

**MIKROKREDITNA FONDACIJA
ŽENE ZA ŽENE INTERNATIONAL
SARAJEVO**

Financial statements for the year
ended 31 December 2008
prepared in accordance with
International Financial Reporting Standards
as modified by the regulatory requirements
of Banking Agency of Federation of
Bosnia and Herzegovina and
Independent Auditors' Report

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Responsibility for Financial Statements

Management is responsible for ensuring that financial statements of Mikrokreditna fondacija Žene za Žene International Sarajevo, are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) as modified by the regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina, which give a true and fair view of the state of affairs and results of the Mikrokreditna fondacija Žene za Žene International Sarajevo ("the Foundation") for that period.

After making enquiries, Management has a reasonable expectation that the Foundation has adequate resources to continue in operational existence for the foreseeable future. For this reason, Management continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Foundation will continue in business.

Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Micro Credit foundation. Management must also ensure that the financial statements comply with the Accounting and Auditing Law of the Federation of Bosnia and Herzegovina. Management is also responsible for safeguarding the assets of the Foundation and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of Management

Seida Sarić, Director

Mikrokreditna fondacija Žene za Žene International Sarajevo

Džemala Bijedića do broja 130

71 000 Sarajevo

Bosnia and Herzegovina

24 March 2009

Independent Auditors' Report

To the Board of Directors of Mikrokreditna fondacija Žene za Žene International Sarajevo:

We have audited the accompanying financial statements of Mikrokreditna fondacija Žene za Žene International Sarajevo (the "Foundation") set out on pages 4 to 35, which comprise the balance sheet as of 31 December 2008 and the related statement of income, statement of changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as modified by the regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina. 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 Foundation'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 Foundation 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 present fairly, in all material respects, the financial position of the Foundation as of 31 December 2008 and its financial performance and its cash flows for the year than ended, in accordance with International Financial Reporting Standards as modified by regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina.

A handwritten signature in blue ink that reads "Deloitte".

Deloitte d.o.o.

Sarajevo, Bosnia and Herzegovina

24 March 2009

Mikrokreditna fondacija Žene za Žene International Sarajevo
Income statement
for the year ended 31 December 2008
(all amounts are expressed in KM)

	Note	2008	2007
Interest income	6	4,401,384	2,620,612
Interest expense	7	<u>(891,508)</u>	<u>(393,938)</u>
Net interest income		3,509,876	2,226,674
Operating expenses	8	(2,225,504)	(1,516,275)
Other operating income		92,586	32,134
Other operating expenses		<u>(22,227)</u>	<u>(15,187)</u>
Net operating expenses		<u>(2,155,145)</u>	<u>(1,499,328)</u>
Foreign exchange losses, net		<u>(37,110)</u>	<u>(345)</u>
NET INCOME BEFORE PROVISIONS FOR LOAN IMPAIRMENT		1,317,621	727,001
Impairment losses and provisions	11	(855,560)	(231,327)
Collected written off loan receivables		<u>15,493</u>	<u>29,680</u>
EXCESS OF INCOME OVER EXPENDITURES (NET RESULT)		<u>477,554</u>	<u>525,354</u>

The accompanying notes form an integral part of these financial statements.

Mikrokreditna fondacija Žene za Žene International Sarajevo
 Balance sheet
 as of 31 December 2008
 (all amounts are expressed in KM)

	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	9	377,202	101,817
Bank deposits	10	1,297,500	450,000
Loans to clients, net	11	16,352,048	11,508,861
Other assets		15,252	10,443
Equipment	12	314,289	151,614
Total assets		18,356,291	12,222,735
LIABILITIES			
Borrowings	13	12,899,433	7,228,445
Subordinated debt	14	152,555	152,555
Deferred income		83	6,914
Other liabilities	15	34,300	43,718
Provisions		1,846	583
Total liabilities		13,088,217	7,432,215
NET ASSETS			
Supplementary funds	16	4,265,166	4,265,166
Excess of income over expenditures		1,002,908	525,354
Total net assets		5,268,074	4,790,520
Total net assets and liabilities		18,356,291	12,222,735

The accompanying notes form an integral part of these financial statements.

Signed on behalf of Mikrokreditna fondacija Žene za Žene International Sarajevo on 24 March 2009.

Seida Sarić

Mervana Vražalica

Director
 Mikrokreditna fondacija
 Žene za Žene International Sarajevo

Financial – Administrative Manager
 Mikrokreditna fondacija
 Žene za Žene International Sarajevo

Mikrokreditna fondacija Žene za Žene International Sarajevo
Statement of cash flows
for the year ended 31 December 2008
(all amounts are expressed in KM)

	2008	2007
Operating Activities		
Net result	477,554	525,354
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation	78,824	56,386
Increase in impairment losses and provisions, net	518,911	52,400
Gain from sale of equipment	(22,774)	(10,792)
Changes in provisions for employee benefits	1,264	(13,935)
Decrease in deferred income	(6,831)	(2,331)
Foreign exchange losses	37,110	345
<i>Adjustment to reconcile net income to net cash provided by operating activities</i>	1,084,058	607,427
Net increase in loans granted	(5,362,098)	(4,626,384)
Net increase in other assets	(4,809)	(4,038)
Net (decrease)/increase in other liabilities	(9,419)	20,990
NET CASH USED IN OPERATING ACTIVITIES	(4,292,268)	(4,002,005)
Investing Activities		
Purchase of equipment	(218,725)	(72,780)
Net increase in bank deposits	(847,500)	(180,000)
Proceeds from sale of equipment	-	11,961
NET CASH USED IN INVESTING ACTIVITIES	(1,066,225)	(240,819)
Financing Activities		
Proceeds from borrowings (net)	5,633,878	3,756,124
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,633,878	3,756,124
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	275,385	(486,700)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	101,817	588,517
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	377,202	101,817

The accompanying notes form an integral part of these financial statements.

