

**KEP TRUST**

**FINANCIAL STATEMENTS**

**Prepared in accordance with  
International Financial Reporting Standards  
for the year ended 31 December 2016  
with the Independent Auditors' Report thereon**

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## Independent Auditors' Report

To the Board of Directors and management of KEP Trust

### *Opinion*

We have audited the financial statements of KEP Trust ("the Organization"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Organization as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements of the Law No.04/L -014 "On accounting, financial reporting and audit", that are relevant to our audit of the financial statements in Kosovo, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other Matter*

The financial statements of the Organization prepared in accordance with IFRS for the year ended 31 December 2015 were audited by another auditor, who expressed an unmodified opinion on those statements on 3 May 2016.

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

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



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

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

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*KPMG Albania Shpk Kosovo Branch*

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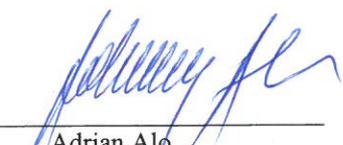
Pristina, 28 April 2017

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

	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
Cash and cash equivalents	7	1,779,900	2,049,185
Loans and advances to customers	8	25,654,130	17,082,896
Other assets	9	42,686	63,716
Premises and equipment	10	245,993	135,062
Intangible assets	11	13,570	6,945
<b>TOTAL ASSETS</b>		<b>27,736,279</b>	<b>19,337,804</b>
<b>LIABILITIES</b>			
Borrowings	12	13,971,140	6,030,418
Provisions	13	162,111	151,521
Other liabilities	14	174,625	240,658
Income tax payable		-	12,884
<b>TOTAL LIABILITIES</b>		<b>14,307,876</b>	<b>6,435,481</b>
<b>FUND BALANCES</b>			
Retained surplus		13,428,403	12,902,323
<b>TOTAL EQUITY</b>		<b>13,428,403</b>	<b>12,902,323</b>
<b>TOTAL</b>		<b>27,736,279</b>	<b>19,337,804</b>

The financial statements were authorized for issue by the Board of Directors on 27 April 2017 and signed on its behalf by:

  
 Alket Gradeci  
 Chief Executive Officer

  
 Adrian Alo  
 Chief Financial Officer

Notes from pages 5 to 26 form an integral part of these financial statements.

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

		<b>Year ended 31 December 2016</b>	<b>Year ended 31 December 2015</b>
Interest income	15	4,938,298	4,029,092
Interest expense	12	(717,925)	(580,779)
<b>Net interest income</b>		<b>4,220,373</b>	<b>3,448,313</b>
Fee and commission income		71,297	51,070
Fee and commission expense		(16,293)	(14,367)
<b>Net fee income</b>		<b>55,004</b>	<b>36,703</b>
Other income	16	315,066	344,832
Impairment of loans	8	(124,003)	(154,456)
Personnel expenses	17	(2,458,516)	(2,159,480)
Administrative expenses	18	(950,276)	(958,838)
Rent expense		(437,126)	(427,958)
Depreciation and amortization	10,11	(82,977)	(123,755)
Loss on disposal of intangible assets and equipment		(875)	(9,473)
Provision (charge)/ reversal for claims and litigations	13	(10,590)	96,370
<b>Operating expenses</b>		<b>(4,064,363)</b>	<b>(3,737,590)</b>
<b>Surplus before income tax</b>		<b>526,080</b>	<b>92,258</b>
<b>Income tax expense</b>	19	-	(41,296)
<b>Surplus after income tax</b>		<b>526,080</b>	<b>50,962</b>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income</b>		<b>526,080</b>	<b>50,962</b>

Notes from pages 5 to 26 form an integral part of these financial statements.

**KEP TRUST**  
**Statement of Changes in Fund Balance**

*(All amounts are expressed in EUR)*

	<b>Retained Surplus</b>
<b>Balance at 1 January 2015</b>	<b>12,851,361</b>
<b>Total comprehensive surplus for the year</b>	
Profit for the year	50,962
Other comprehensive income	-
<b>Total comprehensive income for the year</b>	<b>50,962</b>
<b>Balance at 31 December 2015</b>	<b>12,902,323</b>
<b>Total comprehensive surplus for the year</b>	
Surplus for the year	526,080
Other comprehensive income	-
<b>Total comprehensive income for the year</b>	<b>526,080</b>
<b>Balance at 31 December 2016</b>	<b>13,428,403</b>

Notes from pages 5 to 26 form an integral part of these financial statements.

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

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
<b>Cash flows from operating activities</b>			
Profit before income tax		<b>526,080</b>	<b>92,258</b>
<i>Adjustments for:</i>			
Depreciation and amortization	10,11	82,977	123,755
Impairment of loans	8	124,003	154,456
Change in provision for legal claims	13	10,590	(96,370)
Loss on disposal of intangibles and equipment		875	9,473
Interest income		(4,938,298)	(4,029,092)
Interest expenses		717,925	580,779
		<b>(3,475,848)</b>	<b>(3,164,741)</b>
Change in loans and advances to customers		(8,552,075)	(41,354)
Change in other assets		21,030	(23,733)
Change in other liabilities		(66,033)	(92,257)
		<b>(12,072,926)</b>	<b>(3,322,085)</b>
Interest received		4,795,137	4,049,024
Interest paid		(671,182)	(561,274)
Income tax paid		(12,884)	(190,369)
<b>Net cash used in operating activities</b>		<b>(7,961,855)</b>	<b>(24,704)</b>
<b>Cash flows from investing activities</b>			
Acquisition of premises and equipment		(187,839)	(33,415)
Acquisition intangibles		(13,570)	-
<b>Net cash used in investing activities</b>		<b>(201,409)</b>	<b>(33,415)</b>
<b>Cash flows from financing activities</b>			
Proceeds from /(repayment of) borrowings		7,893,979	(528,477)
<b>Net cash from /(used in) financing activities</b>		<b>7,893,979</b>	<b>(528,477)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(269,285)</b>	<b>(586,596)</b>
Cash and cash equivalents at 1 January		2,049,185	2,635,781
<b>Cash and cash equivalents at 31 December</b>	7	<b>1,779,900</b>	<b>2,049,185</b>

