

**MIKROKREDITNA FONDACIJA
ŽENE ZA ŽENE INTERNATIONAL
SARAJEVO**

Financial statements for the year ended
31 December 2009 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 Šarić, Director
Mikrokreditna fondacija Žene za Žene International Sarajevo



Džemala Bijedića do broja 130

71 000 Sarajevo

Bosnia and Herzegovina

16 March 2010

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 34, which comprise the statement of financial position as of 31 December 2009 and the related statement of comprehensive 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

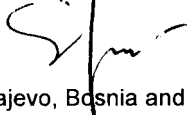
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Mikrokreditna fondacija Žene za Žene International Sarajevo as of 31 December 2009 and its financial performance and its cash flows for the year than ended, in accordance with International Financial Reporting Standards as modified by regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina.

Emphasis of matter

Without qualifying our opinion, we draw attention to the Note 20 which describes the situation related to the fact that Foundation did not fulfill general conditions established by the Banking Agency of Federation of Bosnia and Herzegovina ("FBA"). The Management has communicated these matters to FBA and is not aware of any circumstances or information which would lead it to believe that these non-compliances will cause negative consequences.

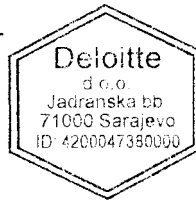
Deloitte d.o.o.

Sead Bahtanović, director and authorised auditor



Sarajevo, Bosnia and Herzegovina

16 March 2010



Mikrokreditna fondacija Žene za Žene International Sarajevo
Statement of comprehensive income
for the year ended 31 December 2009
(all amounts are expressed in KM)

	Note	2009	2008
Interest income	6	4,190,040	4,401,384
Interest expense	7	<u>(855,922)</u>	<u>(891,508)</u>
Net interest income		3,334,118	3,509,876
Operating expenses	8	(2,320,024)	(2,225,504)
Other operating income		58,473	92,586
Other operating expenses		<u>(1,220)</u>	<u>(22,227)</u>
Net operating expenses		<u>(2,262,771)</u>	<u>(2,155,145)</u>
Foreign exchange losses, net		<u>(8,654)</u>	<u>(37,110)</u>
NET INCOME BEFORE PROVISIONS FOR LOAN IMPAIRMENT		1,062,693	1,317,621
Impairment losses and provisions	11	(1,979,284)	(855,560)
Collected written off loan receivables		<u>27,280</u>	<u>15,493</u>
(LOSS) / EXCESS OF INCOME OVER EXPENDITURES (NET RESULT)		<u>(899,311)</u>	<u>477,554</u>
Other comprehensive income		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		<u>(899,311)</u>	<u>477,554</u>

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

Mikrokreditna fondacija Žene za Žene International Sarajevo
 Statement of financial position
 as of 31 December 2009
 (all amounts are expressed in KM)

	Note	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	9	89,599	377,202
Bank deposits	10	845,000	1,297,500
Loans to clients, net	11	11,369,540	16,352,048
Other assets		10,495	15,252
Equipment	12	234,915	314,289
Total assets		12,549,549	18,356,291
LIABILITIES			
Borrowings	13	7,967,252	12,899,433
Subordinated debt	14	152,555	152,555
Deferred income		-	83
Other liabilities	15	45,375	34,300
Provisions		5,604	1,846
Total liabilities		8,170,786	13,088,217
NET ASSETS			
Net assets		4,265,166	4,265,166
Excess of income over expenditures		113,597	1,002,908
Total net assets		4,378,763	5,268,074
Total net assets and liabilities		12,549,549	18,356,291

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

Signed on behalf of Mikrokreditna fondacija Žene za Žene International Sarajevo on 16 March 2010.