Mikrokreditna fondacija Žene za Žene International Sarajevo
Statement of changes in net assets
for the year ended 31 December 2008
(all amounts are expressed in KM)

	Supplementary funds	Excess of income over expenditures	Total
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2006	3,290,148	738,085	4,028,233
Capitalization of subordinated debt	236,933	-	236,933
Transfer to / from	738,085	(738,085)	-
Net result for the year	-	525,354	525,354
Balance at 31 December 2007	4,265,166	525,354	4,790,520
Net result for the year	-	477,554	477,554
Balance at 31 December 2008	4,265,166	1,002,908	5,268,074

The accompanying notes form an integral part of these financial statements.

Mikrokreditna fondacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2008
(all amounts are expressed in KM)

1. GENERAL

Mikrokreditna fondacija Žene za Žene International Sarajevo (the 'Foundation') is a not-for-profit foundation, which commenced its operations in February 2002. In accordance with the Law on Micro Credit Foundations ("Official Gazette of the Federation of Bosnia and Herzegovina" 24/00), the Foundation was registered in the Register of microcredit foundations with the Ministry of Social Affairs, Displaced Persons and Refugees, under the registration number R1M-10/01 on 5 February 2002.

The executive office of the Foundation is in Sarajevo, Džemala Bijedića do broja 130. The principal activity is the implementation of a micro credit program, primarily for manufacturing, trade, services and agriculture. The target group of clients of the Foundation is women with relatively low level of income, who use micro credits to implement their business ideas for self-financing and self-employment.

In September 2006, a new Law on micro credit foundation was introduced (Official Gazette of the Federation of Bosnia and Herzegovina no. 59/06). According to this law, all micro credit foundations have to transform either into a profit foundation, as a shareholders company or a limited liability company or a micro credit foundation. Within 12 months from introduction of this law, all micro credit foundations have to make decisions on change of their legal status and transfer first into micro credit foundation, prepare a statute, appoint bodies, obtain prescribed licenses and submit application for registration with the competent register in accordance with the provisions of this law, and then either continue operating as a micro credit foundation or transfer into the profit foundation.

On 17 September 2007, the Banking Agency of Federation of Bosnia and Herzegovina ("FBA") issued a license No. 07-1513-1/07 to the Foundation. In accordance with the Law on micro credit foundations, the Foundation submitted a request with the Ministry of Justice of the Federation of Bosnia and Herzegovina for the registration at the Register of micro credit foundations.

On 3 June 2008 the Organisation was registered at the registry of foundations at the Ministry of Justice of Federation of Bosnia and Herzegovina as Microcredit foundation "Žene za Žene International" ("Foundation") by the Decision no: 04-05-2-1709/07 as of 3 July 2008. A Microcredit foundation would have started operating as a micro credit foundation within 30 days from the date of registration with the Ministry of Justice of Federation of Bosnia and Herzegovina and inform the FBA of the date it would start operating as a micro credit foundation. The Foundation started its business on 1 July 2008.

Branch offices in Republic of Srpska have received the approval from Banking Agency of RS by the Decision no: 03-937-1/2008, 03-938-1/2008, 03-940-1/2008, 03-941-1/2008, and 03-942-1/2008 as of 20 August 2008, for operations of micro credit services.

Mikrokreditna fondacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2008
(all amounts are expressed in KM)

1. GENERAL (CONTINUED)

As of registration date Organization's assets and liabilities can be presented as follows:

	30.06.2008
ASSETS	
Cash and cash equivalents	239,207
Bank deposits	980,000
Loans to clients	15,362,544
Other assets	12,416
Equipment	245,338
Total assets	16,839,505
LIABILITIES	
Borrowings	11,382,729
Subordinated debt	152,555
Deferred income	248
Other liabilities	47,412
Provisions	17,452
Total liabilities	11,600,396
NET ASSETS	
Supplementary funds	4,265,166
Excess of income over expenditures	973,943
Total net assets	5,239,109
TOTAL LIABILITIES AND NET ASSETS	16,839,505

In the table below, income statement of Organization/Foundation for the periods 01.01. till 30.06.2008 and 01.07. till 31.12.2008 can be presented as follows:

	01.01.-30.06. 2008	01.07.-31.12. 2008
Interest and fee income	1,998,627	2,402,757
Interest and fee expense	(374,908)	(516,600)
Net interest and fee income	1,623,719	1,886,157
Operating expense	(1,046,071)	(1,179,433)
Other operating income	66,464	26,122
Other operating expense	(21,966)	(261)
Net operating expenses	(1,001,573)	(1,153,572)
Foreign exchange losses, net	(14,782)	(22,328)
NET INCOME BEFORE PROVISIONS FOR LOAN IMPAIRMENT	607,364	710,257
Impairment losses and provisions	(168,684)	(686,876)
Collected written off loan receivables	9,909	5,584
EXCESS OF INCOME OVER EXPENDITURES (NET RESULT)	448,589	28,965

Mikrokreditna fondacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2008
(all amounts are expressed in KM)

1. GENERAL (CONTINUED)

Bodies of the Foundation:

Board of Directors:

