

**MIKROKREDITNA ORGANIZACIJA
ŽENE ZA ŽENE INTERNATIONAL
SARAJEVO**

Financial statements for the year ended
31 December 2006
together with Independent auditors' report

Contents

	<i>Page</i>
Responsibility for Financial Statements	1
Independent auditors' report	2
Income statement	4
Balance sheet	5
Statement of cash flows	6
Statement of changes in net assets	7
Notes to the financial statements	8 – 24

Responsibility for Financial Statements

Management is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the state of affairs and results of the Organisation for that period.

After making enquiries, Management has a reasonable expectation that the Organization 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 Organisation 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 organization. Management must also ensure that the financial statements comply with the Accounting and Auditing Law of Bosnia and Herzegovina. Management is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of Management

Seida Sarić, Director

Mikro kreditna organizacija Žene za Žene International Sarajevo

Džemala Bijedića 130

71 000 Sarajevo

Bosnia and Herzegovina

21 March 2007

Independent Auditors' Report

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

We have audited the accompanying financial statements of MKO Žene za Žene International Sarajevo (the "Organization") set out on pages 4 to 24, which comprise the balance sheet as of 31 December 2006 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. Financial statements of the Organization as of 31 December 2005 were audited by another auditor whose report dated 28 February 2006 expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

The preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards are responsibility of the Management, and that 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 Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Deloitte d.o.o.

Sarajevo, Bosnia and Herzegovina

21 March 2007

Mikrokreditna organizacija Žene za Žene International Sarajevo
 Income statement
 for the year ended 31 December 2006
 (all amounts are expressed in KM)

	Note	2006	2005 restated
Interest and fee income	5	1,763,516	1,250,980
Interest and fee expense	6	<u>(198,541)</u>	<u>(59,335)</u>
Net interest and fee income		1,564,975	1,191,645
Operating expense	7	(1,070,612)	(760,610)
Other operating income		23,123	17,952
Other operating expense		<u>(287)</u>	<u>(2,906)</u>
Net operating expenses		<u>(1,047,776)</u>	<u>(745,564)</u>
Foreign exchange gain		<u>18,686</u>	<u>17,950</u>
NET INCOME BEFORE PROVISIONS FOR LOAN IMPAIRMENT		535,885	464,031
Provisions for loan impairment	10	<u>(209,919)</u>	<u>(51,912)</u>
EXCESS OF INCOME OVER EXPENDITURES (NET RESULT)		<u>325,966</u>	<u>412,119</u>

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

Mikrokreditna organizacija Žene za Žene International Sarajevo
 Balance sheet
 as of 31 December 2006
 (all amounts are expressed in KM)

	Note	2006	2005 restated
ASSETS			
Cash and cash equivalents	8	588,517	62,395
Bank deposits	9	270,000	130,000
Loans to clients, net	10	6,942,228	4,699,357
Other assets		6,405	3,669
Property, plant and equipment	11	<u>136,389</u>	<u>92,955</u>
Total assets		<u>7,943,539</u>	<u>4,988,376</u>
LIABILITIES			
Borrowings	12	3,472,487	1,267,748
Subordinated debt	13	388,964	-
Deferred income		9,245	-
Other liabilities	14	<u>44,610</u>	<u>18,361</u>
Total liabilities		<u>3,915,306</u>	<u>1,286,109</u>
NET ASSETS			
Initial funds	15	3,290,148	3,290,148
Excess of income over expenditures		<u>738,085</u>	<u>412,119</u>
Total net assets		<u>4,028,233</u>	<u>3,702,267</u>
TOTAL LIABILITIES AND NET ASSETS		<u>7,943,539</u>	<u>4,988,376</u>

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

Signed on behalf of Mikro kreditna organizacija Žene za Žene Internatioanl on 21 March 2007.