Seida Sarić

Director

Mikrokreditna fondacija
 Žene za Žene International Sarajevo



Mervana Vražalica

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 2009
(all amounts are expressed in KM)

	2009	2008
Operating Activities		
Net result	(889,311)	477,554
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation	92,198	78,824
Increase in impairment losses and provisions, net	1,979,284	855,560
Loss /(Gain) from disposal / sale of equipment	1,036	(22,774)
Changes in provisions for employee benefits	3,758	1,264
Decrease in deferred income	(83)	(6,831)
Foreign exchange losses	8,653	37,110
<i>Adjustment to reconcile net income to net cash provided by operating activities</i>	1,979,284	1,420,707
Net decrease/(increase) in loans granted	3,003,224	(5,698,747)
Net decrease/(increase) in other assets	4,757	(4,809)
Net increase/(decrease) in other liabilities	11,075	(9,419)
NET CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES	<u>4,214,591</u>	<u>(4,292,268)</u>
Investing Activities		
Purchase of equipment	(13,860)	(218,725)
Net decrease / (increase) in bank deposits	452,500	(847,500)
NET CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES	<u>438,640</u>	<u>(1,066,225)</u>
Financing Activities		
(Release of) / Proceeds from borrowings (net)	(4,940,834)	5,633,878
NET CASH (USED IN)/ PROVIDED BY FINANCING ACTIVITIES	<u>(4,940,834)</u>	<u>5,633,878</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	<u>(287,603)</u>	<u>275,385</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>377,202</u>	<u>101,817</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>89,599</u>	<u>377,202</u>

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 2009

(all amounts are expressed in KM)

	<u>Supplementary funds</u>	<u>Excess of income over expenditures</u>	<u>Total</u>
Balance at 31 December 2007	4,265,166	525,354	4,790,520
Net result for the year	-	477,554	477,554
Other comprehensive income	-	-	-
Balance at 31 December 2008	4,265,166	1,002,908	5,268,074
Net result for the year	-	(889,311)	(889,311)
Other comprehensive income	-	-	-
Balance at 31 December 2009	4,265,166	113,597	4,378,763

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 2009

(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 2009
(all amounts are expressed in KM)

1. GENERAL (CONTINUED)

Bodies of the Foundation:

Board of Directors:

Farida Mušanović	President
Kasim Mujan	Member
Hidajet Prevljak	Member (from 21 May 2009)
Izet Halilović	Member (from 13 November 2008 till 21 may 2009)

Management:

Seida Sarić	Director
Mervana Vražalica	Financial-Administrative manager
Aiša Šaćić	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	Džemala Bijedića do broja 130, Sarajevo
Regional office Sarajevo	Džemala Bijedića do broja 130
Branch office Ilidža	Ibrahima Ljubovića 10
Branch office Mostar	Adema Buće 68
Regional office Zenica	Adolfa Goldbergera no. 9
Branch office Travnik	Trgovinski centar Zenjak 1
North Region	Gradski pasaž bb, Gračanica
Regional office Gračanica	Gradski pasaž bb
Regional office Doboj	Vojvode Stepe i Vojvode Mišića
Regional office Živinice	Objekat PC "Park" lamella C, ulica Oslobođenje bb
Branch office Bijeljina	Majora Dragutina Gavrilovića 59
Branch office Srebrenica	Reufa Selmanagića 6

Branch offices closed as of 31 December 2009:

Branch office Pale	Dobroslava Jevđevića 7
Branch office Ilijaš	126. Ilijaške brigade bb
Branch office Derвента	Kralja Petra I bb (closed as of 31 July 2009)

Mikrokreditna fondacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2009
(all amounts are expressed in KM)

1. GENERAL (CONTINUED)

Performance Indicators

Efficiency Ratios	31.12.2009	31.12.2008
Active clients / Number of staff	123	153
Active clients / Number of loan officers	208	275
Net outstanding portfolio / Number of loan officers	264,408	419,283
Percentage total operating expenses / Average net portfolio	16.75%	7.51%
Financial Ratios		
Return on assets: Net operating income / total assets	(5.75%)	3.12%
Return on equity: Net operating income / total equity	(18.44%)	9.50%
Yield on portfolio: Interest and fee income / average net portfolio outstanding	30.23%	31.60%