Farida Mušanović	President
Ismeta Čardaković	Vice president (till 13 November 2008)
Izet Halilović	Member (from 13 November 2008)
Kasim Mujan	Member

Management:

Seida Sarić	Director
Mervana Vražalica	Financial-Administrative manager
Aiša Šačić	South region manager
Almedina Avdaković	North region manager
Alma Budaković	Administrative and human resource manager

Audit committee:

Izet Halilović	President
Amela Skikić	Member
Sabira Jabla	Member

The Foundation operates through offices:

South Region

Regional office Sarajevo	Džemala Bijedića do broja 130, Sarajevo Džemala Bijedića do broja 130
Branch office Pale	Dobroslava Jevđevića 7
Branch office Ilidža	Ibrahima Ljubovića 10
Branch office Mostar	Adema Buće 68
Regional office Zenica	Adolfa Goldbergera no. 9
Branch office Ilijaš	126. Ilijaške brigade bb
Branch office Travnik	Trgovinski centar Zenjak 1

North Region

Regional office Gračanica	Gradski pasaž bb, Gračanica Gradski pasaž bb
Regional office Dobož	Vojvode Stepe i Vojvode Mišića
Branch office Derventa	Kralja Petra I bb
Regional office Živinice	Objekat PC "Park" lamella C, ulica Oslobođenje bb
Branch office Bijeljina	Karađorđeva 30
Branch office Srebrenica	Reufa Selmanagića 6

Mikrokreditna fondacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2008
(all amounts are expressed in KM)

1. GENERAL (CONTINUED)

Performance Indicators

Efficiency Ratios	31.12.2008	31.12.2007
Active clients / Number of staff	153	178
Active clients / Number of loan officers	275	272
Net outstanding portfolio / Number of loan officers	419,283	351,416
Percentage total operating expenses / Average net portfolio	7.51%	16.29%
Financial Ratios		
Return on assets: Net operating income / total assets	3.12%	5.51%
Return on equity: Net operating income / total equity	9.50%	11.71%
Yield on portfolio: Interest and fee income / average net portfolio outstanding	31.60%	27.88%

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in the current period

In 2008, the Foundation has adopted eight interpretations issued by the International Accounting Standards Board (the IASB) are effective for the current period and they are as follows: IFRIC 7 "Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"; IFRIC 8 "Scope of IFRS 2"; IFRIC 9 "Reassessment of Embedded Derivatives"; IFRIC 10 "Interim Financial Reporting and Impairment"; IFRIC 11 "IFRS 2: Group and Treasury Share Transactions" – effective for annual reporting periods beginning on or after 1 March 2007; IFRIC 12 "Service Concession Arrangements" - effective for annual reporting periods beginning on 1 January 2008; IFRIC 14 "IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - effective for annual reporting periods beginning on or after 1 January 2008 and IFRIC 13 "Customer Loyalty Programs" - effective for annual reporting periods beginning on or after 1 July 2008.

Adoption of those interpretations did not cause changes in accounting policies of the Foundation.

IFRS 1	Cost of investment in a subsidiary, jointly-controlled entity or associate	Annual periods beginning on or after 1 January 2009
IFRS 2	Share-based Payment – Amendment relating to vesting conditions and cancellations	Annual periods beginning on or after 1 January 2009
IFRS 3	Business Combinations – Comprehensive revision on applying the acquisition method	Annual periods beginning on or after 1 July 2009
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 July 2009

Mikrokreditna fondacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2008
(all amounts are expressed in KM)

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 Standards and Interpretations effective in the current period (Continued)

IFRS 8	Operating Segments	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements – Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 16	Property, Plant and Equipment – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 19	Employee Benefits – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IAS 20	Government Grants and Disclosure of Government Assistance – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 23	Borrowing Costs – Comprehensive revision to prohibit immediate expensing	Borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009
IAS 23	Borrowing Costs – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 27	Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009
IAS 27	Consolidated and Separate Financial Statements – Amendment relating to cost of an investment on first-time adoption	Annual periods beginning on or after 1 January 2009
IAS 27	Consolidated and Separate Financial Statements – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 28	Investments in Associates – Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009

Mikrokreditna fondacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2008
(all amounts are expressed in KM)

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue not yet adopted (Continued)

IAS 28	Investments in Associates – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 29	Financial Reporting in Hyperinflationary Economies – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 31	Interests in Joint Ventures – Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009
IAS 31	Interests in Joint Ventures – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 32	Financial Instruments: Presentation – Amendments relating to puttable instruments and obligations arising on liquidation	Annual periods beginning on or after 1 January 2009
IAS 36	Impairment of Assets – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 38	Intangible Assets – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement – Amendments for eligible hedged items	Annual periods beginning on or after 1 July 2009
IAS 40	Investment Property – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 41	Agriculture – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IFRIC 15	Agreements for the Construction of Real Estate	Annual periods beginning on or after 1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Annual periods beginning on or after 1 October 2009
IFRIC 17	Distributions of Non-Cash Assets to Owners	Annual periods beginning on or after 1 July 2009

The Management anticipates that all of the above Standards and Interpretations will be adopted in the Foundation's financial statements for the period commencing 1 January 2009, and after, and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Foundation in the future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

As required by local legislation, the Foundation prepares financial statements in accordance with International Financial Reporting Standards (IFRSs) as published by the International Accounting Standards Board and as modified by the regulatory requirements prescribed by the Banking Agency of Federation of Bosnia and Herzegovina (FBA) with respect to the calculation of provision for impairment of financial instruments based on matrix system, which is namely based on number of days overdue. This is not in accordance with International Accounting Standard 39 'Financial Instruments: Recognition and Measurement', which requires assessment at each balance sheet date as to whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss should be measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

Basis of presentation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below. The financial statements are presented in Convertible mark (KM) which is the functional currency of the Foundation. The financial statements are prepared on an accrual basis of accounting, under the going concern assumption.