Notes from pages 5 to 26 form an integral part of these financial statements.

## **KEP TRUST**

### **Notes to the financial statements**

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

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#### **1. General information**

The Micro Finance Institution – KEP Trust (the “Organization”), previously known as Kosovo Enterprise Program (“KEP”) was founded by the humanitarian organization International Catholic Migration Commission – Switzerland (“ICMC”) and the Prizren Business Club in August 1999, and was licensed to operate as a non-banking institution from the Central Bank of the Republic of Kosovo (“CBK”).

The Organization was incorporated and domiciled in Kosovo, as a Non-Governmental Organization (“NGO”) on 4 March 2002, and is registered with the CBK as a non-bank micro financial institution as defined in section 2 of Regulation 1999/21. The Organization’s principal activity is to provide lending to low income individuals and households in Kosovo. On 3 April 2002, the Banking and Payment Authority of Kosovo approved the registration of the Organization as local NGO.

As at 31 December 2016, KEP operated through 31 branches, which were organized in 4 regions in Kosovo.

The Head Office of the Organization is located in Str. Bajram Kelmendi, No 16, Prishtina, Kosovo.

#### ***Board of Directors***

As at 31 December 2016, the following members composed the Board of Directors:

Johan Ketelers - Chairman of the Board

Gezim Tosuni – Member of the Board

Koen Wasmus - Member of the Board

Gani Pireva - Member of the Board

Florence Joigneault - Member of the Board

Korab Sejdiu - Member of the Board (joined by end of December, 2016)

#### **2. Basis of preparation**

##### **2.1 Statement of compliance**

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

##### **2.2 Basis of measurement**

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

##### **2.3 Functional and presentation currency**

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

##### **2.4 Use of estimates and judgments**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 4.

## **KEP TRUST**

### **Notes to the financial statements**

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

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#### **3. Significant accounting policies**

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

##### **3.1 Interest**

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts 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. When calculating the effective interest rate, the Organization estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

##### **3.2 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. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

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

##### **3.3 Financial assets and liabilities**

###### *(i) Recognition*

The Organization initially recognises loans and advances and borrowings on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Organization becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

###### *(ii) Classification*

See accounting policies 3.4, 3.5 and 3.6.

###### *(iii) Derecognition*

The Organization derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Organization neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

The Organization enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In certain transactions in which the Organization neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Organization continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

## **KEP TRUST**

### **Notes to the financial statements**

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

#### **3. Significant accounting policies (continued)**

##### **3.3 Financial assets and liabilities (continued)**

###### *(iv) Offsetting*

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Organization has a legal right to set off the amounts and intends either to settle on a net basis or to 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 Organization's trading activity.

###### *(v) 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.

###### *(vi) Fair value measurement*

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

When available, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Organization establishes fair value by using a valuation technique. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. For these financial instruments, inputs into models are market observable.

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

At each reporting date the Organization assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the assets original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Organization writes off certain loans and advances to customers when they are determined to be uncollectible. Uncollectible assets are written off against the related impairment allowance after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the profit or loss for the year.

## **KEP TRUST**

### **Notes to the financial statements**

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

#### **3. Significant accounting policies (continued)**

##### **3.4 Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Organization in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

##### **3.5 Loans and advances to customers**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Organization does not intend to sell immediately or in the near term.

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

##### **3.6 Borrowings**

Borrowings are part of the Organization's main source of finance.

Borrowings are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

##### **3.7 Repossessed assets**

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

##### **3.8 Premises and equipment**

Items of premises and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

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

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

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

###### *(i) Depreciation*

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

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

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

## **KEP TRUST**

### **Notes to the financial statements**

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

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#### **3. Significant accounting policies (continued)**

##### **3.9 Intangible assets**

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

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the assets. The estimated useful life of the intangible assets is 4 years.

##### **3.10 Operating Lease**

Where the Organization is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Organization, the total lease payments are charged to profit or loss for the year on a straight-line basis over the period of the lease.

##### **3.11 Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is 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. In determining the amount of current and deferred tax the Organization takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Organization believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Organization to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. 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 realized.

Following renewal of the Public Benefit Status, the Organization is not subject to income tax for the year 2016 (see notes 19 and 22).

##### **3.12 Provisions for liabilities and charges**

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

##### **3.13 Employee benefits**

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

## **KEP TRUST**

### **Notes to the financial statements**

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

#### **3. Significant accounting policies (continued)**

##### **3.14 New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been early applied in preparing these financial statements. The Organization does not plan to adopt these standards and amendments early.

