,710)	(10,510)	6,524	(12,696)
Foreign exchange profit /(loss)	-	-	-	-
Net surplus/(deficit) for the year before tax	**(2,020,274)**	**(86,815)**	**1,003,467**	**(1,103,622)**
Income tax expense	-	(403)	-	(403)
Net surplus for the year	**(2,020,274)**	**(87,218)**	**1,003,467**	**(1,104,025)**

6. Segment reporting (continued)

	Micro credit activity (KEP)	Training and other services (ICCED+KEP Holding)	Elimination	Consolidated
ASSETS				
Cash and cash equivalents	1,640,216	36,622	-	1,676,838
Loans and advances to customers	39,041,864		-	39,041,864
Other receivables and prepayments	127,298	65,289	-	192,588
Investment to ICCED	-	-	-	-
Borrowings to related parties	65,000	-	(65,000)	-
Related parties	64,859	15,681	(80,540)	-
Equipment	1,136,917	68,947	-	1,205,864
Intangible assets	247,437	203,699	-	451,135
Total assets	**42,323,591**	**390,238**	**(145,540)**	**42,568,289**
EQUITY & LIABILITIES				
Equity				
Retained surplus/equity	13,958,955	(155,777)	333,467	14,136,646
Total equity	**13,958,955**	**(155,777)**	**333,467**	**14,136,646**
Liabilities				
Borrowings	27,772,754	375,000	(375,000)	27,772,754
Deferred income	-	7,323	-	7,323
Related parties	14,099	89,909	(104,008)	-
Liabilities to employees	104,149	8,587	-	112,736
Accruals and other short term liabilities	473,634	65,196	-	538,830
Total liabilities	**28,364,636**	**546,015**	**(479,008)**	**28,431,643**
Total equity and liabilities	**42,323,591**	**390,238**	**(145,540)**	**42,568,289**

6. Segment reporting (continued)

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Business segments for the year ended 31 December 2009 are comprised as follows:

	Micro credit activity (KEP)	**Training and other services (ICCED)**	**Elimination**	**Consolidated**
Interest income	8,559,931	-	(9,300)	8,550,631
Interest expenses	(2,485,783)	(9,300)	9,300	(2,485,783)
Net interest income	6,074,148	(9,300)	-	6,064,848
Fee income, net	731,085	-	-	731,085
Income from services	2,251	186,836	(179,645)	9,442
Other operating income, net	50,040	39,928	(19,050)	70,918
Gross operating surplus	**6,857,524**	**217,464**	**(198,695)**	**6,876,293**
Impairment losses	(588,493)	-		(588,493)
Personnel expenses	(2,934,851)	(127,924)		(3,062,775)
Operating lease expenses	(448,984)	(36,219)	13,050	(472,153)
Depreciation and amortisation	(342,298)	(24,306)		(366,604)
Other expenses	(1,405,130)	(94,861)	185,645	(1,314,346)
Operating expenses	**(5,719,756)**	**(283,310)**	**198,695**	**(5,804,371)**
Operating surplus/(deficit) for the year before grant income	**1,137,768**	**(65,846)**	**-**	**1,071,922**
Grant income	17,087	30,079	(30,079)	17,087
Grant expense	(30,079)	-	30,079	-
Foreign exchange (loss)/profit	82	(104)		(22)
Net surplus/(deficit) for the year before tax	**1,124,858**	**(35,871)**	**-**	**1,088,987**

6. Segment reporting (continued)

	Micro credit activity (KEP)	Training and other services (ICCED)	Elimination	Consolidated
ASSETS				
Cash and cash equivalents	4,975,445	71,118	-	5,046,563
Loans and advances to customers	41,307,565	-	-	41,307,565
Other receivables and prepayments	111,994	22,039	-	134,033
Investment to ICCED	670,000	-	(670,000)	-
Borrowings to related parties	310,000	-	(310,000)	-
Related parties	97,380	30,323	(127,703)	-
Equipment	1,233,656	41,232	-	1,274,888
Intangible assets	251,215	211,958	-	463,173
Total assets	**48,957,255**	**376,670**	**(1,107,703)**	**48,226,222**
EQUITY & LIABILITIES				
Equity				
Retained surplus	15,979,229	(68,558)	(670,000)	15,240,671
Total equity	**15,979,229**	**(68,558)**	**(670,000)**	**15,240,671**
Liabilities				
Borrowings	32,243,781	310,000	(310,000)	32,243,781
Deferred income	1,633	7,323		8,956
Related parties	30,323	97,380	(127,703)	-
Liabilities to employees	90,909	7,387	-	98,296
Accruals and other short term liabilities	611,380	23,138	-	634,518
Total liabilities	32,978,026	445,228	(437,703)	32,985,551
Total equity and liabilities	**48,957,255**	**376,670**	**(1,107,703)**	**48,226,222**

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7. Financial assets and liabilities
Accounting classifications and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest).