Seida Sarić

Sadžida Sarajlić

Director

Financial manager

Mikrokreditna organizacija Žene za Žene Internatioanl Sarajevo
Statement of cash flows
for the year ended 31 December 2006
(all amounts are expressed in KM)

	2006	2005 restated
Operating Activities		
Net result	325,966	412,119
<i>Adjustments to:</i>		
Depreciation	49,500	45,201
Net increase in provisions for possible loan impairment	66,560	21,483
(Gain) / Loss from disposal of property, plant and equipment	(49)	138
Provision for unused vacation days	14,518	-
Gain from exchange rate differences	(18,686)	(17,950)
<i>Adjustment to reconcile net income to net cash provided by operating activities</i>	437,809	460,991
Net (increase) in loans granted	(2,309,431)	(2,608,084)
Net (increase) / decrease in other assets	(2,736)	27,048
Net increase in other liabilities	11,286	5,927
Net increase in deferred income	9,245	-
NET CASH (USED IN) OPERATING ACTIVITIES	(1,853,827)	(2,114,118)
Investing Activities		
Purchase of property, plant and equipment	(103,020)	(29,460)
Net (increase) / decrease in bank deposits	(140,000)	731,000
Proceeds from sale of property, plant and equipment	10,135	-
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(232,885)	701,540
Financing Activities		
Net increase (decrease) in borrowings	2,205,184	(423,428)
Net increase in subsidized loans	407,650	1,571,924
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,612,834	1,148,496
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	526,122	(264,082)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	62,395	326,477
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	588,517	62,395

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

Mikrokreditna organizacija Žene za Žene Internatioanl Sarajevo
Statement of changes in net assets
for the year ended 31 December 2006
(all amounts are expressed in KM)

	<u>Initial funds</u>	<u>Accumulated excess of income over expenditures</u>	<u>Total</u>
Balance at 31 December 2004	856,618	861,606	1,718,224
Increase	1,571,924		1,571,924
Transfer	861,606	(861,606)	-
Net result for the year		183,801	183,801
Balance at 31 December 2005	3,290,148	183,801	3,473,949
Restated (Note 3)	-	228,318	228,318
Balance at 31 December 2005 restated	3,290,148	412,119	3,702,267
Net result for the year	-	325,966	325,966
Balance at 31 December 2006	3,290,148	738,085	4,028,233

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

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to financial statements
for the year ended 31 December 2006

(all amounts are expressed in KM)

1. GENERAL

Mikrokreditna organizacija Žene za Žene International Sarajevo (the 'Organisation') is a non-profitable organisation, which commenced its operations in February 2002. In accordance with the Law on Micro Credit Organisations ("Official Gazette of the Federation of Bosnia and Herzegovina" 24/00), the Organisation was registered in the Register of micro credit organisations 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 Organisation is in Sarajevo, Džemala Bijedića 130. The principal activity is the implementation of a micro credit programme, primarily for manufacturing, trade, services and agriculture. The target group of clients of the Organisation are 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 organisations were introduced (Official Gazette of the Federation of Bosnia and Herzegovina no. 59/06). According to this law, all micro credit organisations have to transform into a profit organisation, either a shareholders company or a limited liability company. Within 12 months from introduction of this law, all micro credit organisations have to make decisions on change of their legal status and organisation of 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.

Bodies of the Organisation

Board of Directors:

Ekrem Gacić	President
Vesna Vukmanić	Vice President
Sabit Bašić	Member
Farida Mušanović	Member

Management:

Seida Sarić	Director
Sadžida Sarajlić	Financial manager
Dženita Kičić	Operational manager
Aiša Šaćić	South region manager
Almedina Avdaković	North region manager

The Organisation operates through offices:

Sarajevo	Džemala Bijedića 130
Gračanica	Gradski pasaž bb

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

1. GENERAL (CONTINUED)

1.1 PERFORMANCE INDICATORS

Efficiency Ratios	2006	2005
Active clients / Number of staff	153	219
Active clients / Number of loan officers	236	376
Net outstanding portfolio / Number of loan officers	247,937	335,668
Percentage total operating expenses / Average net portfolio	18.40%	22.42%

Financial Ratios	2006	2005
Return on assets: Net operating income / total assets	5.04%	9.78%
Return on equity: Net operating income / total equity	8.43%	15.21%
Yield on portfolio: Interest and fee income / average net portfolio outstanding	30.30%	36.73%

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Organisation has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Organisation's accounting policies.