##### ***IFRS 9 Financial Instruments***

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Organization is assessing the potential impact on its financial statements resulting from the application of IFRS 9. Given the nature of the Organization's operations, this standard is expected to have a pervasive impact on the Organization's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

##### ***IFRS 16 Leases***

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. It is expected that the new Standard, when initially applied, will have an impact on the financial statements, since it will require the Organization to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Organization acts as a lessee. The actual impact of adopting IFRS 16 on the Organization's financial statements in 2019 will depend on the contractual lease arrangements to which the Organization is a party at that time.

The following new or amended standards are not expected to have a significant impact on the Organization's financial statements.

##### **Other amendments**

Other amended standards that are not expected to have a significant impact of the Organization's financial statements are as follows:

- IFRS 15 Revenue from Contracts with Customers
- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- Transfers of Investment Property (Amendments to IAS 40)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Annual improvements to IFRSs 2014-2016 cycle (Amendments to IFRS 12 Disclosure of Interest in Other Entities and Amendments to IAS 28 Investments in Associates and Joint Ventures).

## **KEP TRUST**

### **Notes to the financial statements**

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

#### **4. Use of estimates and judgments**

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### **(i) Going Concern**

Management prepared these financial statements on the going concern basis. In making this judgement management considered the Organization's financial position, current intentions, availability and access to financial resources. The Organization has accumulated surplus and is profitable.

##### **(ii) Impairment losses on loans and advances**

Assets accounted for at amortised cost are evaluated for impairment on a basis described in the accounting policy 3.3 (vii).

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. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, trends and behaviour of loans portfolio and economic factors. In order to estimate the required allowance, assumptions are made based on the historical experience, patterns of credit risk in the Organization and microfinance institutions in the Kosovo market, and current economic conditions. The adequacy of the allowances depends on how well assumptions and parameters used in determining collective allowances are determined.

##### **(iii) Income tax**

Information about significant areas of estimation uncertainty that have the greatest effect on the amount of income tax recognized in the financial statements is included in notes 13 and 19. The uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities for income tax are recorded based on a management assessment, not resulting in additional taxes if tax rates may vary by the tax authorities. The assessment is based on the interpretation of tax laws that are in force until the end of the reporting period and on court decisions, or other decisions on such matters. Liabilities for penalties, interest and taxes other than income tax are recognized based on the best management estimate of the amounts required to settle the obligations.

##### **(iv) Determination of fair value**

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 3.3 (vi). 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. The Organization's accounting policy on fair value measurements is discussed under note 3.3 (vi). The Organization measures fair values using the following hierarchy of methods:

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

The Organization determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and expected price volatilities and correlations. See note 5 for further details.

## KEP TRUST

### Notes to the financial statements

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

#### 5. Fair values of financial instruments

Where available, the fair value of loans is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses and interest rates. Homogeneous small loans are grouped into portfolios with similar characteristics.

The fair value of borrowings is estimated using discounted cash flow techniques, applying the rates that are offered for borrowings of similar maturities and terms.

	31 December 2016		31 December 2015	
	Fair value Level 3	Carrying amount	Fair value Level 3	Carrying amount
<b>Financial Assets</b>				
Loans and advances to customers	26,445,483	25,654,130	17,322,902	17,082,896
<b>Financial Liabilities</b>				
Borrowings	14,095,873	13,971,140	6,099,865	6,030,418

The carrying amounts of loans and borrowings at 31 December 2016 and 2015, are higher than the fair values, because the current market rates are lower than the contractual rates.

## **KEP TRUST**

### **Notes to the financial statements**

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

#### **6. Financial risk management**

##### **6.1 Introduction and overview**

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

- credit risk
- liquidity risk
- market risk

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

##### ***Risk management framework***

The Board of Directors has overall responsibility for the establishment and oversight of the Organization's risk management framework. The Board and the management have established different committees which are responsible for developing and monitoring the overall risk management policies. All 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.

##### **6.2 Credit risk**

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

The Organization's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets. The Organization has no significant exposure to any individual customer or counterparty. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The Board of Directors has delegated responsibility for the management of credit risk to the management. Regular audits of business units and credit processes are undertaken by the Internal Audit Department.

##### ***Allowances for impairment***

The Organization 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.

## KEP TRUST

### Notes to the financial statements

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

#### 6. Financial risk management (continued)

##### 6.2. Credit risk (continued)

###### *Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Organization has made concessions that it would not otherwise consider. Once the loan is restructured, it must be classified at the minimum substandard category or worse and will continue to be classified at the same category until stable performance is observed (regarding repayment of principal and interest as per repayment schedule). As at 31 December 2016, the loans with renegotiated terms are EUR 219,240 (2015: EUR 355,539).

###### *Write-off policy*

The Organization writes off a loan (and any related allowances for impairment losses) when Management determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For small balance standardized loans, write off decisions are generally based on a product specific past due status. Loans are generally written off when they are overdue more than 365 days (2015: 365 days), and no repayment has been made during the last six months. The total amount of loans written-off is presented in Note 8. Total recoveries from loans written off are presented in Note 16.