	Note	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
31 December 2010					
Cash and cash equivalents	10	1,676,838	-	1,676,838	1,676,838
Loans and advances to customers	11	39,041,864	-	39,041,864	39,249,028
Other receivables and prepayments	12	192,588	-	192,588	192,588
		40,911,290	**-**	**40,911,290**	**41,118,454**
Borrowings	13	-	27,772,754	27,772,754	27,603,307
Accruals and other short term liabilities	15	-	538,830	538,830	538,830
		-	**28,311,584**	**28,311,584**	**28,142,137**
31 December 2009					
Cash and cash equivalents	10	5,046,563	-	5,046,563	5,046,563
Loans and advances to customers	11	41,307,565	-	41,307,565	42,307,358
Other receivables and prepayments	12	134,033	-	134,033	134,033
		46,488,161	**-**	**46,488,161**	**47,487,954**
Borrowings	13	-	32,243,781	32,243,781	32,147,452
Accruals and other short term liabilities	15	-	634,518	634,518	634,518
		-	**32,878,299**	**32,878,299**	**32,781,970**

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8. Property and equipment

Movements in property and equipment during 2010 and 2009 are as follows:

	Vehicles	*Computers & IT equipment*	*Furniture and Fittings*	*Leasehold Improvements*	*Total*
Cost					
Balance at 1 January 2009	732,727	406,535	532,254	281,208	1,952,724
Additions	79,550	168,269	155,846	70,457	474,122
Disposals	-	-	(319)	(1,670)	(1,989)
Balance at 31 December 2009	**812,277**	**574,804**	**687,781**	**349,995**	**2,424,857**
Balance at 1 January 2010	812,277	574,804	687,781	349,995	2,424,857
Additions	171,812	70,007	64,363	34,667	340,849
Disposals	(26,764)	(1,142)	(162)	-	(28,068)
Balance at 31 December 2010	**957,325**	**643,669**	**751,982**	**384,662**	**2,737,638**
Depreciation					
Balance at 1 January 2009	(336,177)	(209,148)	(215,277)	(40,782)	(801,384)
Depreciation for the year	(132,584)	(72,807)	(97,054)	(46,140)	(348,585)
Balance at 31 December 2009	**(468,761)**	**(281,955)**	**(312,331)**	**(86,922)**	**(1,149,969)**
Balance at 1 January 2010	(468,761)	(281,955)	(312,331)	(86,922)	(1,149,969)
Depreciation for the year	(124,631)	(88,892)	(115,936)	(52,346)	(381,805)
Balance at 31 December 2010	**(593,392)**	**(370,847)**	**(428,267)**	**(139,268)**	**(1,531,774)**
Carrying amounts					
At 1 January 2009	**396,550**	**197,387**	**316,977**	**240,426**	**1,151,340**
At 31 December 2009	**343,516**	**292,849**	**375,450**	**263,073**	**1,274,888**
At 1 January 2010	**343,516**	**292,849**	**375,450**	**263,073**	**1,274,888**
At 31 December 2010	**363,933**	**272,823**	**323,715**	**245,394**	**1,205,864**

As at 31 December 2010 the Group does not have any property or equipment pledged as collateral (2009: none).

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9. Intangible assets

Movements in intangible assets during 2010 and 2009 are as follows:

	Software	Curricula	Total
Cost			
Balance at 1 January 2009	**80,591**	**262,150**	**342,741**
Impairment	-	-	-
Additions	247,772	3,203	250,975
Balance at 31 December 2009	**328,363**	**265,353**	**593,716**
Balance at 1 January 2010	**328,363**	**265,353**	**593,716**
Impairment	-	-	-
Additions	-	-	-
Balance at 31 December 2010	**328,363**	**265,353**	**593,716**
Amortization			
Balance at 1 January 2009	(67,460)	(45,064)	(112,524)
Amortization for the year	(9,645)	(8,374)	(18,019)
Balance at 31 December 2009	**(77,142)**	**(53,401)**	**(130,543)**
Balance at 1 January 2010	(77,142)	(53,401)	(130,543)
Amortization for the year	(3,779)	(8,259)	(12,038)
Balance at 31 December 2010	**(80,921)**	**(61,660)**	**(142,581)**
Carrying amounts			
At 1 January 2009	**13,131**	**217,086**	**230,217**
At 31 December 2009	**251,258**	**211,915**	**463,173**
At 1 January 2010	**251,221**	**211,952**	**463,173**
At 31 December 2010	**247,442**	**203,693**	**451,135**

10. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

	2010	2009
Cash on hand	16,816	18,176
Cash at bank	1,660,022	5,028,387
Total	**1,676,838**	**5,046,563**

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10. Cash and cash equivalents (continued)

The Group, as at 31 December 2010 operates forty-two bank accounts (31 December 2009: fourty-one bank accounts) at the following banks: ProCredit Bank Kosovo, Raiffeisen Bank Kosovo, Banka Private per Biznes, TEB bank, Ulster Bank, Vojvodjanska Banka AD, Nova Ljubljanska Banka (NLB) and Komercijalna Banka AD. Such accounts refer only to current accounts and can be grouped as follows:

	2010	2009
Cash on hand	**16,816**	**18,176**
Current accounts		
Raiffeisen Bank Kosovo	239,601	723,434
ProCredit Bank	39,347	72,349
NLB	19,988	50,749
Banka Private per Biznes	12,206	8,123
Ulster Bank	1,010	2,811
Vojvodjanska Banka AD	381	518
TEB	1,755	21,404
Komercijalna Banka AD	1,582	29
	315,870	**879,417**
Time and demand deposit	1,343,671	4,142,793
Interest accrued	481	6,177
	1,344,152	**4,148,970**
	1,676,838	**5,046,563**

The Group has placed the following time and demand deposits as at 31 December 2010 and 2009:

	Interest	Tenor	2010	Interest	Tenor	2009
Time/flexi deposit						
RZB Kosovo	2.5% p.a.	-	931,401	3.02% p.a.	-	440,893
ProCredit Bank	-	-	-	4.6% p.a.	1 month	1,000,000
ProCredit Bank	-	-	-	4.6% p.a.	1 month	800,000
ProCredit Bank	-	-	-	4.2% p.a.	1 month	500,000
TEB Flexi	2.8% p.a.	-	412,269	3.1% p.a.	-	1,401,900
			1,343,671			**4,142,793**
Interest accrued						
Interest accrued			481			6,177
			1,344,152			**4,148,970**