At the date of authorisation of these financial statements, the following Standard was in issue and is relevant for the Organisation, but not yet effective:

- IFRS 7 Financial Instruments: Disclosures and complementary amendments to IAS 1 Presentation of Financial Statements - Effective for annual periods beginning on or after 1 Januar 2007.

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

- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies - Effective for annual periods beginning on or after 1 March 2006;
- IFRIC 8 Scope of IFRS 2 - Effective for annual periods beginning on or after 1 May 2006;
- IFRIC 9 Reassessment of Embedded Derivatives - Effective for annual periods beginning on or after 1 June 2006;
- IFRIC 10 Interim Financial Reporting and Impairment - Effective for annual periods beginning on or after 1 November 2006;
- IFRIC 11 IFRS 2 Group and Treasury Share Transaction – Effective for annual periods beginning on or after 1 March 2007;

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

- IFRIC 12 Service Concession Arrangements – Effective for annual periods beginning on or after 1 January 2008

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Organisation.

3. PRIOR YEAR RESTATEMENT

The Organization has restated the financial statements for the year ended 31 December 2005 in order to correct an error related to the recognition and measurement of interest income as required by the International Accounting Standard 18 – Revenue, that interest income should be recognized using the effective interest method. The Organization had used fixed method in measuring and recognizing revenue from the loans approved to its clients, but during the year 2006, the management recalculated the actual interest to be recognized on the outstanding loans as of 31 December 2005, and accordingly has increased loan receivables in the amount of KM 235,603, differed fee income in the amount of KM 7,285 and excess of income over expenditure ai. net result for the year ended as of 31 December 2005 in the amount of KM 228,318.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis for presentation

These financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as published by the International Accounting Standards Board. The financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial instruments at fair value. These financial statements are presented in the official currency of Bosnia and Herzegovina, the Konvertibilna Marka ("KM"), which is officially pegged to Euro (EUR 1 = KM 1.95583).

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

Certain amounts in the previous year financial statements have been reclassified to conform to the current year presentation as of 31 December 2006.

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. Interest income accrued using anticipative method is being deferred. Penalty interest is accounted for on a cash basis.

When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fee and commission income

Fees and commissions consist mainly of fees for loans issued by the Organization. Loan origination fees, after approval of loans, are deferred and recognised as an adjustment to the effective yield of the loan over its life and as such adjust the interest income.

Employee benefits

On behalf of its employees, the Company 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 Company is paying the above contributions into the Federal Pension and Health Fund, 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.

Severance payments

In accordance with Rulebook on employment, the Organization makes severance payments in the amount of one third of the employee's net salary for each year spent in the Organization.

The Organization records severance payments expenses at the moment of their maturity.

Taxation

The Organization is not subject to income tax because it is defined as a non-profit organization in accordance with the Law on Micro credit Organizations ("Official Gazette of Federation of Bosnia and Herzegovina" 24/00).

Property, plant and equipment

Property, plant and 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 capitalised. 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:

Computers	33.33%
Equipment and vehicles	20.00%

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include demand and term deposits with maturity up to three months.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Company 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Financial assets and liabilities

Financial assets held by the Organization are categorised into portfolios in accordance with the Organization's intent on the acquisition and pursuant to the Organization's investment strategy. The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements.

All financial assets and liabilities are recognised and derecognised on a trade basis where the purchase or sale of financial asset or liability is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

When a financial asset or financial liability is recognised initially, the Organization measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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

Loan and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers.

An allowance for loan impairment is established if there is objective evidence that the Organization will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Specific allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.

If the Organisation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

Objective evidence of impairment for financial assets assessed collectively for impairment are adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments) or national or local economic conditions that correlate with defaults on the assets in the group.

When a loan is uncollectible, it is written off against the related allowance for impairment; subsequent recoveries are credited to the 'Provision for loan impairment' line in the income statement.

The borrowers are organized to so called solidarity groups of 3 to 5 members. All members of solidarity group are guarantors between themselves for the loans granted and there are no other loan repayment instruments.

The Organization stops accruing the interest on the loans that are classified as a loss due to the bankruptcy of the client or due to default of the loan agreement.