The classification of loans and the average nominal interest rates by type are as follows:

	31 December 2016	Interest rate	31 December 2015	Interest rate
Agriculture	3,930,709	21.7%	2,818,447	23.2%
Consumer	5,174	24.2%	9,104	19.0%
Express (collateral free)	8,128,472	24.6%	6,333,904	25.7%
Housing	8,859,802	22.4%	4,999,499	21.4%
Individual Business	4,729,973	20.1%	2,921,942	22.2%
	<b>25,654,130</b>		<b>17,082,896</b>	

	Loans and advances to customers	
Category	31 December 2016	31 December 2015
A (Standard)	25,595,309	16,946,283
B (Watch)	60,989	130,125
C (Substandard)	69,195	45,973
D (Doubtful)	103,896	107,337
E (Lost)	442,217	615,292
<b>Gross loans</b>	<b>26,271,606</b>	<b>17,845,010</b>
Less: Provision for collectively assessed loans	(544,775)	(662,726)
Less: Provision for individually assessed loans	(72,701)	(99,388)
<b>Net loans to customers</b>	<b>25,654,130</b>	<b>17,082,896</b>

Loans loss rates derived from the impairment model and applied by the Organization are as follows:

Category	31 December 2016	31 December 2015
A (Standard)	0.30% - 18.29%	0.40% - 20.47%
B (Watch)	7.13% - 18.29%	7.99% - 20.47%
C (Substandard)	10.52% - 34.00%	16.98% - 34.55%
D (Doubtful)	20.12% - 50.68%	26.70% - 52.24%
E (Lost)	30.09% - 80.80%	44.42% - 78.51%

The impairment model groups loans into: agro, business, consumer and housing and furthermore, each group is separated into: loans above or under EUR 3,000. A separate loans loss rate is calculated for each sub-group.

**KEP TRUST****Notes to the financial statements***(All amounts are expressed in Euro, unless otherwise stated)***6. Financial risk management (continued)****6.2. Credit risk (continued)**

Information on loans by sector and type of collateral as at 31 December 2016 and 2015, is as follows:

<i>In EUR</i>	<b>Agriculture</b>	<b>Consumer</b>	<b>Express (collateral free)</b>	<b>Housing</b>	<b>Individual Business</b>	<b>Total</b>
<b>Secured loans</b>						
Vehicles	1,386,406	2,158	322,493	2,745,994	1,378,445	<b>5,835,496</b>
Real estate	74,924	-	-	54,679	110,745	<b>240,348</b>
Goods	545,351	2,339	112,309	904,908	1,093,151	<b>2,658,058</b>
<b>Un-secured loans</b>	1,924,028	677	7,693,670	5,154,221	2,147,632	<b>16,920,228</b>
<b>Total loans and advances to customers</b>	<b>3,930,709</b>	<b>5,174</b>	<b>8,128,472</b>	<b>8,859,802</b>	<b>4,729,973</b>	<b>25,654,130</b>

<i>In EUR</i>	<b>Agriculture</b>	<b>Consumer</b>	<b>Express (collateral free)</b>	<b>Housing</b>	<b>Individual Business</b>	<b>Total</b>
<b>Secured loans</b>						
Vehicles	1,332,181	6,090	454,773	2,312,716	1,355,839	<b>5,461,599</b>
Real estate	-	-	-	53,850	43,855	<b>97,705</b>
Goods	176,984	-	66,638	378,722	396,661	<b>1,019,005</b>
<b>Un-secured loans</b>	1,309,281	3,014	5,812,493	2,254,212	1,125,587	<b>10,504,587</b>
<b>Total loans and advances to customers</b>	<b>2,818,446</b>	<b>9,104</b>	<b>6,333,904</b>	<b>4,999,500</b>	<b>2,921,942</b>	<b>17,082,896</b>

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
Vehicles	13,432,578	15,655,168
Real estate	1,354,037	1,798,632
Goods	2,636,948	2,481,918
	<b>17,423,563</b>	<b>19,935,718</b>

**KEP TRUST****Notes to the financial statements***(All amounts are expressed in Euro, unless otherwise stated)***6. Financial risk management (continued)****6.2. Credit risk (continued)**

Analysis by credit quality of loans outstanding at 31 December 2016 is as follows:

<i>In EUR</i>	<b>Agriculture</b>	<b>Consumer</b>	<b>Express (collateral free)</b>	<b>Housing</b>	<b>Individual Business</b>	<b>Total</b>
<i>Neither past due nor impaired</i>						
Loans to individuals below 3,000 EUR	982,035	243	8,059,968	15,949	20,043	<b>9,078,238</b>
Loans to individuals over 3,000 EUR	2,883,111	-	18,181	8,809,750	4,560,053	<b>16,271,095</b>
<b>Total neither past due nor impaired</b>	<b>3,865,146</b>	<b>243</b>	<b>8,078,149</b>	<b>8,825,699</b>	<b>4,580,096</b>	<b>25,349,333</b>
<i>Past due but not impaired</i>						
- less than 30 days overdue	16,973	-	67,722	30,292	39,925	<b>154,912</b>
- 30 to 90 days overdue	21,985	-	28,189	55,263	24,768	<b>130,205</b>
- 91 to 180 days overdue	10,125	-	36,351	38,098	19,322	<b>103,896</b>
- 181 to 360 days overdue	28,016	845	50,023	25,195	44,198	<b>148,277</b>
- over 360 days overdue	42,994	15,874	33,886	31,600	106,192	<b>230,546</b>
<b>Total past due but not impaired</b>	<b>120,093</b>	<b>16,719</b>	<b>216,171</b>	<b>180,448</b>	<b>234,405</b>	<b>767,836</b>
<i>Loans individually determined to be impaired (gross)</i>						
- 30 to 90 days overdue	10,360	-	-	-	80,704	<b>91,064</b>
- 91 to 180 days overdue	-	-	-	-	-	-
- 181 to 360 days overdue	17,512	-	-	-	-	<b>17,512</b>
- over 360 days overdue	-	-	-	-	45,861	<b>45,861</b>
<b>Total individually impaired loans (gross)</b>	<b>27,872</b>	-	-	-	<b>126,565</b>	<b>154,437</b>
<b>Less impairment provisions</b>	<b>82,402</b>	<b>11,788</b>	<b>165,848</b>	<b>146,345</b>	<b>211,093</b>	<b>617,476</b>
<b>Total loans and advances to customers</b>	<b>3,930,709</b>	<b>5,174</b>	<b>8,128,472</b>	<b>8,859,802</b>	<b>4,729,973</b>	<b>25,654,130</b>