The Foundation maintains its books of accounts and prepares financial statements for regulatory purposes in accordance with the regulations of the Banking Agency of Federation of Bosnia and Herzegovina and Law on micro credit Foundation of Federation of Bosnia and Herzegovina ("Official Gazette", No. 59/06).

Certain amounts in the previously issued financial statements have been reclassified to conform to 31 December 2007 presentation in accordance with IFRS 7 "Financial Instruments: Disclosures".

Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method. Penalty interest is accounted for on a cash basis.

Fee expense

Loan origination fees, after approval and drawdown of loans, are recognized as an adjustment to the effective yield of the loan over its life and as such adjust the interest income. Fees for payment transactions are recognized in the period when services are rendered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

On behalf of its employees, the Foundation pays pension and health insurance on and from salaries, which are calculated on the gross salary paid, as well as taxes, which are calculated on the net salary paid. The Foundation is paying the above contributions as per the set legal rates during the course of the year on the gross salary paid. In addition, meal allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recorded in the income statement in the period in which the salary expense is incurred.

Retirement severance payments

According to the local legislation and internal Rulebook on employment, the Foundation makes retirement severance payments in amount of one third of annual salary for each year spent in the Foundation.

Expenses for this kind of employee benefits are determined with project unit credit method.

Taxation

The Foundation is not subject to income tax because it is defined as a non-profit foundation in accordance with the Law on Microcredit Foundations ("Official Gazette of Federation of Bosnia and Herzegovina" 24/00 and 59/06).

Equipment

Equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalized. Gains or losses on the retirement or disposal of property and equipment are included in the statement of income in the period in which they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets, which are as follows:

	2008	2007
Computers	33.33%	33.33%
Equipment and vehicles	20.00%	20.00%

Cash and cash equivalents

Cash and cash equivalents include cash on hand and current accounts with banks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment

At each balance sheet date, the Foundation reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Financial assets

Financial assets are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS), and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. For current operations, the Foundation uses one category of financial assets, for which basis of accounting is disclosed below.

Method of effective interest rate

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Loans, trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (continued)

Objective evidence of financial assets impairment include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Management makes allowance for loan impairment every month in order to maintain an adequate allowance for impaired loans. The allowance for loan impairment is determined by applying mandated loss percentages to aged loans, grouped by the number of days overdue. A loan becomes overdue as soon as a scheduled instalment is missed.

The Foundation use following matrix for the determination of the allowances for loan impairment:

- for loans from 1-15 days overdue provisions are 2% of loan receivable outstanding,
- for loans from 16 - 31 days overdue provision are 15% of loan receivable outstanding,
- for loans from 31-60 days overdue provisions are 50% of loan receivable outstanding,
- for loans from 61-90 days overdue provisions are 80% of loan receivable outstanding,
- for loans from 91 -180 days overdue provisions are 100% of loan receivable outstanding and
- over 181 days loan receivable outstanding is fully written off.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan receivables, where the carrying amount is reduced through the use of an allowance account. When a loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

The Foundation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Foundation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Foundation continues to recognise own retained interest in the asset and related liability for the amounts which could have to pay.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Foundation creates one category of financial liabilities, for which basis of accounting is disclosed below.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Foundation derecognises financial liabilities when, and only when, the obligations are discharged, cancelled or they expire.

Foreign currencies

Transactions in currencies other than KM are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the statement of income for the period.

The Foundation values its assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet.

The Foundation has assets and liabilities originated in KM, which are linked to foreign currency with one-way currency clause. Due to this clause the Foundation has an option to revalue the asset by higher of: foreign exchange rate valid as of the date of maturity, or foreign exchange rate valid as of the date of origination of the financial instrument. In case of liability linked to this clause the counterparty has this option. Due to the specific conditions in Bosnia and Herzegovina (KM is officially pegged to Euro) the fair value of this option can not be calculated as the forward rates for KM are not available.

As such the Foundation values its assets and liabilities related to this clause or by middle rate of Centralna banka Bosne i Hercegovine valid at the date of balance sheet:

31 December 2008	EUR 1 = KM 1.95583	USD 1 = KM 1.387310
31 December 2007	EUR 1 = KM 1.95583	USD 1 = KM 1.331221

Provisions

Provisions are recognized when the Foundation has a present obligation as a result of a past event, and it is probable that the Foundation will be required to settle that obligation. Management estimates the provisions based at the best estimate of expenditure to settle the Foundation's obligation. Provisions are discounted to present value where the effect is material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donations

Donations are assistance by the Government or other parties in the form of cash transfers to the Foundation. These donations are recognized as income whenever there is a reasonable expectation that the Foundation will comply with the conditions of their use, if applicable.

Net assets

The Foundation's net assets represent surplus of total assets over total liabilities. Surplus arise from excess of income over expenditures and donations. Income over expenditures has to be used for the microcredit operations. If the Foundation ceased to exist, the Board of Directors has to decide on distribution on Foundation's net assets.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Foundation's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of equipment

As described at Note 3 above, the Foundation reviews the estimated useful lives of equipment at the end of each annual reporting period.