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in current period

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

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IFRS 1 "First-time Adoption of IFRS" and IAS 27 "Consolidated and Separate Financial Statements" – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009);
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009);
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009);
- IAS 1 (revised) "Presentation of Financial Statements" – A revised presentation (effective for annual periods beginning on or after 1 January 2009);
- IAS 23 (revised) "Borrowing Costs" (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IFRS 2 "Share-based Payment" – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" -Embedded Derivatives (effective for annual periods ending on or after 30 June 2009);
- IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008).

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

2. ADOPTION OF NEW STANDARDS AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue not yet adopted

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013);
- IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009);
- IFRS 1 (revised) "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009);
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010);
- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011);
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 18 "Transfers of Assets from Customers" (effective for transfer of assets from customers received on or after 1 July 2009);
- IFRIC 19 "Extinguishing Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

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

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.

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 2008 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:

	2009	2008
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 includes:

- 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.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised

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.

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 cannot 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 2009	EUR 1 = KM 1.95583	USD 1 = KM 1.364088
31 December 2008	EUR 1 = KM 1.95583	USD 1 = KM 1.387310

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, Other provisions are recognized when the Foundation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Foundation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial date, taking into account the risks and uncertainties surrounding the obligation. Provisions are discounted on current value if the effect is material.

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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 2010, 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 impact on the financial position and performance of the Foundation.. 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 2010. The key priorities of the Management of the Foundation in 2010 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>2009</u>	<u>2008</u>
Interest income on loans to clients	4,007,938	4,301,975
Fee income (Note 11)	118,937	83,650
Interest on deposits	2,195	3,183
Other interest	60,970	12,576
	<u>4,190,040</u>	<u>4,401,384</u>

7. INTEREST EXPENSE

	<u>2009</u>	<u>2008</u>
Interest expense	804,026	841,336
Fee expense	51,896	50,172
	<u>855,922</u>	<u>891,508</u>

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8. OPERATING EXPENSES

	<u>2009</u>	<u>2008</u>
Payroll	1,294,093	1,151,295
Other employee expenses	371,705	473,432
Telecommunications	107,152	82,354
Depreciation	92,198	78,824
Rent	91,996	85,183
Fuel and energy	60,920	50,835
Materials	44,347	50,956
Insurance	33,881	23,946
Professional services	55,335	63,076
Bank fees and commissions	23,393	36,600
Education	12,869	7,985
Advertising	9,329	43,206
Maintenance	2,642	4,521
Other expenses	120,164	73,291
	<u>2,320,024</u>	<u>2,225,504</u>

At 31 December 2009 the Foundation employed 70 employees (2008 – 67 employees). Payroll consists of agreed salaries and bonuses. At 31 December 2009 average monthly gross salary was KM 1,561 (2008 - KM 1,432).

9. CASH AND CASH EQUIVALENTS

	<u>31.12.2009</u>	<u>31.12.2008</u>
Current accounts with banks	87,776	353,879
Cash on hand	1,823	23,323
	<u>89,599</u>	<u>377,202</u>