**KEP TRUST****Notes to the financial statements***(All amounts are expressed in Euro, unless otherwise stated)***6. Financial risk management (continued)****6.2. Credit risk (continued)**

Analysis by credit quality of loans outstanding at 31 December 2015 is as follows:

<i>In EUR</i>	<b>Agriculture</b>	<b>Consumer</b>	<b>Express (collateral free)</b>	<b>Housing</b>	<b>Individual Business</b>	<b>Total</b>
<i>Neither past due nor impaired</i>						
Loans to individuals below 3,000 EUR	848,230	185	6,275,858	12,068	15,435	<b>7,151,776</b>
Loans to individuals over 3,000 EUR	1,938,712	695	7,004	5,001,714	2,813,258	<b>9,761,383</b>
<b>Total neither past due nor impaired</b>	<b>2,786,942</b>	<b>880</b>	<b>6,282,862</b>	<b>5,013,782</b>	<b>2,828,693</b>	<b>16,913,159</b>
<i>Past due but not impaired</i>						
- less than 30 days overdue	9,535	-	37,538	14,018	20,259	<b>81,350</b>
- 30 to 90 days overdue	14,713	540	27,818	17,155	34,521	<b>94,747</b>
- 91 to 180 days overdue	12,672	1,306	29,342	19,957	18,637	<b>81,914</b>
- 181 to 360 days overdue	21,030	1,431	96,707	23,426	24,890	<b>167,484</b>
- over 360 days overdue	75,204	25,419	51,305	52,821	159,546	<b>364,295</b>
<b>Total past due but not impaired</b>	<b>133,154</b>	<b>28,696</b>	<b>242,710</b>	<b>127,377</b>	<b>257,853</b>	<b>789,790</b>
<i>Loans individually determined to be impaired (gross)</i>						
- less than 30 days overdue	-	-	-	-	-	-
- 30 to 90 days overdue	-	-	-	-	33,124	33,124
- 91 to 180 days overdue	12,469	-	-	-	12,955	25,424
- over 360 days overdue	-	-	-	15,480	68,033	83,513
<b>Total individually impaired loans (gross)</b>	<b>12,469</b>	<b>-</b>	<b>-</b>	<b>15,480</b>	<b>114,112</b>	<b>142,061</b>
<b>Less impairment provisions</b>	<b>114,118</b>	<b>20,471</b>	<b>191,669</b>	<b>157,139</b>	<b>278,717</b>	<b>762,114</b>
<b>Total loans and advances to customers</b>	<b>2,818,447</b>	<b>9,105</b>	<b>6,333,903</b>	<b>4,999,500</b>	<b>2,921,941</b>	<b>17,082,896</b>

## KEP Trust

### Notes to the financial statements

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

#### 6. Financial risk management (continued)

##### 6.3. Liquidity risk

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

The Organization'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 Organization's reputation.

The Organization's liquidity position is monitored by the Finance Department on a weekly and monthly basis and directly by the management systematically, through managing cash availability for loan disbursement and ensuring adequate funds, available for each account, based on expected inflows and outflows to meet the Organization's obligations. Internal policies on liquidity risk management are aligned with the regulation "On the management of liquidity risk in microfinance institutions", approved by the Central Bank of Kosovo on 29 August 2013.

##### *Exposure to liquidity risk*

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

In addition, the Organization holds a portfolio of liquid assets as part of its liquidity risk management strategy. The following table shows the Organization's financial liabilities on the basis of their earliest possible contractual maturity:

	<b>Up to 6 months</b>	<b>6 months to 1 year</b>	<b>Over one year</b>	<b>Carrying amount</b>
<b>31 December 2016</b>				
Borrowings	3,206,332	3,250,741	7,514,067	13,971,140
Other liabilities	174,625	-	-	174,625
	<b>3,380,957</b>	<b>3,250,741</b>	<b>7,514,067</b>	<b>14,145,765</b>
<b>31 December 2015</b>				
Borrowings	1,930,418	1,800,000	2,300,000	6,030,418
Other liabilities	240,658	-	-	240,658
	<b>2,171,076</b>	<b>1,800,000</b>	<b>2,300,000</b>	<b>6,271,076</b>

##### 6.4 Market risk

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

##### *Exposure to interest rate risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Organization manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing, or reallocation decisions. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date, were outstanding during the year.