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11. Loans and advances to customers

Loans and advances to customers are composed as follows:

	2010	2009
Loans and advances to customers	41,812,980	41,563,875
Less: allowance for impairment	(3,406,917)	(821,195)
Loans and advances to customer, net	**38,406,063**	**40,742,680**
Interest accrued	635,801	564,885
	39,041,864	**41,307,565**

Movement in the allowance for impairment were as follows:

	2010	2009
Impairment loss on loans and advances to customers		
Balance at 1 January	**821,195**	**564,660**
Impairment losses on loans and advances to customers	2,868,832	588,493
Write-offs	(283,110)	(331,958)
Balance at 31 December	**3,406,917**	**821,195**
Impairment loss on curricula		
Balance at 1 January	**21,598**	**21,598**
Net impairment losses	**-**	**-**
Balance as 31 December	**21,598**	**21,598**
Balance at 31 December	**3,428,515**	**842,793**

In accordance with internal policies, KEP has ensured that all loans are covered by collateral.

(a) Interest rates

Interest rates have had a slight increase during 2010. KEP has increased interest rates for housing loans to 18%. Average effective rates on outstanding loans in 2010 and 2009 have been as follows:

	2010	2009
Individual loans	23.4%	23.8%
Consumer loans	19.0%	19.0%
Group loans	24.9%	24.4%
Agricultural loans	23.3%	23.3%
Village banking	26.6%	26.6%
Livestock loans	23.3%	23.3%
Housing	18.0%	15.1%
Start up loans	-	15.2%
Express loan	26.5%	26.5%
Loan for women (LFW)	22.8%	22.7%
Staff loans	10.7%	10.8%
KEP	**23.1%**	**22.6%**

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11. Loans and advances to customers (continued)

(b) Loan maturity analysis

	2010	2009
Loans due within 12 months	22,822,227	24,333,646
Less: Allowance for impairment	(1,833,774)	(569,899)
	20,988,453	**23,763,747**
Loans due after 12 months	19,626,554	17,795,114
Less: Allowance for impairment	(1,573,143)	(251,296)
	18,053,411	**17,543,818**
Carrying Amount	**39,041,864**	**41,307,565**

(c) Staff loans

	2010	2009
Loans due within 12 months		
Supervisors	41,631	28,139
Operational and administrative staff	42,082	84,625
	83,713	**112,764**
Loans due after 12 months		
Supervisors	81,853	58,070
Operational and administrative staff	70,574	135,921
	152,427	**193,991**
	236,140	**306,755**

Staff loans are provided at an annual interest rate of 10.6 % in 2010 and 2009.

12. Other receivables and prepayments

	2010	2009
Prepaid expenses	52,512	38,947
Trade receivables	23,225	15,635
Upfront fee to FMO for loan not yet disbursed	-	-
Other	116,851	79,451
	192,588	**134,033**

Prepaid expenses are composed mainly from prepaid rent and other prepayments (insurance prepayments, stationeries, etc.) while trade receivables are composed mainly from receivables from clients for training services offered from ICCED during 2010 and 2009.

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13. Borrowings

Borrowings are composed as follows:

	2010	2009
EFSE	9,611,061	9,318,091
EBRD	4,215,969	6,943,721
Oiko Credit	547,155	1,122,161
Triple Jump	1,000,000	1,495,755
Global Commercial Microfinance Consortium ltd	-	1,000,000
Blue Orchard	5,600,000	4,300,000
FMO	3,979,030	4,969,714
Clann Credo	183,477	268,599
ATA	-	95,000
Development World Market	1,994,869	1,986,025
	27,131,561	**31,499,066**
Interest accrued		
EFSE	207,375	224,247
EBRD	89,254	150,979
Oiko Credit	19,287	39,116
Triple Jump	13,370	41,561
Blue Orchard	178,384	128,843
FMO	100,273	125,791
Development World Market	33,250	34,178
	641,193	**744,715**
Total	**27,772,754**	**32,243,781**

Clann Credo agreed to lend KEP an amount of EUR 500,000 disbursed in two installments as follows: EUR 300,000 on 27 December 2004 and EUR 200,000 on 30 March 2005. The loan is repayable on or before 31 December 2012 with a two year grace period. The loan bears interest at an effective interest rate of 5% per annum payable at the end of the last business day in March, June, September and December.

As at 1 May 2006, KEP entered into a loan agreement with Global Commercial Microfinance Consortium ltd for an amount of EUR 1,000,000. The effective interest rate for this loan is 10% per annum and the interest is payable on 30 June and 31 December of each year. The loan matured and was fully paid on 30 May 2009.

As at 26 August 2009, KEP entered into a new loan agreement with Global Commercial Microfinance Consortium ltd for an amount of EUR 1,000,000. The effective interest rate for this loan is 8.5% per annum and the interest is payable on 30 June and 31 December of each year provided that the last payment date will not be latter than the maturity date. The loan matured and was fully paid on 1 November 2010.