Loans disbursed to clients

As described at Note 3 above, in paragraph with heading impairment of financial assets, the Foundation assessed indicators for impairment by applying mandated loss percentages to aged loans, grouped by the number of days overdue in accordance with the FBA regulations.

Provisions

As described at Note 3 above, the amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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5. GLOBAL MARKET CRISIS

The Foundation has been impacted by the recent financial crisis and deteriorating economic conditions. Due to the current global crisis in the market and its effects on the local market in Bosnia and Herzegovina, the Foundation will probably operate in more difficult and uncertain economic environment in 2009, and possibly beyond. The impact of this crisis on the Foundation's business operations is currently not possible to fully predict and therefore there is an element of general uncertainty.

So far, the ongoing financial crisis has had a limited impact on the financial position and performance of the Foundation, mainly due to the internal risk management policies. The Foundation monitors closely the credit, liquidity, interest rate and foreign exchange risks on a regular basis. In case of additional financing needs, the Foundation has appropriate arrangements with the creditors with regard to the availability of the additional funding.

The deteriorating economic situation in the country will probably impact the position of certain industries and the abilities of some Foundation's client to meet their loan obligations. This may consequently influence the amount of the Foundation's provisions for impairment losses in 2009. The key priorities of the Management of the Foundation in 2009 will be attention to the management of the financial portfolio adjusting to the changing economic environment in accordance with the applicable FBA regulations, and maintaining the Foundation's position on the market.

6. INTEREST INCOME

	<u>2008</u>	<u>2007</u>
Interest income on loans to clients	4,301,975	2,581,928
Fee income (Note 11)	83,650	28,098
Interest on deposits	3,183	3,421
Other interest	12,576	7,165
	<u>4,401,384</u>	<u>2,620,612</u>

7. INTEREST EXPENSE

	<u>2008</u>	<u>2007</u>
Interest expense	841,336	382,793
Fee expense	50,172	11,145
	<u>891,508</u>	<u>393,938</u>

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8. OPERATING EXPENSES

	2008	2007
Payroll	1,151,295	813,539
Other employee expenses	473,432	268,634
Rent	85,183	58,485
Telecommunications	82,354	50,203
Depreciation	78,824	56,386
Professional services	63,076	41,006
Materials	50,956	36,949
Fuel and energy	50,835	29,014
Advertising	43,206	34,314
Bank fees and commissions	36,600	26,962
Insurance	23,946	11,094
Education	7,985	9,827
Maintenance	4,521	9,377
Other expenses	73,291	70,485
	2,225,504	1,516,275

At 31 December 2008 the Foundation employed 67 employees (2007 – 53 employees). Payroll consists of agreed salaries and bonuses. At 31 December 2008 average monthly gross salary was KM 1,432 (2007 - KM 1,279).

9. CASH AND CASH EQUIVALENTS

	31.12.2008	31.12.2007
Current accounts with banks	353,879	97,683
Cash on hand	23,323	4,134
	377,202	101,817

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10. BANK DEPOSITS

	<u>Maturity</u>	<u>Interest rate %</u>	<u>31.12.2008</u>	<u>Interest rate %</u>	<u>31.12.2007</u>
UniCredit Banka d.d. Mostar	17.06.2009	-	200,000	-	120,000
Hypo Alpe-Adria Bank dd Mostar	21.07.2010	-	200,000	-	-
UniCredit Banka d.d. Mostar	16.09.2009	-	120,000	-	-
UniCredit Banka d.d. Banja Luka	15.05.2009	-	100,000	-	-
NLB Tuzlanska banka d.d. Tuzla	08.07.2009	-	100,000	-	100,000
Raiffeisen bank d.d. BiH Sarajevo	21.07.2009	1.50%	100,000	1.50%	50,000
UniCredit Banka d.d. Mostar	28.01.2009	-	100,000	-	-
ABS banka d.d. Sarajevo	05.03.2011	-	70,000	-	-
Raiffeisen bank d.d. Sarajevo	10.04.2009	1.50%	70,000	1.50%	70,000
NLB Tuzlanska banka d.d. Tuzla	27.03.2009	-	60,000	-	-
NLB Tuzlanska banka d.d. Tuzla	18.03.2009	-	60,000	-	60,000
Hypo Alpe-Adria Bank dd Mostar	20.01.2009	-	50,000	-	-
ABS banka d.d. Sarajevo	20.09.2011	-	45,000	-	-
ABS banka d.d. Sarajevo	16.11.2009	-	22,500	-	50,000
			<u>1,297,500</u>		<u>450,000</u>

Bank deposits have the purpose of loan collateral for the short term revolving loans with the above banks (Note 13).

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11. LOANS TO CLIENTS

	<u>31.12.2008</u>	<u>31.12.2007</u>
Type of loans		
"Solidarne grupe"	4,791,700	4,095,804
"Oaza krediti"	3,568,815	-
"Grupni krediti kroz Centar"	2,706,573	3,252,020
„Solidarni par„	1,473,261	1,127,720
"Biznis krediti"	1,016,546	-
"Poslovni krediti"	826,116	1,655,233
"Krediti 5 za 5"	844,918	-
"Krediti za osnovne potrebe"	729,012	306,246
"Start up"	456,963	180,590
"Mikro-mikro ReneWLS"	313,955	19,566
"Stimulativni krediti"	74,899	104,025
"Kredit za podršku"	50,400	-
„Sezonski krediti“	10,568	26,542
"Mikro-mikro krediti"	1,351	780,501
"ReneWLS individualni"	2	2,791
"ReneWLS grupni"	1	16,189
Interest receivable	249,407	142,568
Loan origination fee	(68,635)	(26,041)
<i>Total loans before allowances for possible loan impairment</i>	<i>17,045,852</i>	<i>11,683,754</i>
Less: Allowances for loan impairment	(693,804)	(174,893)
	<u>16,352,048</u>	<u>11,508,861</u>

Annual loan interest rates approved in 2008 range between 24% and 36% (in 2007 between 15.6% and 19.8%). Average loan maturity is 17 months (2007, 15 months).