## KEP Trust

### Notes to the financial statements

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

#### 6. Financial risk management (continued)

##### 6.4. Market risk (continued)

The interest gap positions of significant categories of interest bearing financial assets and liabilities as at 31 December 2016 and 2015 are as follows:

	Up to 6 months	6 months to 1 year	Over one year	Carrying amount
<b>31 December 2016</b>				
Loans and advances to customers	6,961,796	5,948,228	12,744,106	25,654,130
	<b>6,961,796</b>	<b>5,948,228</b>	<b>12,744,106</b>	<b>25,654,130</b>
Borrowings	3,206,332	3,250,741	7,514,067	13,971,140
	<b>3,206,332</b>	<b>3,250,741</b>	<b>7,514,067</b>	<b>13,971,140</b>
<b>Net position</b>	<b>3,755,464</b>	<b>2,697,487</b>	<b>5,230,039</b>	<b>11,682,990</b>
	Up to 6 months	6 months to 1 year	Over one year	Carrying amount
<b>31 December 2015</b>				
Loans and advances to customers	1,310,095	13,306,919	2,465,882	17,082,896
	<b>1,310,095</b>	<b>13,306,919</b>	<b>2,465,882</b>	<b>17,082,896</b>
Borrowings	1,930,418	1,800,000	2,300,000	6,030,418
	<b>1,930,418</b>	<b>1,800,000</b>	<b>2,300,000</b>	<b>6,030,418</b>
<b>Net position</b>	<b>(620,323)</b>	<b>11,506,919</b>	<b>165,882</b>	<b>11,052,478</b>

The management of interest rate risk is supplemented by monitoring the sensitivity of the Organization'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 Organization's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant net position) is as follows:

	2016	2015
Surplus: 1% increase	116,830	110,525
Deficit: 1% decrease	(116,830)	(110,525)

##### *Exposure to currency risk*

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Organization is not exposed to this risk because its assets and liabilities are in EUR.

#### 6.5. Capital management

The Organization is in compliance with the minimum capital of EUR 200 thousand required by the Central Bank of Kosovo. The Organization is subject to a periodic supervision by the Central Bank of Kosovo.

The Organization's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of equity on its return is also recognized and the Organization 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 Organization's approach to capital management during the year.

## KEP Trust

### Notes to the financial statements

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

#### 7. Cash and cash equivalents

	31 December 2016	31 December 2015
Cash at banks	1,476,490	1,580,001
Cash on hand	303,410	469,184
	<b>1,779,900</b>	<b>2,049,185</b>

#### 8. Loans and advances to customers

	31 December 2016	31 December 2015
Loans and advances to customers	26,271,606	17,845,010
Less: allowance for impairment	(617,476)	(762,114)
	<b>25,654,130</b>	<b>17,082,896</b>

Movements in the allowance for impairment are as follows:

	31 December 2016	31 December 2015
Balance at 1 January	762,114	982,713
Impairment charge	124,003	154,456
Amounts written-off	(268,641)	(375,055)
<b>Balance at 31 December</b>	<b>617,476</b>	<b>762,114</b>

The Organization has secured a loan obtained from Banka per Biznes with a loans portfolio totalling EUR 1,945,305 at 31 December 2016, based on the agreed contractual conditions, including a coverage of 150% of actual exposure with a Portfolio-At-Risk 0 (see note 12).

#### 9. Other assets

	31 December 2016	31 December 2015
Reposessed assets	-	26,356
Prepaid expenses	27,820	18,077
Advances to employees	7,802	11,182
Other receivables	7,064	8,101
	<b>42,686</b>	<b>63,716</b>

Included in reposessed assets as at 31 December 2015, is equipment reposessed by the Organization through enforcement of loans. The Organization expects to sell these assets in the near future. These assets are classified as inventory (IAS 2 Inventory). The Organization initially recognizes such assets at the auction value and does not present them as assets in the statement of financial position for periods longer than one year.

Based on the management assessment and on the paragraph 2, Article 3 of Central Bank of Kosovo Regulation, dated 29 August 2013, which sets out the limits for holding immovable and movable property by microfinance institutions, the value of reposessed assets at 31 December 2016, is nil.

**KEP Trust****Notes to the financial statements***(All amounts are expressed in Euro, unless otherwise stated)***10. Premises and equipment**

	<b>Motor vehicles</b>	<b>Computers and electronic equipment</b>	<b>Furniture and Fittings</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<i>Cost</i>					
Balance at 1 January 2015	646,270	465,473	691,998	431,579	2,235,320
Additions	644	7,076	10,233	15,463	33,416
Disposals	(64,351)	(57,955)	(81,276)	(16,258)	(219,840)
<b>Balance at 31 December 2015</b>	<b>582,563</b>	<b>414,594</b>	<b>620,955</b>	<b>430,784</b>	<b>2,048,896</b>
Additions	125,016	37,523	14,590	10,710	187,839
Disposals	(62,784)	(25,437)	(16,252)	(79,395)	(183,868)
<b>Balance at 31 December 2016</b>	<b>644,795</b>	<b>426,680</b>	<b>619,293</b>	<b>362,099</b>	<b>2,052,867</b>
<i>Accumulated depreciation</i>					
Balance at 1 January 2015	(612,289)	(410,920)	(644,060)	(346,685)	(2,013,954)
Charge for the year	(20,981)	(21,222)	(28,474)	(39,569)	(110,246)
Disposals	64,350	55,560	79,970	10,486	210,366
<b>Balance at 31 December 2015</b>	<b>(568,920)</b>	<b>(376,582)</b>	<b>(592,564)</b>	<b>(375,768)</b>	<b>(1,913,834)</b>
Charge for the year	(12,781)	(20,899)	(20,892)	(21,460)	(76,032)
Disposals	62,554	25,120	15,933	79,385	182,992
<b>Balance at 31 December 2016</b>	<b>(519,147)</b>	<b>(372,361)</b>	<b>(597,523)</b>	<b>(317,843)</b>	<b>(1,806,874)</b>
<i>Carrying amounts</i>					
<b>At 1 January 2015</b>	<b>33,981</b>	<b>54,553</b>	<b>47,938</b>	<b>84,894</b>	<b>221,366</b>
<b>At 31 December 2015</b>	<b>13,643</b>	<b>38,012</b>	<b>28,391</b>	<b>55,016</b>	<b>135,062</b>
<b>At 31 December 2016</b>	<b>125,648</b>	<b>54,319</b>	<b>21,770</b>	<b>44,256</b>	<b>245,993</b>