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10. BANK DEPOSITS

	<u>Maturity</u>	<u>Interest rate %</u>	<u>31.12.2009</u>	<u>Interest rate %</u>	<u>31.12.2008</u>
Hypo Alpe-Adria Bank dd Mostar	01.06.2011	-	200,000	-	200,000
UniCredit Banka d.d. Mostar	27.09.2010	-	200,000	-	-
UniCredit Banka d.d. Mostar	16.03.2010	-	100,000	-	-
NLB Tuzlanska banka d.d. Tuzla	09.01.2010	-	100,000	-	-
Sparkasse Banka d.d. Sarajevo	05.03.2011	-	70,000	-	70,000
NLB Tuzlanska banka d.d. Tuzla	22.04.2010	-	60,000	-	-
Sparkasse Banka d.d. Sarajevo	20.09.2011	-	45,000	-	45,000
Sparkasse Banka d.d. Sarajevo	19.11.2010	-	40,000	-	-
NLB Tuzlanska banka d.d. Tuzla	21.05.2010	-	30,000	-	-
UniCredit Banka d.d. Mostar	17.06.2009	-	-	-	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
Raiffeisen bank d.d. BiH Sarajevo	21.07.2009	-	-	1.50%	100,000
UniCredit Banka d.d. Mostar	28.01.2009	-	-	-	100,000
Raiffeisen bank d.d. Sarajevo	10.04.2009	-	-	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
Hypo Alpe-Adria Bank dd Mostar	20.01.2009	-	-	-	50,000
Sparkasse Banka d.d. Sarajevo	16.11.2009	-	-	-	22,500
			845,000		1,297,500

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>31.12.2009</u>	<u>31.12.2008</u>
Type of loans		
"Oaza krediti"	4,200,964	3,568,815
"Solidarne grupe"	1,865,331	4,791,700
"Grupni krediti kroz Centar"	1,915,084	2,706,573
"Kredit za podršku"	1,334,336	50,400
"Kredit za osnovne potrebe"	1,202,165	729,012
"Biznis krediti"	902,777	1,016,546
„Solidarni par„	828,613	1,473,261
"Poslovni krediti"	213,536	826,116
"Kredit 5 za 5"	208,938	844,918
"Start up"	156,812	456,963
"Mikro-mikro krediti"	84,881	313,955
"Stimulativni krediti"	7,829	74,899
„Sezonski krediti“	845	10,568
"Mikro-mikro ReneWLS"	-	1,351
"ReneWLS individualni"	2	2
"ReneWLS grupni"	1	1
"Plast"	12,146	-
Interest receivable	195,975	249,407
Loan origination fee	<u>(53,252)</u>	<u>(68,635)</u>
<i>Total loans before allowances for possible loan impairment</i>	<i>13,076,983</i>	<i>17,045,852</i>
Less: Allowances for loan impairment	<u>(1,707,443)</u>	<u>(693,804)</u>
	<u>11,369,540</u>	<u>16,352,048</u>

Annual loan interest rates approved in 2009 range between 28% and 44% (in 2008 between 24% and 36%). Average loan maturity is 19 months (2008, 17 months).

	<u>31.12.2009</u>	<u>31.12.2008</u>
Geographical analysis		
Sarajevo	6,375,101	7,820,489
Gračanica	6,755,134	9,293,998
Loan origination fee	<u>(53,252)</u>	<u>(68,635)</u>
<i>Total loans before allowances for possible loan impairment</i>	<i>13,076,983</i>	<i>17,045,852</i>
Less: Allowances for loan impairment	<u>(1,707,443)</u>	<u>(693,804)</u>
	<u>11,369,540</u>	<u>16,352,048</u>

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11. LOANS TO CLIENTS (CONTINUED)

Loans in arrears can be analyzed as follows:

	<u>31.12.2009</u>	<u>31.12.2008</u>
1 – 30 days	494,977	345,864
31 – 60 days	202,892	219,667
61 – 90 days	111,290	142,201
Over 91 day	<u>1,260,021</u>	<u>375,957</u>
	<u>2,069,180</u>	<u>1,083,689</u>

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

	<u>31.12.2009</u>	<u>31.12.2008</u>
Balance at 1 January	693,804	174,893
Additional provisions	1,979,284	855,560
Release of allowances due to write off	<u>(965,645)</u>	<u>(336,649)</u>
Balance at the end of year	<u>1,707,443</u>	<u>693,804</u>

The analysis of movement of prepaid loan origination fees:

	<u>31.12.2009</u>	<u>31.12.2008</u>
Balance as at 1 January	68,636	26,041
Loan origination fees	103,553	126,244
Revenue recognition (Note 6)	<u>(118,937)</u>	<u>(83,650)</u>
Balance at the end of year	<u>53,252</u>	<u>68,635</u>

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12. EQUIPMENT

	Vehicles	Computers	Equipment	Software	Total
<u>Cost</u>					
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
Additions	-	4,979	6,881	2,000	13,860
Disposals	-	(10,295)	(4,067)	-	(14,362)
At 31 December 2009	238,317	135,081	109,569	58,734	541,701
<u>Accumulated depreciation</u>					
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
Charge for the year	47,663	19,788	16,167	8,580	92,198
Disposals	-	(10,127)	(3,199)	-	(13,326)
At 31 December 2009	92,451	114,469	62,879	36,987	306,786
<u>Carrying amount</u>					
At 31 December 2009	145,866	20,612	46,690	21,747	234,915
At 31 December 2008	193,529	35,589	56,844	28,327	314,289

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13. BORROWINGS

	<u>Maturity</u>	<u>Interest rate</u> %	<u>31.12.2009</u>	<u>31.12.2008</u>
Short term loans				
Global Commercial Microfinance Consortium Ltd., a Cayman Islands Corporation, Loan in the amount of EUR 1,000,000	26.10.2010	8.50%	1,506,482	1,957,842
NLB Tuzlanska banka d.d. Tuzla Loan in the amount of KM 1,000,000	09.01.2010	8.5%	1,004,067	-
UniCredit Banka d.d. Mostar, Loan in the amount of KM 1,000,000	27.09.2010	9.5%	752,661	-
UniCredit Banka d.d. Mostar, Loan in the amount of KM 1,000,000	16.03.2010	1 month EURIBOR + 7%	704,673	-
NLB Tuzlanska banka d.d. Tuzla Loan in the amount of KM 600,000	22.04.2010	8.95%	602,538	-
NLB Tuzlanska banka d.d. Tuzla Loan in the amount of KM 300,000	21.05.2010	8.95%	301,024	-
Sparkasse Bank d.d. Sarajevo Loan in the amount of KM 200,000	19.11.2010	8.5%	199,975	-
KIVA Microfunds	-	-	41,907	375,978
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
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
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
<i>Current portion of long term loans</i>			<u>820,603</u>	<u>2,087,907</u>
Total short term loans			<u>5,933,930</u>	<u>9,643,692</u>

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13. BORROWINGS (CONTINUED)

	<u>Maturity</u>	<u>Interest rate %</u>	<u>31.12.2009</u>	<u>31.12.2008</u>
Long term loans				
Hypo Alpe-Adria Bank d.d. Mostar Loan in the amount of KM 1,200,000	01.06.2011	6 months EURIBOR + 6.4%	1,446,470	1,692,651
Sparkasse Bank d.d. Sarajevo, Loan in the amount of KM 900,000	20.09.2011	7.80%	905,759	994,298
Sparkasse Bank d.d. Sarajevo, Loan in the amount of KM 500,000	05.03.2011	7.80%	501,696	698,857
<i>Current portion of long term loans</i>			<u>(820,603)</u>	<u>(2,087,907)</u>
Total long term loans			<u>2,033,322</u>	<u>3,255,741</u>
Total			<u>7,967,252</u>	<u>12,899,433</u>

14. SUBORDINATED DEBT

	<u>31.12.2009</u>	<u>31.12.2008</u>
UNDP	<u>152,555</u>	<u>152,555</u>
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 2010.