Foreign currency transactions

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

The Organization has assets and liabilities originated in KM, which are linked to foreign currency with one-way currency clause. Due to this clause the Organization 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 since the forward rates for KM are not available. As such the Organization values its assets and liabilities related to this clause by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet or foreign exchange rate agreed by the option (rate valid at origination) if higher.

Donations

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

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets

Organization's net assets represent surplus of total assets over total liabilities. Net assets arise from initial funds, excess of income over expenditures and donations. Income over expenditures has to be used for the micro credit operations. If the Organization ceased to exist, Supervisory board would have to decide on distribution of Organization's net assets.

5. INTEREST INCOME

	<u>2006</u>	<u>2005 restated</u>
Interest income on loans to clients	1,754,682	1,240,028
Interests on deposits	2,347	7,809
Other interest	6,487	3,143
	<u>1,763,516</u>	<u>1,250,980</u>

6. INTEREST AND COMMISSION EXPENSE

	<u>2006</u>	<u>2005</u>
Interest expense	150,483	45,335
Fee expense	48,058	14,000
	<u>198,541</u>	<u>59,335</u>

7. OPERATING EXPENSES

	<u>2006</u>	<u>2005</u>
Payroll	571,294	409,393
Other employee expenses	189,745	109,056
Rent	28,236	17,603
Depreciation	49,500	45,201
Materials	31,156	24,986
Telecommunications	29,235	18,608
Fuel and energy	27,349	24,549
Maintenance	10,990	14,064
Advertising	25,793	2,208
Insurance	14,075	12,324
Bank fees and commissions	17,945	10,939
Education	4,066	25,677
Consultant fees	21,306	12,352
Other expenses	49,922	33,650
	<u>1,070,612</u>	<u>760,610</u>

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

7. OPERATING EXPENSES (CONTINUED)

At 31 December 2006 the Organisation employed 43 employees (2005 – 24 employees). Payroll consists from agreed salary and bonuses. In 2006 average gross salary was KM 1,107 (2005 - KM 1,422).

8. CASH AND CASH EQUIVALENTS

	<u>2006</u>	<u>2005</u>
Current accounts with banks	587,725	62,316
Cash on hand	<u>792</u>	<u>79</u>
	<u>588,517</u>	<u>62,395</u>

9. BANK DEPOSITS

	<u>Maturity</u>	<u>Interest rate %</u>	<u>2006</u>	<u>Interest rate %</u>	<u>2005</u>
ABS Banka d.d. Sarajevo	14.11.2007.	-	50.000	-	50.000
UniCredit Zagrebačka Banka d.d. Mostar	17.05.2007.	-	80.000	-	80.000
NLB Tuzlanska banka d.d. Tuzla	27.01.2007.	-	40.000	-	-
Raiffeisen bank d.d. Sarajevo	05.04.2007.	1,50%	50.000	-	-
Hypo Alpe-Adria Bank dd Mostar	30.04.2007.	-	50.000	-	-
			<u>270.000</u>		<u>130.000</u>

Bank deposits have the purpose of loan collateral for the short term revolving loans with the same banks.

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

10. LOANS TO CLIENTS

Monthly loan interest rates approved in 2006 range between 1.3% and 1.65% (in 2005 between 1.3% and 1.65%).

Average loan maturity is 12 months (2005, 10 to 11 months).

	2006	2005 restated
Sector Analysis		
"Grupni krediti kroz Centar"	4,364,758	3,759,767
"Poslovni krediti"	1,342,474	907,292
"Solidarne grupe"	786,192	-
"Mikro mikro krediti"	299,892	-
"Kreditni za osnovne potrebe"	95,833	-
"Stimulativni krediti"	82,117	43,901
"ReneWLS grupni"	10,873	-
"ReneWLS individualni"	6,028	
„Sezonski krediti“	3,491	
Interest receivable	73,063	44,390
<i>Total loans before allowances for possible loan impairment</i>	<i>7,064,721</i>	<i>4,755,350</i>
Less: Allowances for possible loan impairment	(122,493)	(55,993)
	6,942,228	4,699,357
	2006	2005 restated
Geographic analysis		
Sarajevo	3,451,804	2,766,360
Gračanica	3,539,854	1,944,600
Interest receivable	73,063	44,390
<i>Total loans before allowances for possible loan impairment</i>	<i>7,064,721</i>	<i>4,755,350</i>
Less: Allowances for possible loan impairment	(122,493)	(55,993)
	6,942,228	4,699,357