As at 31 December 2016, the Organization has not pledged any property or equipment as collateral (2015: nil).

**KEP Trust****Notes to the financial statements**

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

**11. Intangible assets**

	<b>Software</b>
<i>Cost</i>	
Balance at 1 January 2015	133,776
Additions	-
<b>Balance at 31 December 2015</b>	<b>133,776</b>
Additions	13,570
<b>Balance at 31 December 2016</b>	<b>147,346</b>
<i>Accumulated amortization</i>	
Balance at 1 January 2015	(113,321)
Charge for the year	(13,510)
<b>Balance at 31 December 2015</b>	<b>(126,831)</b>
Charge for the year	(6,945)
<b>Balance at 31 December 2016</b>	<b>(133,776)</b>
<i>Carrying amounts</i>	
<b>At 1 January 2015</b>	<b>20,455</b>
<b>At 31 December 2015</b>	<b>6,945</b>
<b>At 31 December 2016</b>	<b>13,570</b>

**KEP Trust**  
**Notes to the financial statements**

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

**12. Borrowings**

As at 31 December 2016 and 2015, borrowings of the Organization are composed as follows:

	<b>Maturity</b>	<b>Fixed interest</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
EFSE	29 February 2016	7.5 %	-	401,908
FMO	29 February 2016	7.5 %	-	198,059
EBRD	29 February 2016	7.5 %	-	179,015
Blue Orchard	29 February 2016	7.5 %	-	153,877
Triple Jump	29 February 2016	7.5 %	-	57,013
Microvest	29 May 2017	7.25 %	800,000	2,000,000
ResponsAbility SIVAC (Lux)	28 August 2017	6.9 %	500,000	1,000,000
ResponsAbility SIVAC (Lux)	27 November 2017	6.9 %	1,000,000	2,000,000
CARITAS Switzerland	30 March 2021	1.0 %	85,000	-
ResponsAbility (5)	12 February 2018	6.75 %	750,000	-
Banka per Biznes BpB	19 April 2018	7.0 %	623,851	-
ResponsAbility (6)	22 April 2018	6.5 %	1,125,000	-
Microvest (2)	15 May 2018	6.75 %	1,000,000	-
Frankfurt School FSFS	15 June 2019	6.3 %	1,000,000	-
Symbiotics	27 June 2018	6.25 %	1,000,000	-
Frankfurt School FSFS (2)	29 August 2019	6.0 %	1,000,000	-
ResponsAbility (7)	26 September 2018	5.95 %	1,000,000	-
Microvest (3)	15 October 2018	6.0 %	1,000,000	-
ResponsAbility (8)	24 October 2018	5.95 %	1,000,000	-
EFSE	15 December 2018	6.7 %	1,000,000	-
Blueorchard	21 December 2018	5.6 %	1,000,000	-
			<b>13,883,851</b>	<b>5,989,872</b>

A reconciliation of movements is presented below:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Principle outstanding	13,883,851	5,989,872
Accrued interest	137,178	55,671
Deferred fee	(49,889)	(15,125)
	<b>13,971,140</b>	<b>6,030,418</b>
	<b>31 December 2016</b>	<b>31 December 2015</b>
Current portion	6,369,784	3,689,872
Non-current portion	7,514,067	2,300,000
	<b>13,883,851</b>	<b>5,989,872</b>

The total interest expense for these borrowings in 2016 is EUR 717,925 (2015: EUR 580,779).

KEP has obtained an overdraft facility from BPB of EUR 250,000, with an interest rate of 8% on the utilised amount, and maturity on 15 April 2017. As at 31 December 2016, the Organization has not utilized this overdraft.

## KEP Trust

### Notes to the financial statements

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

#### 13. Provisions

	31 December 2016	31 December 2015
Legal claims	156,063	151,521
Other provisions for losses	6,048	-
	<b>162,111</b>	<b>151,521</b>

Movements in the provision charge are as follows:

	31 December 2016	31 December 2015
At 1 January	151,521	409,848
Provision charge /(reversals) for legal claims	10,590	(16,633)
Utilization of provisions for income tax	-	(179,871)
Reversal of provisions for VAT	-	(61,823)
<b>At 31 December</b>	<b>162,111</b>	<b>151,521</b>

Utilization of provisions for income tax of EUR 179,871 in 2015, relates to a previous estimate of the income tax payable, as a result of the Organization having lost its Public Benefit Status ("PBS") in November 2014. The NGO Authority of Kosovo, revoked the Public Benefit Status ("PBS") of the Organization due to failure to close its operations in Dublin, Republic of Ireland. In December 2014, the Organization appealed against the NGO Authority decision and in February 2015, the Appeal Court announced the final decision, based on which the Organization's PBS was considered as lost starting from year 2009.

