Financial Statements and Independent auditor's report

Fondi Slloveno Kosovar i Pensioneve – Fund 2

31 December 2009

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Independent auditor's report

Grant Thornton LLC
Rr. Gazmend Zajmi 15
(ish Rr. Dubrovnik)
10 000 Prishtina
Kosovo

T +381 38 247 771
+381 38 247 801
F +381 38 247 802
www.grant-thornton.com.mk

To the Management and Founders of

the Fondi Slloveno Kosovar i Pensioneve – Fund 2

We have audited the accompanying financial statements of the Fondi Slloveno Kosovar i Pensioneve – Fund 2 (further referred as "the Fund 2") which comprise of the Statement of Fund 2's Net Assets as of 31 December 2009 and the Statement of Income and Expenditure, Statement of Changes in Fund 2's Net Assets as of and for the year ended 31 December 2009, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 12.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with UNMIK regulations on pension system in Republic of Kosovo as well as the rules defined by Central Bank of Republic of Kosovo (CBK). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements of the Fund 2 present fairly, in all material respects, the financial position of the Fund 2 as of 31 December 2009, the results of its operations, and changes in net assets and participants' funds for the year then ended in accordance with UNMIK regulations on pension system in Republic of Kosovo as well as the rules defined by Central Bank of Republic of Kosovo (CBK).

Grant Thornton,

Skopje,
29 January 2010

Statement of Fund 2's Net Assets

	Notes	2009	(in Euro) At 31 December 2008
Assets			
Placements with banks	3	1,598,650	2,215,431
Receivables from the Company		7	8
Total assets		**1,598,657**	**2,215,439**
Liabilities and Participants' funds			
Liabilities			
Liabilities toward Company		3,775	-
Total liabilities		**3,775**	**-**
Participants' funds			
Net assets of the Fund 2		1,594,882	2,215,439
Total participants' funds		**1,594,882**	**2,215,439**
Total liabilities and participants' funds		**1,598,657**	**2,215,439**

These financial statements have been approved by the Management of the Fondi Slloveno Kosovar i Pensioneve - Fund 2 at 28 January 2010 and signed on its behalf by,

Mr. Dardan Sejdiu
President of the Management Board

Statement of Income and Expenditures

	Notes	(in Euro) Year ended 31 December 2009	2008
Interest income	4	113,484	117,717
Other income		6	8
Total income		**113,490**	**117,725**
Expenses			
Management fee	5	99,175	13,059
Interest expense for Fund's participants		14,309	104,511
Exit fee		-	147
Bank charges		6	8
Total expenses		**113,490**	**117,725**
Net surplus of the Fund 2		**-**	**-**

Statement of Changes in Fund 2's Net Assets

(in Euro)

	Year ended 31 December 2009	2008
Net surplus of the Fund 2 for the year	2,215,439	**-**
Participant's contributions received	144,206	3,153,614
Interest received	113,490	117,717
Fees paid to the Company	(95,400)	(13,206)
Pensions paid out	(782,853)	(1,042,686)
Total increase of net assets	**1,594,882**	**2,215,439**
Net assets as of 01 January	2,215,439	-
Net assets as of 31 December	**1,594,882**	**2,215,439**

Notes to the financial statements

1 General

The Fondi Slloveno Kosovar i Pensioneve Sh.a. (hereinafter "the Company" or "FSKP") was established as a shareholding association on 4 September 2006 based on the Law no. 03/L-084 amending UNMIK Regulation 2005/20 on Pensions in Republic of Kosovo. The operating license was obtained on 14 November 2006 based on regulations from Central Bank of Republic of Kosovo ("CBK").

During the year ended 31 December 2008, the Company signed Agreements with KEK Supplementary pension insurance fund in liquidation (further referred to as "KEK") and PTK Supplementary pension fund in liquidation (further referred to as "PTK") for managing their assets and payment of monthly annuities according to the predetermined pension plans provided by KEK and PTK. The assets of KEK and PTK comprise the second pension fund under management of FSKP (further referred to as "Fund 2").

The Fund 2 is administered and managed by the Company - FSKP, located at Qyteza Pejton, rr. Mujo Ulqinaku bl.4 nr.6 10000 Prishtina, Republic of Kosovo. The principal shareholders of the Company are Prva Group PLC, Slovenia and Corporation Dukagjini, Republic of Kosovo.

2 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out bellow.

2.1 Basis of preparation

The financial statements of the FSKP have been prepared in accordance with the UNMIK regulations on pension system in Republic of Kosovo as well as the rules defined by Central Bank of Republic of Kosovo (CBK) with regard to the Kosovo Pension system.

These financial statements are prepared on the historical cost basis. Data are expressed in Euro, except otherwise stated.

2.2 Cash and cash equivalents

Cash and cash equivalents, comprising balances with banks for pension contributions payments and for investments purposes, are carried at cost.

2.3 Financial assets

The Fund 2 classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets. The Fund 2 has no assets classified in this category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Fund 2's loans and receivables comprise receivables from asset management company and cash and cash equivalents in the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. The Fund 2 has no assets classified in this category.

Held – to - maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Fund 2's management has the positive intention and ability to hold to maturity. Were the Fund 2 to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as held for trading. The Fund 2 has no assets classified in this category.

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Fund 2 commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Fund 2 has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Securities held-to-maturity are measured at amortized cost using the effective interest rate method. Unrealized interest income and amortization of the discount/(premium) are recognized as income and expenses for the period.

(Financial assets, continued)
Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the Fund 2's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Fund 2's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Fund 2 establishes fair value by using valuation techniques.

The Fund 2 assesses at each balance sheet date whether there is objective evidence that a financial asset or a Fund 2 of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described further in this note.