13. Borrowings (continued)

In accordance with the loan agreement dated 5 December 2006, the European Bank for Reconstruction and Development ("EBRD") has provided KEP with a loan of EUR 3,000,000. The first installment of EUR 1,500,000 was available to KEP on December 2006, while the second installment of EUR 1,500,000 was available on January 2007. The loan bears an interest rate equal to the Average Interbank Rate plus 4.75% p.a. and matures on 27 December 2011. KEP was given a one year grace period on the principal payments. Principal repayments are required on a semi-annual basis on 27 June and 27 December starting from the second year, while the interest payments are required on a quarterly basis on the 27th of March, June, September and December. Repayment of EUR 1,000,000 took place during 2008 in two instalments of EUR 500,000 each on 11 February 2008 and 11 August 2008. Repayment of EUR 1,000,000 took place during 2009 in two instalments of EUR 500,000 each on 09 February 2009 and 05 August 2009. Repayment of EUR 1,000,000 took place during 2010 in two instalments of EUR 500,000 each on 08 February 2010 and 05 August 2010, when it was fully repaid

On 7 December 2007 KEP entered into another loan agreement with EBRD amounting to EUR 4,000,000 which will be available in three tranches: Tranche A of EUR 1,500,000, Tranche B of EUR 1,500,000 and Tranche C of EUR 1,000,000. Tranche A was available to KEP on 17 December 2007. The remaining tranches were disbursed in 2008 respectively; Tranche B on 11 February 2008 and Tranche C on 3 March 2008. KEP shall pay interest on the principal of each disbursement of the tranches at a rate equal to the sum of the margin and the interbank rate for the interest period. The interest should be paid each February and August. The principal amount of the loan disbursed shall be repaid by the borrower in eight successive equal semi-annual installments commencing on the interest payment date on or following the twelve month anniversary of the effective date and continuing on each interest payment date thereafter until the final repayment date. Repayment of EUR 1,000,000 took place during 2009 in two instalments of EUR 500,000 each on 06 February 2009 and 05 August 2009. Repayment of EUR 1,000,000 took place during 2009 in two instalments of EUR 500,000 each on 04 February 2010 and 05 August 2010.

On 12 August 2008 KEP entered into another loan agreement with EBRD amounting to EUR 3,000,000 which will be available in two tranches. Tranche A, amounting to EUR 1,000,000, was available to KEP on 25 August 2008. Tranche B and C amounting to EUR 1,000,000 each, was available to KEP on 06 May 2009 and 10 August 2009 respectively. The loan bears an interest rate equal to the Average Interbank Rate plus 4.75% p.a. and matures on 12 August 2013. KEP is given a one year grace period on the principal payments. Principal repayments are made on a semi-annual basis on the 12th of February and August starting from the second year, while the interest payments should be done on a semi-annual basis on the 12th of February and August every year. Repayment of EUR 750,000 took place during 2010 in two instalments of EUR 375,000 each on 04 February 2010 and 05 August 2010.

KEP entered into a loan agreement on 17 August 2006 with Dexia Micro- Credit Fund - Sub Fund Blue Orchard Debt ("Blue Orchard"). The amount borrowed is EUR 1,000,000, with an annual interest rate of EURIBOR plus 5.25% to be paid on a semi annual basis, and a maturity of two years. The total amount of this loan was made available to KEP on 17 August 2006. Repayments of the principal amount were done on 17 August 2007 in the amount of EUR 500,000 and 17 August 2008 in the amount of EUR 500,000, and it was fully repaid.

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13. Borrowings (continued)

KEP entered into another loan agreement on 15 April 2008 with Dexia Micro- Credit Fund - Sub Fund Blue Orchard Debt (“Blue Orchard”). The amount borrowed was EUR 2,000,000, with an annual interest rate of EURIBOR plus 4.4% to be paid on a semi annual basis, and a maturity of three years. The total amount of this loan was made available to KEP on 16 April 2008. Repayments of the principal amount were done on 15 April 2009 in the amount of EUR 700,000. Repayments of the principal amount were done on 12 April 2010 in the amount of EUR 700,000. Repayments of the remaining principal amount will be made on 15 April 2011 in the amount of EUR 600,000.

KEP entered into a further loan agreement on 20 August 2008 with Dexia Micro- Credit Fund - Sub Fund Blue Orchard Debt (“Blue Orchard”). The amount borrowed was EUR 3,000,000, with an annual interest of 9.5% to be paid on a semi annual basis, and a maturity of three years. The total amount of this loan was made available to KEP on 21 August 2008. The repayment of the principal amount will be made 20 August 2011 in the amount of EUR 3,000,000.

KEP entered into a further loan agreement on 28 July 2010 with Dexia Micro- Credit Fund - Sub Fund Blue Orchard Debt (“Blue Orchard”). The amount borrowed was EUR 2,000,000, with an annual interest of 8 % to be paid on a semi annual basis. The repayment of the principal will be made on the following dates: EUR 500,000 on 03 August 2011, EUR 500,000 on 03 August 2012, EUR 500,000 on 03 February 2013 and EUR 500,000 on 05 August 2013.

On 20 March 2007 KEP entered into two loan agreements with the European Fund for South East Europe (EFSE). The amount borrowed was EUR 3,000,000 (each EUR 1,500,000) with an annual interest rate of 8.5%. The loans were disbursed in two equal installments of EUR 1,500,000 on 2 April 2007 and 3 July 2007. The first loan will mature on 22 September 2012 and the principal will be payable in semi-annual installments on 22 March and 22 September starting from 22 March 2008. The second loan will mature on 22 September 2012 and the principal will be payable in semi-annual installments on 22 March and 22 September starting from 22 March 2008. Repayment of EUR 800,000 took place during 2009 in two instalments of EUR 400,000 each on 19 March 2009 and 19 September 2009. Repayment of EUR 800,000 took place during 2010 in two instalments of EUR 400,000 each on 18 March 2010 and 20 September 2010.