Movements in allowance for possible loan impairment are as follows:

	2006	2005
Balance at 1 January	55,933	34,450
Additional allowance	209,919	51,912
Amounts written off during the year	(143,359)	(30,369)
Balance at 31 December	122,493	55,993

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

11. PROPERTY, PLANT AND EQUIPMENT

	Vehicles	Computers	Equipment	Software	Total
<u>Cost</u>					
At 31 December 2005	95,945	93,345	37,449	21,000	247,739
Additions	47,805	21,412	19,763	14,040	103,020
Disposals	(20,554)	(11,774)	(4,744)	-	(37,072)
At 31 December 2006	123,196	102,983	52,468	35,040	313,687
<u>Accumulated depreciation</u>					
At 31 December 2005	61,725	65,577	20,482	7,000	154,784
Charge for the year	20,104	17,322	5,768	6,306	49,500
Disposals	(12,737)	(12,745)	(1,504)	-	(26,986)
At 31 December 2006	69,092	70,154	24,746	13,306	177,298
<u>Carrying amount</u>					
At 31 December 2006	54,104	32,829	27,722	21,734	136,389
At 31 December 2005	34,220	27,768	16,967	14,000	92,955

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006

(all amounts are expressed in KM)

12. BORROWINGS

	Maturity	Interest rate %	2006	2005
Short term loans				
ABS Banka d.d. Sarajevo	14.11.2007.	8.50%	916,764	804,492
NLB Tuzlanska banka d.d. Tuzla	13.02.2007.	8.00%	694,130	-
UniCredit Zagrebačka Banka d.d. Mostar	17.05.2007.	8.50%	326,752	367,523
Raiffeisen bank d.d. BiH Sarajevo	05.04.2007.	8.50%	372,208	-
Hypo Alpe Adria Bank d.d. Mostar,	30.04.2007.	8.00%	184,718	-
Total short term loans			2,494,572	1,172,015
Long term loans				
Global Commercial Microfinance Consortium Ltd., a Cayman Islands Corporation	26.10.2010.	8.50%	977,915	-
Grameen trust			-	95,733
Total long term loans			977,915	95,733
Total loans			3,472,487	1,267,748

13. SUBSIDIZED LOANS

	2006	2005
UMCOR 2	192,730	-
UNDP	152,555	-
UMCOR 1	43,679	-
Total	388,964	-

On 23 March 2006, the Organization signed the Loan Agreement with United Methodist Committee on Relief of the General Board of Global Ministries of the United Methodist Church (UMCOR) in the amount of KM 192,730 (USD 129,785). The loan is interest free. After, the UMCOR's representative performed control over the received assets, placements and portfolio in the year 2006, which is in accordance with the signed contract, and after the external auditor issues an opinion for the year 2006, UMCOR would make a capital grant to the Organization after the external auditor issues the opinion for the year 2006.

On 15 September 2006, the Organization signed the Micro Capital Grant Agreement in the amount of KM 152,555 (USD 100,000) 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 Agreement expires on 31 December 2006, covering the anticipated term of the project and the achievements of all performance targets for the capitalization of the loan Fund. Considering that implementation of the loan was late, the maturity was prolonged up to 31 May of the year 2007.

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

13. SUBSIDIZED LOANS (Continued)

On 31 January 2006, the Organization signed the Contract with United Methodist Committee on Relief ("UMCOR") Balkans Mission with maturity on 31 December 2006. UMCOR would make a capital grant to the Organization after the external auditor issues the opinion for the year 2006. According to the Contract the Organization collects loans approved by UMCOR. This Contract was signed because the UMCOR Balkans Mission has expired.