	<u>31.12.2008</u>	<u>31.12.2007</u>
Geographical analysis		
Sarajevo	7,820,489	4,924,478
Gračanica	9,293,998	6,785,317
Loan origination fee	(68,635)	(26,041)
<i>Total loans before allowances for possible loan impairment</i>	<i>17,045,852</i>	<i>11,683,754</i>
Less: Allowances for loan impairment	(693,804)	(174,893)
	<u>16,352,048</u>	<u>11,508,861</u>

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11. LOANS TO CLIENTS (CONTINUED)

Loans in arrears can be analyzed as follows:

	<u>31.12.2008</u>	<u>31.12.2007</u>
1 – 30 days	345,864	132,472
31 – 60 days	219,667	35,914
61 – 90 days	142,201	22,085
Over 91 day	375,957	107,887
	<u>1,083,689</u>	<u>298,358</u>

The movements in the allowances for possible loans impairment are summarized as follows:

	<u>31.12.2008</u>	<u>31.12.2007</u>
Balance at 1 January	174,893	122,493
Additional provisions	855,560	231,327
Release of allowances due to write off	(336,649)	(178,927)
Balance at the end of year	<u>693,804</u>	<u>174,893</u>

The analysis of movement of prepaid loan origination fees:

	<u>31.12.2008</u>	<u>31.12.2007</u>
Balance as at 1 January	26,041	7,351
Loan origination fees	126,244	46,788
Revenue recognition (Note 6)	(83,650)	(28,098)
Balance at the end of year	<u>68,635</u>	<u>26,041</u>

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12. EQUIPMENT

	Vehicles	Computers	Equipment	Software	Total
<u>Cost</u>					
At 31 December 2006	123,196	102,983	52,468	35,040	313,687
Additions	37,622	9,418	25,740	-	72,780
Disposals	(31,177)	(6,105)	(49)	-	(37,331)
At 31 December 2007	129,641	106,296	78,159	35,040	349,136
Additions	162,889	34,101	28,761	21,694	247,445
Disposals	(54,213)	-	(165)	-	(54,378)
At 31 December 2008	238,317	140,397	106,755	56,734	542,203
<u>Accumulated depreciation</u>					
At 31 December 2006	69,092	70,154	24,746	13,306	177,298
Charge for the year	20,539	17,810	11,029	7,008	56,386
Disposals	(30,008)	(6,105)	(49)	-	(36,162)
At 31 December 2007	59,623	81,859	35,726	20,314	197,522
Charge for the year	33,545	22,949	14,237	8,093	78,824
Disposals	(48,380)	-	(52)	-	(48,432)
At 31 December 2008	44,788	104,808	49,911	28,407	227,914
<u>Carrying amount</u>					
At 31 December 2008	193,529	35,589	56,844	28,327	314,289
At 31 December 2007	70,018	24,437	42,433	14,726	151,614

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13. BORROWINGS

	<u>Maturity</u>	<u>Interest rate</u> %	<u>31.12.2008</u>	<u>31.12.2007</u>
Short term loans				
UniCredit Banka d.d. Mostar Loan in the amount of KM 2,000,000	17.06.2009	1 month EURIBOR + 3.4%	2,008,748	-
UniCredit Banka a.d. Banja Luka Loan in the amount of KM 1,000,000	15.05.2009	1 month EURIBOR + 3.5%	997,781	-
UniCredit Banka d.d. Mostar Loan in the amount of KM 1,200,000	16.09.2009	1 month EURIBOR + 3.5%	994,298	-
ABS Banka d.d. Sarajevo Loan in the amount of KM 900,000	20.09.2009	7.80%	899,477	-
UniCredit Banka d.d. Mostar Loan in the amount of KM 1,000,000	28.01.2009	7.99%	805,378	-
Raiffeisen bank d.d. BiH Sarajevo Loan in the amount of KM 1,000,000	21.07.2009	7.35%	713,483	-
ABS Banka d.d. Sarajevo Loan in the amount of KM 700,000	05.03.2009	7.80%	698,857	-
NLB Tuzlanska banka d.d. Tuzla Loan in the amount of KM 2,000,000	27.03.2009	7.10%	602,285	-
NLB Tuzlanska banka d.d. Tuzla Loan in the amount of KM 600,000	18.03.2009	7.36%	502,384	-
ABS Banka d.d. Sarajevo Loan in the amount of KM 450,000	16.11.2009	7.80%	449,026	-
Raiffeisen bank d.d. BiH Sarajevo Loan in the amount of KM 750,000	10.04.2009	Euribor +4.20%	201,245	699,643
UniCredit Banka d.d. Mostar Loan in the amount of KM 1,200,000	15.07.2008	7.99%	-	1,202,720
ABS Banka d.d. Sarajevo Loan in the amount of KM 750,000	02.09.2008	8.00%	-	750,041
NLB Tuzlanska banka d.d. Tuzla Loan in the amount of KM 1,000,000	11.12.2008	7.36%	-	996,834
NLB Tuzlanska banka d.d. Tuzla Loan in the amount of KM 600,000	13.03.2008	7.90%	-	595,809
Raiffeisen bank d.d. BiH Sarajevo Loan in the amount of KM 500,000	05.04.2008	7.95%	-	494,866
ABS Banka d.d. Sarajevo Loan in the amount of KM 450,000	04.10.2008	7.80%	-	449,566
KIVA Microfunds	-	-	375,978	13
<i>Current portion of long term loans</i>			<u>2,087,907</u>	<u>-</u>
Total short term loans			<u>9,643,692</u>	<u>5,189,492</u>