On 29 September 2007 KEP entered into two additional loan agreements with EFSE amounting to EUR 3,000,000 (EUR 1,800,000 and EUR 1,200,000), with an annual interest of 8.5%. The loan amounting to EUR 1,800,000 was disbursed in two installments. The first installment amounting to EUR 1,000,000 was disbursed on 31 October 2007 and the second installment amounting to EUR 800,000 was disbursed on 25 February 2008. The loan amounting to EUR 1,200,000 was disbursed in two installments. The first installment amounting to EUR 1,000,000 was disbursed on 31 October 2007 and the second installment amounting to EUR 200,000 was disbursed on 25 February 2008. The first loan will mature on 22 September 2012 and the principal will be payable in semi-annual installments on 22 March and 22 September starting from 22 March 2010. The second loan will mature on 22 September 2012 and the principal will be payable in semi-annual installments on 22 March and 22 September starting from 22 March 2010. Repayment of EUR 1,000,000 took place during 2010 in two instalments of EUR 500,000 each on 18 March 2010 and 20 September 2010.On 15 March 2008 KEP entered into two additional loan agreements with EFSE amounting to EUR 2,000,000 (EUR 1,200,000 and EUR 800,000), with an annual interest rate of 8.3%. The loan amounting to EUR 1,200,000 will be disbursed in two installments of EUR 600,000 on 2 April

13. Borrowings (continued)

2008 and 4 April 2008. The loan amounting to EUR 800,000 was disbursed in two installments of EUR 400,000 on 2 April 2008 and EUR 400,000 on 4 April 2008. The first loan matures on 22 September 2012 and the principal will be payable in semi-annual installments on 22 March and 22 September starting from 22 March 2010. The second loan of EUR 800,000 will mature on 22 September 2012 and the principal will be payable in semi-annual installments on 22 March and 22 September starting from 22 September 2010. Repayment of EUR 560,000 took place during 2010 in two instalments, 200,000 on 18 March 2010 and 360,000 on 20 September 2010.

On 15 September 2008 KEP entered into another two loan agreements with EFSE amounting to EUR 2,000,000 (EUR 1,600,000 and EUR 400,000), with an annual interest rate of 9.14%. Both loan amounts were received on 10 October 2008 and both loans will mature on 22 March 2013, with the principal being repaid in semi-annual instalments on 22 March and 22 September starting on 22 September 2010. Repayment of EUR 370,000 took place during 2010 on 20 September 2010.

On 25 June 2009 KEP entered into another two loan agreements in the form of credit line with EFSE amounting to EUR 4,000,000 (EUR 1,600,000 and EUR 2,400,000), with an annual interest rate of 8.5% p.a. EUR 400,000 was receive on 30 June 2009 from the loan amounting to EUR 1,600,000 and EUR 600,000 was receive on 30 June 20009 from the loan amounting to EUR 2,400,000 and both loans and will mature on 22 September 2013, with the principal being repaid in semi-annual instalments on 22 March and 22 September starting on 22 March 2010.

On 22 February 2007 KEP entered into a loan agreement with ASN-NOVIB FONDS ("Triple Jump"). The amount borrowed was EUR 1,500,000 with an interest rate of 8.25% per annum. KEP shall repay the loan to the lender in three installments, the first of EUR 500,000 on 26 February 2010, the second of EUR 500,000 on 31 August 2010 and the third of EUR 500,000 on 28 February 2011. Repayment of EUR 500,000 took place during 2010 on 28 February 2010. The remaining of EUR 1,000,000 principal outstanding was not paid as per agreement, but the amount outstanding has been roll-over based on the Annex I-Indicative Term Sheet and the loan agreement dated 29 October 2010.

On 29 October 2010 KEP entered into another loan agreement with ASN-NOVIB FONDS ("Triple Jump") in amount of EUR 2,000,000 with an interest rate of 8% per annum. The loan shall be disbursed by the Lender in 2 tranches on the following dates: the first tranche of EUR 1,000,000 has already been disbursed according to the previous Loan Agreement (as roll-over), the second tranche of EUR 1,000,000 shall disbursed no later than 31 March 2011. The principal of the first tranche will be repaid on 15 December 2012.

On 4 December 2006 KEP entered into a loan agreement with OIKO CREDIT. The amount borrowed was EUR 2,000,000 with an annual interest rate of 8.05% paid on a semi-annual basis and the maturity date on 26 July 2011. The amount of 2,000,000 was disbursed in three installments; the first installment amounting to EUR 1,000,000 was disbursed on 26 July 2007 and the second and third installments amounting to EUR 500,000 each were disbursed on 11 September 2007 and 29 October 2007, respectively. The principal will be repaid in seven installments, six in the amount of EUR 290,000 and the seventh in the amount of EUR 260,000.

13. Borrowings (continued)

These installments are due 12, 18, 24, 30, 36, 42 and 48 months after the date of the first disbursement. Repayment of EUR 580,000 took place during 2009 in two instalments of EUR 290,000 each on 21 January 2009 and 21 July 2009 (Repayment of EUR 290,000 took place during 2008 on 13 August 2008). Repayment of EUR 580,000 took place during 2010 in two instalments of EUR 290,000 each on 20 January 2010 and 21 July 2010.

On 3 April 2007 KEP entered into a loan agreement with The Academic Training Association (ATA). The amount borrowed is 100,000 EUR with a maturity date of April 2009. The first tranche of EUR 50,000 was made to KEP on 3 July 2007. The second tranche of EUR 50,000 was made on 15 June 2008. The loan is interest-free and will be liquidated at the request of one or both of the signatories of the agreement upon at least a six month notice. The loan was liquidated on 18 February 2010 in amount of EUR 95,000.

On 8 September 2008 KEP entered into a loan agreement with Pettelaar Effectenbewaarbedrijf N.V. as the lender and DWM Asset Management, LLC as the investment manager. The amount borrowed is EUR 2,000,000 with an interest of 9.5% per annum. The loan was disbursed on 31 October 2008. The loan shall be for a period of three years from the commencement date. Interest will be payable quarterly in arrears on the outstanding principal amount of the loan. Interest will be paid every three months on the last business day of January, April, July and October beginning on the last business day of October 2008, and will be calculated on the actual number of days elapsed during the relevant interest period divided by 360. KEP shall repay the principal amount of the loan to the lender in two equal installments of EUR 1,000,000 on the business days which fall 30 and 36 months after the commencement date.