15. OTHER LIABILITIES

	<u>31.12.2009</u>	<u>31.12.2008</u>
Accounts Payable	45,375	33,300
Liabilities to employees	-	1,000
	<u>45,375</u>	<u>34,300</u>

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16. SUPPLEMENTARY FUNDS

	<u>31.12.2009</u>	<u>31.12.2008</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>31.12.2009</u>	<u>31.12.2008</u>
Gross salaries	303,798	193,683
Other benefits	<u>17,837</u>	<u>25,807</u>
	<u>321,635</u>	<u>219,490</u>

18. COMMITMENTS

Rental commitments

The Foundation has entered into certain commitments for the rent of business premises. In 2010 these commitments will result in liabilities amounting to KM 42,446 (2009; KM 67,555).

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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 2008.

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>31.12.2009</u>	<u>31.12.2008</u>
Debt	8,119,807	13,051,988
Cash and cash equivalents (Notes 9 and 10)	<u>(934,599)</u>	<u>(1,674,702)</u>
Net debt	7,185,208	11,377,286
Net assets	<u>4,378,763</u>	<u>5,268,074</u>
Net debt to net assets ratio	<u>1.64</u>	<u>2.16</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

	31.12.2009	31.12.2008
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>12,304,139</u>	<u>18,026,750</u>
TOTAL	<u>12,304,139</u>	<u>18,026,750</u>
Financial liabilities		
At fair value through FVTPL		
- Held for sale	-	-
- Categorized as FVTPL	-	-
Amortised cost	<u>8,165,182</u>	<u>13,086,288</u>
	<u>8,165,182</u>	<u>13,086,288</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.

31.12.2009	KM	EUR	USD	Total
Cash and cash equivalents	85,431	918	3,250	89,599
Bank deposits	845,000	-	-	845,000
Loans to clients, net	11,369,540	-	-	11,369,540
	12,299,971	918	3,250	12,304,139
Borrowings	6,420,860	1,504,485	41,907	7,967,252
Subordinated debt	152,555	-	-	152,555
Other liabilities	45,375	-	-	45,375
	6,618,790	1,504,485	41,907	8,165,182

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19. FINANCIAL INSTRUMENTS (CONTINUED)

f) Foreign currency risk management (Continued)

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

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	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Profit or loss	150,540	195,848	4,516	44,030

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 2009 would decrease/increase by KM 126,952 (2008 increase/decrease for KM 121,178). 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 counterparties 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 2009					
Cash and cash equivalents	89,599	89,599			89,599
Bank deposits	845,000	845,000			845,000
Loans to clients	13,076,983	11,007,803	2,069,180	(1,707,443)	11,369,540
Total	14,011,582	11,942,402	2,069,180	(1,707,443)	12,304,139
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

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 2009						
Borrowings	1,279,970	2,391,448	2,613,591	2,103,604	-	8,388,613
Other liabilities	45,375	-	-	-	-	45,375
	1,325,345	2,391,448	2,613,591	2,103,604	-	8,433,988
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

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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 2009						
Cash and cash equivalents	85,431	-	-	-	-	85,431
Deposits	100,000	160,000	470,000	115,000	-	845,000
Loans to clients	1,197,905	3,280,210	6,096,432	6,033,509	2,157	16,610,213
	1,383,336	3,440,210	6,566,432	6,148,509	2,157	17,540,644
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
	1,711,894	3,824,515	7,786,708	6,235,614	-	19,558,731

j) 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. REGULATORY REQUIREMENTS

Federal Banking Agency (FBA) is entitled to monitor business operations and to carry out the regulatory inspections of the Foundation. As at 31 December 2009, the Foundation failed to comply with following operating covenants prescribed by FBA:

Financial indicators	Foundation
Return on assets adjusted to inflation market price of capital and donations	-7,01%
Operating efficiency > 45%	44,68%
Portfolio at risk < 5%	11,99%
Write offs < 3%	5,58%

The Management has communicated these matters to FBA and is not aware of any circumstances or information which would lead it to believe that these non-compliances will cause negative consequences.

21. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board of the Foundation on 16 March 2010.

Signed on behalf of the Management Board of the Foundation:

		
Director		Finance – Administrative Manager
Seida Sarić		Mervana Vražalica