2.4 Net assets of the Fund 2
The Fund 2's net asset value equals total assets minus total liabilities of the Fund 2.

2.5 Interest income
Interest income includes interest on term deposits and is recognized on an accrual basis. There is a guaranteed interest rate of 3% annually for the first four years of annuity payout after the transfer of assets, which will be added monthly to the pensioners/beneficiaries.

2.6 Expenses for transactions fees
These expenses relate to the fees paid to banks that provide services for the Fund 2, and are accounted for on an accrual basis. These expenses are recharged to the Company.

2.7 Income tax expense
Under the prevailing provisions of the local income tax law, the entity is exempted from payment of income taxes.

3 Placements with banks

	2009	2008
Interest bearing term deposits from local banks		
Banka Ekonomike – 4.00%-6.00% p.a.	1,476,821	1,796,697
ProCredit Bank – 5.15% p.a.	121,829	418,734
	1,598,650	**2,215,431**

4 Interest income

	2009	2008
Placements with Bank Ekonomike	100,398	85,850
Placements with ProCredit Bank	13,086	31,867
At 31 December	**113,484**	**117,717**

5 Management fees

According to the agreement signed with PTK supplementary pension fund provider dated 14 March 2008, guaranteed interest rate of 3% annually for first four year of annuity payouts will be added monthly to the Fund 2's participants originating from PTK supplementary pension fund while the remaining interest shall be paid as a management fee to the Company. PTK fund participants will be also charged a transfer fee in the amount of 0.5% to each participant individually at the moment of asset transfer to Fund 2. During 2009, the total amount paid to the Company as management fee amounted to Euro 93,123, out of which, the amount of Euro 42,924 refers to the management fee earned during 2008. The total amount of transfer fee charged during 2008 amounts to Euro 9,453.

According to the agreement signed with KEK supplementary pension fund provider dated 14 March 2008, 70% of total interest received will be paid to Fund 2's participants originating from KEK supplementary pension fund, while 30% of the total amount of interest received on funds deposited shall be paid as a management fee to the Company. The total amount charged during 2009 equals to Euro 6,052 (2008; Euro 3,606).

6 Transactions with related parties

Related parties are considered to include major shareholders, affiliates and entities under common ownership, control and management with the Fund 2, or whose activities the Fund 2 has an ability to control.

The Fund 2 related parties are Prva Group PLC from Ljubljana, Slovenia and Corporation Dukagjini from Peja, Republic of Kosovo, which are managing and administering the Fund 2.

All Fund 2's transactions with related parties arise in the normal course of business and their value is not materially different from the terms and conditions that would prevail in arms-length transactions. All related party transactions and balances refer to the Company, FSKP and are as follows:

	2009	2008
Receivables	7	8
Liabilities	3,775	-
Expenses	99,175	13,206

7 Financial risk management

The Fund 2's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of risks. The Fund 2's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Fund 2's financial performance.

The Fund 2's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Fund 2' Management regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by Risk Management Department under policies approved by the Company. This department identifies and evaluates financial risks in close co-operation with the Fund 2's operating units. The Fund 2 provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

10.1 Market risks

Interest rate risk

The table below analyses assets and liabilities of the Fund 2 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date as of 31 December 2009 (in Euro).

31 December 2009	Interest-bearing						
	Less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Assets							
Placements with banks	48,981	142,684	490,278	836,677	80,030	-	1,598,650
Other receivable	-	-	-	-	-	7	7
	48,981	142,684	490,278	836,677	80,030	**7**	**1,598,657**
Liabilities							
Liabilities toward Company	3,775	-	-	-	-	-	3,775
	3,775	-	-	-	-	-	3,775
Net interest risk gap	**45,206**	**142,684**	**490,278**	**836,677**	**80,030**	**7**	**1,594,882**
31 December 2008							
Assets	**8**	**232,503**	**508,122**	**1,378,323**	**96,483**	**-**	**2,215,439**
Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net interest risk gap	**8**	**232,503**	**508,122**	**1,378,323**	**96,483**	**-**	**2,215,439**

Foreign currency risk

At 31 December 2009 and 2008, the Fund 2 is not exposed to foreign currency risk since all transactions are carried in the currency of the local economic environment, i.e. Euro.

10.2 Liquidity risk

The tables below analyze assets and liabilities of the Fund 2 into relevant maturity based on the remaining period at balance sheet date to the contractual maturity date (in Euro).

31 December 2009	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Placements with banks	48,981	142,684	490,278	836,677	80,030	1,598,650
Other receivable	7	-	-	-	-	7
	48,988	142,684	490,278	836,677	80,030	**1,598,657**
Liabilities						
Liabilities toward Company	3,775	-	-	-	-	3,775
	3,775	-	-	-	-	3,775
Net liquidity gap	**45,213**	**142,684**	**490,278**	**836,677**	**80,030**	**1,594,882**
31 December 2008						
Assets	**8**	**232,503**	**508,122**	**1,378,323**	**96,483**	**2,215,439**
Liabilities	-	-	-	-	-	-
Net liquidity gap	**8**	**232,503**	**508,122**	**1,378,323**	**96,483**	**2,215,439**

10.3 Fair Value estimation

Fair value represents the amount at which an asset could be replaced or a liability settled on an arms length basis. Fair values have been based on management assumptions according to the profile of the asset and liability base.

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities not presented on balance sheet at their fair value.

	Carrying value 2009	Fair value 2009	Carrying value 2008	Fair value 2008
Assets				
Placements with banks	1,598,650	1,598,650	2,215,431	2,215,431
Other receivables	7	7	8	8

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