On 23 September 2008 KEP entered into term facility agreement with NEDERLANDSE FINANCIERINGS-MAATSCHAPPIJ VOOR ONTWIKKELINGSLANDEN N.V. The amount borrowed is EUR 5,000,000 with an annual interest rate of EURIBOR plus 4.25% with the availability period up to 1 April 2009. The amount of 5,000,000 was disbursed in three installments; the first installment amounting to EUR 2,000,000 was disbursed on 06 February 2009, the second instalment amounting to EUR 1,500,000 was disbursed on 16 March 2009 and third installment amounting to EUR 1,500,000 was disbursed on 31 March 2009. The loan will mature on 15 July 2014 and the principal will be payable in semi-annual installments on 15 January and 15 July starting from 15 January 2010. Repayment of EUR 1,000,000 took place during 2010 in two instalments of EUR 500,000 each on 12 January 2010 and 12 July 2010.

KEP has been in breach of covenants since in the last quarter of 2009 and during all 2010. KEP has been in continuous contact with the lenders explaining the reasons of such breaches. However, KEP has never officially received any call for immediate repayments of the outstanding amounts due because of such breaches. Despite breaches in covenants imposed in the borrowing contracts, KEP has fully met all payments of principal and interest as per agreed schedules.

13. Borrowings (continued)

KEP is in breach of the following covenants with the lenders as of 31 December 2010:

Contractor	**Covenant Description**
EBRD	PAR >30 not greater than 5%
EBRD	Operating expenses to operating results not greater than 80%
Deutche Bank	PAR >30 not greater than 5%
Deutche Bank	PAR >90 not greater than 5%
Deutche Bank	Operational self sufficiency ratio not less than 110%
Deutche Bank	Earning before interest, tax, depreciation and amortization (EBITDA) divided by interest expense of at least 2:1
DWM	PAR >30 not greater than 5%
OIKOCREDIT	PAR >30 not greater than 6%
EFSE	PAR >30 not greater than 3%
EFSE	Balance of non performing loans not greater than 5%
FMO	Operating expenses to operating results not greater than 95%
Blue Orchard	Portfolio At Risk over 30 days plus Restructured Loans year-to-date divided by the Outstanding Portfolio

14. Liabilities to employees

The Group has set up a staff saving scheme. The Group and its staff have each agreed to contribute 5% of the base salary of the staff in each year. The funds accumulated from the staff's contribution will be payable to the staff on the date they retire or terminate their employment with the Group.

The funds accumulated from the Group's contribution will be payable to employees based on years of employment with the Group since 1 January 2003 as follows:

- less than 2 years: 0% of the funds accumulated;
- 2 to 3 years: 25% of funds accumulated;
- 3 to 4 years: 50% of funds accumulated;
- 4 to 5 years: 75% of funds accumulated
- 6 years or more: 100% of funds accumulated.

In the following circumstances, the employer's portion of the contribution will be paid in full, irrespective of the period of service:

- in case of death
- termination on medical grounds
- employer induced severance due to restructuring

15. Accruals and other short term liabilities

Accruals and other short term liabilities are composed as follows:

	2010	2009
Withholding tax payable	141	28,715
Pension and income tax payable	36,133	30,055
Accrued expenses	326,611	269,631
VAT payable	3,602	13,330
Bonus payable	-	212,500
Withholding tax on interest	76,216	42,491
Other	96,127	37,796
	538,830	**634,518**

Accrued expenses are composed as follows:

	2010	2009
Consultancy work	21,843	56,844
New system implementation work in progress	146,916	136,930
Audit fee	14,784	12,876
Marketing matterials	18,506	30,475
Other accruals	124,562	32,506
	326,611	**269,631**

16. Deferred income

Deferred income is composed as follows:

	Balance at 1 Jan 2009	Additions in 2009	Income recognized in 2009	Funds returned to donor	Balance at 31 December 2009	Additions in 2010	Income recognized in 2010	Funds returned to donor	Balance at 31 December 2010
UNDP	7,291	-	(7,291)	-	-	-	-	-	-
Minister of Foreign Affairs of Ireland	7,323	-	-	-	7,323	-	-	-	7,323
British Office	11,430	-	(9,796)	-	1,634	-	(1,633)	-	-
CARE International	(1)	-	-	-	(1)	-	-	-	-
	26,043	**-**	**(17,087)**	**-**	**8,956**	**-**	**(1,633)**	**-**	**7,323**

16. Deferred income (continued)

Funds received from the United Nations Development Fund ("UNDP") were classified as loans when the grant agreements were signed in 2004 between KEP and the UNDP. Amounts are taken into income when the corresponding expenses are incurred.

According to the Agreement of Co-operation dated 18 March 2005 between KEP and the Government of the Kingdom of Denmark, through the Ministry of Foreign Affairs (MFA), KEP received a grant of DKK 510,000 (EUR 68,417) for establishing a new branch office in Zubin Potok to cover Serb minority areas. Amount of EUR 31,547 and 22,631 refers to related expenses incurred in 2008 and 2007 respectively.