The NGO Authority of Kosovo has approved the renewal of the Public Benefit Status on 13 January 2016, for a period of one year. Based on such approval, the Organization will not be liable or subject to income tax. As a result, on 11 March 2016, the Organization has withdrawn the administrative appeal claim, filed with the Pristina Basic Court, against the decision of NGO office.

Following a tax reassessment for the years 2009 to 2014, in 2014, the Organization recognised a provision for income tax payments. Based on the tax and legal advice received, the Organization paid an amount of EUR 190,369 to the Tax Authorities of Kosovo on 12 December 2015, and utilised the provision for income tax.

Provision charge /(reversals) for legal claims includes provisions of EUR 6,048, in relation to cases that were won by the Organization in the past and were subsequently appealed by third parties, and which management does not believe that will be won entirely.

#### 14. Other liabilities

	31 December 2016	31 December 2015
Accrued expenses	62,306	48,238
Pension contributions and personal income tax payable	41,453	56,010
ICCED liquidation costs	-	10,763
Withholding tax on interest	22,055	9,502
Other payables	48,811	116,145
	<b>174,625</b>	<b>240,658</b>

#### 15. Interest income

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income from loans and advances	4,934,089	4,026,219
Interest income from banks	4,209	2,873
	<b>4,938,298</b>	<b>4,029,092</b>

**KEP Trust****Notes to the financial statements***(All amounts are expressed in Euro, unless otherwise stated)***16. Other income**

	<b>Year ended 31 December 2016</b>	<b>Year ended 31 December 2015</b>
Recoveries from loans written off	298,907	338,990
Proceeds from sale of fixed assets	-	1,040
Other operating income	16,159	4,802
	<b>315,066</b>	<b>344,832</b>

**17. Personnel expenses**

	<b>Year ended 31 December 2016</b>	<b>Year ended 31 December 2015</b>
Wages and salaries	2,268,259	1,978,318
Compulsory social and health insurance	113,536	107,505
Staff saving scheme	-	9,605
Other	76,721	64,052
	<b>2,458,516</b>	<b>2,159,480</b>

At 31 December 2016, the Organization employed 222 employees (2015: 218).

The staff saving scheme was closed at 31 December 2015, and the Organization has no related current liabilities in such regards.

**18. Administrative expenses**

	<b>Year ended 31 December 2016</b>	<b>Year ended 31 December 2015</b>
Security	148,891	194,895
Utilities	159,970	172,227
Legal, consultancy and professional fees	189,945	172,086
Repairs and maintenance	51,121	69,217
Communication	55,972	62,295
Board compensation and travelling	51,517	59,578
Fuel and parking	50,894	57,758
Advertisement and Marketing expenses	88,096	57,725
Office supplies	40,389	35,426
Insurance	20,302	20,035
Staff development	4,954	5,918
Travel	5,763	3,651
Accommodation	4,105	2,964
Representation expenses	2,160	2,785
Other	76,197	42,278
	<b>950,276</b>	<b>958,838</b>

**19. Income tax**

Income tax expense for the year ended 31 December 2016 is nil (2015: EUR 41,296).

Following the renewal of the Public Benefit Status in 2016, the Organization was not liable to pay income tax, and was exempted from income tax. Refer to Note 4 (iii) and Note 13 for further details.

## KEP Trust

### Notes to the financial statements

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

#### 20. Related party transactions

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

##### *Transactions with related parties*

A summary of remuneration and benefits of directors and key management for the years ended 31 December 2016 and 2015 is as follows:

	Year ended 31 December 2016		Year ended 31 December 2015	
	Remuneration	Other expenses	Remuneration	Other expenses
Executive director	67,450	3,895	67,533	2,617
Management Board	101,406	3,436	66,558	538
Other directors	25,616	25,902	33,936	25,642
	<b>194,472</b>	<b>33,233</b>	<b>168,027</b>	<b>28,797</b>

#### 21. Commitment and contingencies

##### *Legal*

Except for provisions created as at 31 December 2016 (see note 13), management believes that there are no other litigations or claims by third parties that may result in future cash outflows or losses in the future.

##### *Lease commitments*

The Organization has entered into lease commitments for its head office and all the branches with maturities ranging from 1 to 6 years. Generally, the Organization may cancel these leases upon giving 1 to 6 months prior notice. Therefore, the maximum non-cancellable commitment payable not later than one year is as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Not later than 1 year	96,327	98,649
	<b>96,327</b>	<b>98,649</b>

#### 22. Events after the reporting period

On 23 January 2017, the Organization renewed its borrowings with responsibility, of EUR 1,000,000 and maturity on 23 January 2019. The applicable interest rate is 5.5%.

On 15 February 2017, the Organization received the second tranche from Blueorchard, of EUR 1,000,000, agreed and signed on 21 December 2016, with an applicable interest rate of 5.6%.

On 13 March 2017, the Organization has entered into a new agreement with Triple Jump for an amount of EUR 1,000,000 and maturity on 15 March 2020. The applicable interest rate is 5.5%.

As of 27 February 2017 the Head office of KEP was relocated with the new address, Pashko Vasa str. No. 6, 3rd floor, Pejton, Prishtina.

On 24 February 2017, the Public Benefit Status of the Organization, was extended for the year 2017 and is valid until 31 March 2018.

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