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13. BORROWINGS (CONTINUED)

	<u>Maturity</u>	<u>Interest rate %</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
Long term loans				
Hypo Alpe-Adria Bank d.d. Mostar Loan in the amount of KM 1,200,000	21.07.2010	6 months EURIBOR + 6.4%	1,692,651	-
Global Commercial Microfinance Consortium Ltd., a Cayman Islands Corporation, Loan in the amount of EUR 1,000,000	26.10.2010	8.50%	1,957,842	2,038,953
ABS Banka d.d. Sarajevo, Loan in the amount of KM 900,000	20.09.2011	7.80%	994,298	-
ABS Banka d.d. Sarajevo, Loan in the amount of KM 700,000	05.03.2011	7.80%	698,857	-
<i>Current portion of long term loans</i>			<u>(2,087,907)</u>	-
Total long term loans			<u>3,255,741</u>	<u>2,038,953</u>
Total			<u>12,899,433</u>	<u>7,228,445</u>

14. SUBORDINATED DEBT

	<u>31.12.2008</u>	<u>31.12.2007</u>
UNDP	152,555	152,555
Total	<u>152,555</u>	<u>152,555</u>

On 15 September 2006, the Foundation signed the Micro Capital Grant Agreement in the amount of KM 152,555 with United Nations Development Programme ("UNDP"). The interest free Agreement was signed for the management of the Srebrenica Regional Recovery Programme Rural Finance Loan.

The preliminary due date for the implementation of Program was 31 December 2006. However, considering that the Program commencement was late, the transfer of subordinated loan to supplementary funds was prolonged to 31 May 2008 and later up to 31 May 2009.

The Management believes that the capitalization of subordinated loan will be finalized in 2009.

15. OTHER LIABILITIES

	<u>31.12.2008</u>	<u>31.12.2007</u>
Accounts Payable	33,300	30,144
Liabilities to employees	1,000	11,162
Other	-	2,412
	<u>34,300</u>	<u>43,718</u>

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16. SUPPLEMENTARY FUNDS

	<u>31.12.2008</u>	<u>31.12.2007</u>
Society Woman for Woman International	406,618	406,618
UNHCR	450,000	450,000
PRM/USA State Department	576,821	576,821
USAID	542,787	542,787
UMCOR	400,000	400,000
WWI Washington D.C.	52,316	52,316
UMCOR-1	44,203	44,203
UMCOR-2	192,730	192,730
Transfer of excess of income over expenditures	<u>1,599,691</u>	<u>1,599,691</u>
	<u>4,265,166</u>	<u>4,265,166</u>

17. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management are as follows:

	<u>31.12.2008</u>	<u>31.12.2007</u>
Gross salaries	193,683	195,974
Other benefits	<u>25,807</u>	<u>18,776</u>
	<u>219,490</u>	<u>214,750</u>

18. COMMITMENTS

Rental commitments

The Foundation has entered into certain commitments for the rent of business premises. In 2009 these commitments will result in liabilities amounting to KM 67,555 (2008; KM 58,485).

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19. FINANCIAL INSTRUMENTS

a) Capital risk management

The Management manages its net assets to ensure that the Foundation will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and net assets balance. The general Foundation's strategy did not change in comparison to 2007.

The financing net assets structure of the Foundation consists of debt, which includes the borrowings and subordinated debt (Notes 13 and 14) and net assets. Solvency indicators were as follows:

	<u>31.12.2008</u>	<u>31.12.2007</u>
Debt	13,051,988	7,381,000
Cash and cash equivalents	<u>(1,674,702)</u>	<u>(551,817)</u>
Net debt	11,377,286	6,829,183
Net assets	<u>5,268,074</u>	<u>4,790,520</u>
Net debt to net assets ratio	<u>2.16</u>	<u>1.43</u>

b) Significant accounting policies

Basic accounting policies and procedures, including criteria for recognition, basis for presentation, measurement and recognition based on which income and expenses for each category of financial assets, liabilities and equity instruments are recognized, are disclosed in Note 3 of this financial statements.

c) Categories of financial instruments

	31.12.2008	31.12.2007
Financial assets		
At fair value through FVTPL		
- Held for sale	-	-
- Available-for-sale financial assets	-	-
- Investment held to maturity	-	-
Loans and receivables (including cash and cash equivalents)	<u>18,026,750</u>	<u>12,060,678</u>
TOTAL	<u>18,026,750</u>	<u>12,060,678</u>
Financial liabilities		
At fair value through FVTPL		
- Held for sale	-	-
- Categorized as FVTPL	-	-
Amortised cost	<u>13,086,288</u>	<u>7,424,718</u>
	<u>13,086,288</u>	<u>7,424,718</u>

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19. FINANCIAL INSTRUMENTS (CONTINUED)

d) Financial risk management objectives

The Foundation's management co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Foundation through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

e) Market risk

The Foundation's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below points f and g).

Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Foundation's exposure to market risks or the method according to which it manages and measures the risk.

f) Foreign currency risk management

The Foundation undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

31.12.2008	KM	EUR	USD	Total
Cash and cash equivalents	312,239	639	64,324	377,202
Bank deposits	1,297,500	-	-	1,297,500
Loans to clients, net	16,352,048	-	-	16,352,048
	17,961,787	639	64,324	18,026,750
Borrowings	10,565,613	1,957,842	375,978	12,899,433
Subordinated debt	152,555	-	-	152,555
Other liabilities	34,300	-	-	34,300
	10,752,468	1,957,842	375,978	13,086,288

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19. FINANCIAL INSTRUMENTS (CONTINUED)

f) Foreign currency risk management (Continued)

31.12.2007	KM	EUR	USD	Total
Cash and cash equivalents	101,817	-	-	101,817
Bank deposits	450,000	-	-	450,000
Loans to clients, net	11,508,861	-	-	11,508,861
	12,060,678	-	-	12,060,678
Borrowings	5,189,479	2,038,953	13	7,228,445
Subordinated debt	152,555	-	-	152,555
Other liabilities	43,718	-	-	43,718
	5,385,752	2,038,953	13	7,424,718

Foreign currency sensitivity analysis

The Foundation is mainly exposed to EUR and USD.

The following table details the Foundation's sensitivity to a 10% increase and decrease in KM against relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where KM strengthens 10% against foreign currency. For a 10% weakening of KM against relevant foreign currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	EUR Impact		USD Impact	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Profit or loss	195,848	203,895	44,030	2

In Management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk since in accordance with the Law on Central Bank of Bosnia and Herzegovina the Convertible Mark ("KM") is officially tied to the Euro. Change in the exchange rate would require the amendments of the law and approval by Parliamentary Assembly of Bosnia and Herzegovina.

19. FINANCIAL INSTRUMENTS (CONTINUED)

g) Interest rate risk management

The Foundation is exposed to interest rate risk as the Foundation borrows funds at both floating and fixed interest rates. However, for contract signed at fixed interest rates, the creditors retain rights to change them. The Foundation's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease (0.5%) is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (0.5%) higher/lower and all other variables were held constant, the Foundation's:

- profit for the year 2008 would decrease/increase by KM 121,178 (2007 increase/decrease for KM 57,988). This is mainly attributable to the Foundation's exposure to interest rates on its variable rate borrowings.

h) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Foundation. The Foundation has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Foundation's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Foundation does not have significant exposure to credit risk toward any counterparty or any Foundation-counterparty with similar characteristics. The Foundation considers that counterparty's have similar characteristics if they are related party's.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Foundation's maximum exposure to credit risk without taking account of the value of any collateral obtained.

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19. FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Impairment allowance	Total net carrying amount
31 December 2008					
Cash and cash equivalents	377,202	377,202	-	-	377,202
Bank deposits	1,297,500	1,297,500	-	-	1,297,500
Loans to clients	17,045,851	15,962,162	1,083,689	(693,804)	16,352,047
Total	18,720,553	17,636,864	1,083,689	(693,804)	18,026,749
31 December 2007					
Cash and cash equivalents	101,817	101,817	-	-	101,817
Bank deposits	450,000	450,000	-	-	450,000
Loans to clients	11,683,754	11,385,396	298,358	(174,893)	11,508,861
Total	12,235,571	11,937,213	298,358	(174,893)	12,060,678

i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Foundation's short, medium and long-term funding and liquidity management requirements. The Foundation manages liquidity risk by maintaining adequate reserves, banking facilities, reserve borrowing facilities and other methods of financing, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Foundation's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Foundation can be required to pay. The table includes both interest and principal cash flows.

	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	+5 years	Total
31 December 2008						
Borrowings	866,500	2,150,159	6,732,180	3,481,925	-	13,230,764
Other liabilities	34,300	-	-	-	-	34,300
	900,800	2,150,159	6,732,180	3,481,925	-	13,265,064
31 December 2007						
Borrowings	147,507	662,400	4,360,500	4,648,130	-	9,818,537
Other liabilities	43,731	-	-	-	-	43,731
	191,238	662,400	4,360,500	4,648,130	-	9,862,268

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19. FINANCIAL INSTRUMENTS (CONTINUED)

i) Liquidity Risk Management (Continued)

The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Foundation anticipates that the cash flow will occur in a different period.

	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	5+ years	Total
31 December 2008						
Cash and cash equivalents	377,202	-	-	-	-	377,202
Deposits	150,000	260,000	687,500	200,000	-	1,297,500
Loans to clients	1,184,692	3,564,515	7,099,208	6,035,614	-	17,884,029
Other assets	15,252	-	-	-	-	15,252
	1,727,146	3,824,515	7,786,708	6,235,614	-	19,573,983
31 December 2007						
Cash and cash equivalents	101,817	-	-	-	-	101,817
Deposits	-	-	200,250	250,000	-	450,250
Loans to clients	1,350,791	2,325,960	7,205,956	3,315,520	-	14,198,227
Other assets	10,443	-	-	-	-	10,443
	1,463,051	2,325,960	7,406,206	3,565,520	-	14,760,737

i) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and

The Management believes that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements is approximate to their fair values.

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20. APPROVAL OF THE FINANCIAL STATEMENTS

These separate financial statements were approved by the Management Board of the Foundation on 24 March 2009.

Signed on behalf of the Management Board of the Foundation:

Director
Seida Sarić

Finance – Administrative
Manager
Mervana Vražalica