According to the agreement between the Ministry of Foreign Affairs of Ireland, represented by the Development Co-Operation Directorate for Department of Foreign Affairs, and ICCED Kosovo Limited, dated 18 July 2005, the latter is supported with a grant of EUR 64,125 in 2005 and EUR 64,125 in 2006 in support of the "Training for civil society development project" ("the Project"). The duration of the project is 24 months commencing in June 2005. Based on this contract, ICCED Limited Kosovo agreed to refund to the donor, within three months of completion of the Project, any portion of the grant which was not spent on the Project. If the refund is not made within three months from the completion of the Project then interest, at the European Central Bank base rate, shall be charged on the outstanding funds from the date of completion. During 2006, only EUR 15,321 was utilised, while during 2007 the amount of EUR 105,605 was utilised.

According to the agreement with British Office Prishtina dated 1 February 2005, KEP will implement the project entitled: Community Stabilisation of Minorities and Returns through Microcredit and Business Training. The project duration is 14 months and the total amount of the cost of the Project is GBP 566,750 (EUR 833,922). The British Office has undertaken to finance a maximum of GBP 361,438 (EUR 531,824) and KEP will finance the rest of the project expenses through its own funds. The British Office reserves the right to reclaim at any time within a period of 5 years after the date of the agreement any grant money which remains unspent at the termination of this project or money spent on purposes which do not fall within the project terms. Amount of Euro 9,797 refers to the portion amortised during 2009. Amount of Euro 1,633 refers to the portion amortised during 2010.

The project contract between CARE International Kosovo and KEP was entered into on 1 February 2006. According to the contract, CARE agreed to provide financing up to EUR 219,720 to be disbursed in accordance with the payment schedule set forth below. The overall objective of the project financed by CARE is to increase employment by creating a business environment that promotes economic growth and investment opportunities at the local level, with particular emphasis on rural areas. During 2008 an amount of EUR 21,412 from these funds was utilized (2007: EUR 147,546). The project ended on 30 April 2008, and the outstanding balance was paid back to CARE for the unspent amount of EUR 9,477.

Notes to the consolidated financial statements
Prepared in accordance with IFRS
Amounts in EUR unless otherwise stated

17. Net interest income

	2010	2009
Interest income		
From loans and advances to customers	8,694,546	8,507,502
From placement with banks	34,307	43,129
	8,728,853	**8,550,631**
Interest expense		
To EBRD loan	(292,546)	(454,761)
To Global Commercial Microfinance Consortium ltd	(72,014)	(70,000)
To Blue Orchard	(397,341)	(413,145)
To Clann Credo	(11,850)	(15,977)
To Triple Jump	(91,489)	(127,643)
To EFSE	(890,589)	(836,110)
To Oiko Credit	(62,401)	(111,804)
To DWM	(197,244)	(199,500)
To Overdraft	-	(4,831)
To FMO	(238,172)	(252,012)
	(2,253,646)	(2,485,783)
	6,475,207	**6,064,848**

18. Income from services

Income from services relates to training and consulting services provided by ICCED in Kosovo and security services provided by Hexagon.

19. Fee and commission income, net

Fee and commission income is composed as follows:

	2010	2009
Fee and commission income		
Administration fees	567,910	586,402
Penalty fees	161,131	187,000
	729,041	773,402
Fee and commission expense		
Other fee	(85,525)	(42,317)
	643,516	**731,085**

Penalty fees refer to penalties applied to customers that are late in repaying the loans.

20. Personnel expenses

Personnel expenses are composed as follows:

	2010	2009
Wages and salaries	2,927,363	2,810,335
Compulsory social security contributions	236,075	208,482
Staff saving scheme	13,204	13,853
Other	9,484	30,105
Total	**3,186,126**	**3,062,775**

The balance under other is mainly composed of health insurance and housing allowance.

Personnel expenses can be divided as follows:

	2010	2009
Local staff	2,550,967	2,507,687
International staff	625,675	524,983
Other	9,484	30,105
Total	**3,186,126**	**3,062,775**

At 31 December 2010, the Group employed 338 employees (31 December 2009: 306, 31 December 2008: 275) out of which 6 are employed with ICCED Limited Kosovo (31 December 2009: 7, 31 December 2008: 13), 3 with ICCED Dublin (31 December 2009: 2, 31 December 2008: 1) and 66 with HEXAGON Security Company (31 December 2009: none).

21. Operating lease expenses

Operating lease expenses relate to renting business premises. The Group does not own any of the offices it is conducting business in.

The total number of premises rented during 2010 is 40 (2009: 38, 2008: 30). Rent contracts mainly range for a period of 1 to 8 years.

Notes to the consolidated financial statements
Prepared in accordance with IFRS
Amounts in EUR unless otherwise stated

22. Other expenses

Other expenses are composed as follows:

	2010	2009
Consultancy services	88,836	144,687
Legal and professional fees	156,252	120,120
Withholding tax on interest for borrowings	139,062	141,044
Travel	42,340	35,795
Communication	109,189	120,425
Office supplies	91,350	86,226
Fuel	131,727	94,006
Staff development	14,110	24,956
Advertisement	112,970	145,074
Repairs and maintenance	94,088	93,710
Utilities	128,600	115,762
Security	32,273	15,478
Impairment of receivables	-	28,736
Bank fees	1,148	651
Accommodation	63,643	76,683
Training materials	1,812	513
Representation expenses	19,173	12,614
Other	108,603	57,866
Total	**1,335,176**	**1,314,346**

23. Grant Income

Grant income is composed as follow:

	Note	2010	2009
Deferred income	16	13,106	17,087
Total		**13,106**	**17,087**

The Government of the Kingdom of Denmark, through the Ministry of Foreign Affairs (“MFA”), has agreed to lend to KEP an amount of DKK 20,437,500, equivalent of EUR 2,725,000, deliverable in two installments. The first installment of EUR 1,086,603 was disbursed to KEP on 28 April 2005 and the amount of EUR 954,376 was disbursed on 20 September 2005.

23. Grant Income (continued)

A performance assessment review was done during 2006, and the third installment was disbursed on 16 May 2007. No interest is charged on the credit funds from MFA. However, a fee of 2% p.a. on the credit funds received for Year 1 and 2, and 1% p.a. for Year 3 was paid by KEP to the Association of Microfinance Institutions of Kosovo (AMIK), to support AMIK's capacity building activities. Payment of this fee to AMIK shall be made quarterly, every 31st March, 30th June, 30th September and 31st December.
Based on a MFA decision dated 8 March 2008, it was agreed that KEP fulfilled all requirements for the loan to be recognised as a grant. As such, the borrowing amount of EUR 2,740,056 was fully recognised as grant income in 2008.

24. Income tax expense

On 10 June 2002 KEP obtained the Public Benefit Status - PBS (no. 6000677-6) by the UNMIK authorities exempting KEP from tax on profit.

On 19 March 2008, following the Kosovo Government request to renew the registration certificates, KEP obtained the PBS certificate by the Kosovo Government. On 15 July 2009, the NGO Registration and Liaison Department has taken a decision 09-82 to discontinue KEP the PBS.

On 13 August, 2009 KEP appealed against the NGO Registration and Liasion Department 09-82 decision to the second instance body (Appeal Commission) within the Ministry of Public Administration. On 25 January 2010, the Appeal Commission endorsed the appeal, and revoked the 09-82, decision of the NGO Registration and Liasion Department and also requested the NGO Registration and Liasion Department to redress the issue (refer to note 27). With a formal letter no. 1332011, dated 30 May 2011; NGO Registration and Liasion Department informed KEP that the certificate of public benefit status shall be withdrawn by the authorized legal representative of KEP upon submission of the 2010 audit report. With official letter dated 27 June 2011, NGO Registration and Liasion Department confirmed that KEP Trust is registered as NGO and the legal representative is Mr. Jacques Boribond, based on the CBK decision No. 14-05/2011, dated 29 March 2011.

ICCED Limited Kosovo is subject to income tax in accordance with Republic of Kosovo regulations. Effective 1 January 2009, profit tax is calculated at the rate of 10% on taxable profit in accordance with Law on Income Tax 03/L-113. ICCED Limited Kosovo had a taxable loss in the year ended 31 December 2010 and 31 December 2009. No deferred tax asset has been recognised as at 31 December 2010 and 31 December 2009 in respect of this item because it was not probable that future taxable profit would be available against which the Group can utilise the benefits therefrom.

Hexagon Security Company is subject to income tax in accordance with Republic of Kosovo regulations. Effective 1 January 2009, profit tax is calculated at the rate of 10% on taxable profit in accordance with Law on Income Tax 03/L-113.

25. Related party transactions

Identity of related parties

The Group has related party relationships with its directors and executive officers.

Transactions with related parties

A summary of related party transactions for the years ended 31 December 2010 and 2009 are as follows:

	2010	**2009**
Expenses:		
Executive Director compensation	**198,044**	**210,258**
Housing	4,800	4,800
Children’s school	21,281	22,209
Salary	167,691	182,332
Travel and Visa fee	4,272	917
Board of Directors travel	**204,020**	**110,596**

26. Commitment and contingencies

Lease commitments

The Group has entered into lease commitments for its head office and all branches it operates. Such commitments as at 31 December 2010 and 2009 are composed as follows:

	2010	**2009**
Not later than 1 year	514,560	497,483
Later than 1 year	889,553	1,253,909
	1,404,113	**1,751,392**

There are no additional known commitments or contingencies as at 31 December 2010 (2009: none).

27. Events after the reporting period

Certificate for public benefit status

On 19 March 2008, following the Kosovo Government requested to renew the registration certificates KEP obtained the PBS certificate by the Kosovo Government. On 15 July, 2009 the NGO Registration and Liaison Department, has taken a decision 09-82 to discontinue KEP the PBS. On 13 August, 2009 KEP appealed against the NGO Registration and Liasion Department 09-82 decision to the second instance body (Appeal Commission) within the Ministry of Public Administration. Subsequent to the reporting period, on 25 January 2010, the Appeal Commission endorsed the appeal, and revoked the 09-82, decision of the NGO Registration and Liasion Department and also requested the NGO Registration and Liasion Department to redress the issue. On 31 May 2011, NGO Registration and Liasion Department informed KEP that the certificate of public benefit status shall be obtained after submission of the 2010 audit report. (refer to note 24).

Appointment of Provisional Administrator

Effective from January 5, 2011, Central Bank of Kosovo (CBK) has appointed provisional Administrator for KEP Trust through its decision number, 32- 08/2010, extended till October 5, 2011 through CBK letter dated 5 July, 2011.

This appointment was made owing to certain irregularities and violations of Laws and Regulations by the KEP Trust notified by CBK through its examination report dated December 17, 2010 and further non compliance with CBK's decision to reconstitute e management bard. Subsequent to and before the appointment of the Provisional Administrator certain key management personnel have already left the KEP Trust, including Executive Director, Group General Manager and Deputy Chief Executive Officer - Finance, Treasury and MIS.

Further, Portfolio at risk has increased from 12.4% as at December 31, 2010 to 17.2% as at May 31, 2011.

Currently, in order to improve the liquidity position, the Provisional Administrator is in negotiation with certain lenders for rescheduling of borrowings, where some lenders have requested to have forensic audit and review of loan portfolio of KEP Trust. Also the Provisional Administrator is in process of closing down the subsidiaries of KEP Trust.

Management is not aware of any other events subsequent to the reporting period that would require adjustment or additional disclosures in the consolidated financial statements of the Group.