14. OTHER LIABILITIES

	2006	2005 restated
Accounts Payable	11,099	6,653
Provision for unused vacation days	14,518	-
Deferred fee income	7,351	7,285
Other	11,642	4,423
	44,610	18,361

15. SUPPLEMENTARY FUNDS

	2006	2005
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
Transfer of accumulated gain according to Decision of Board of Directors	861,606	861,606
	3,290,148	3,290,148

16. RELATED PARTY TRANSACTIONS

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

	2006	2005
Gross salaries	201,872	164,158
Other benefits	13,491	9,237
	215,363	173,395

17. COMMITMENTS

Rental commitments

The Organization has entered into certain commitments for the rent of business premises. In 2007 these commitments will result in liabilities amounting to KM 45,336 (2006; KM 28,236).

Guaranty

According to signed Agreement on Reimbursement with Deutsche Bank Microcredit Development Fund INC (Fund), the Fund has deposited in the amount of USD equivalent EUR 100,000 (KM 195,583) with Deutsche Bank Trust Company Americas under the dominion of Global Commercial Microfinance Consortium LTD as a guaranty of MKO Žene za žene za International's full and punctual payment of liabilities for loan taken from Global Commercial Microfinance Consortium LTD. According to the mentioned Agreement, the Organization has a commitment to pay 3% of fee per annum of the amount deposited by the Fund (Note 17).

18. ESTIMATED FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Where available, fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Organisation's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing techniques as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates may not be realisable in a current sale of the financial instrument.

It is the opinion of the management of the Organisation that the fair value of the Organisation's financial assets and liabilities are not materially different from the amounts stated in the balance sheet as of 31 December 2006.

In estimating the fair value of the Organisation's financial instruments, the following methods and assumptions were used:

(a) Cash and cash equivalents

The carrying values of cash and balances with banks are generally deemed to approximate their fair value.

(b) Loans and advances to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. It is the opinion of the management of the Organisation that the fair value of the Loans and advances to customers are not materially different from the amounts stated in the balance sheets as at 31 December 2006 and 2005.

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006

(all amounts are expressed in KM)

19. INTEREST RATE RISK AND LIQUIDITY RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Organisation's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of the Organisation to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet.

Liquidity risk is a measure of the extent to which the Organisation may be required to raise funds to meet its commitments associated with financial instruments. The table below provides an analysis of assets, and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The Organisation is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan drawdowns. The Organisation does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Organisation sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are included in 'maturity undefined' category.

31 December 2006	Upon receipt	Up to 6 months	6 – 12 months	Over 12 months	Maturity undefined	Total
Cash and cash equivalents	588,517	-	-	-	-	588,517
Deposits	-	220,000	50,000	-	-	270,000
Loans to customers, net	73,063	1,266,434	2,427,035	3,175,696	-	6,942,228
Other assets	-	-	-	-	6,405	6,405
Property, plant and equipment	-	-	-	-	136,389	136,389
TOTAL ASSETS (1)	661,580	1,486,434	2,477,035	3,175,696	142,794	7,943,539
Bank loans	20,521	1,564,051	910,000	977,915	-	3,472,487
Subsidised loans	-	-	-	-	388,964	388,964
Differed income from donations	-	-	-	-	9,245	9,245
Other liabilities	-	-	-	-	44,610	44,610
TOTAL LIABILITIES (2)	20,521	1,564,051	910,000	977,915	442,819	3,915,306
NET POSITION (1)-(2)	641,059	(77,617)	1,567,035	2,197,781	(300,025)	4,028,233

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006

(all amounts are expressed in KM)

19. INTEREST RATE RISK AND LIQUIDITY RISK (CONTINUED)

31 December 2005	Upon receipt	Up to 6 months	6 – 12 months	Over 12 months	Maturity undefined	Total
Cash and cash equivalents	62,395	-	-	-	-	62,395
Deposits		130,000	-	-	-	130,000
Loans to customers, net	44,390	1,071,712	2,879,143	704,112		4,699,357
Other assets	-	-	-	-	3,669	3,669
Property, plant and equipment	-	-	-	-	92,955	92,955
TOTAL ASSETS (1)	106,785	1,201,712	2,879,143	704,112	96,624	4,988,376
Bank loans	7,185	1,209,434	51,129	-	-	1,267,748
Other liabilities	-	-	-	-	18,361	18,361
TOTAL LIABILITIES (2)	7,185	1,209,434	51,129	-	18,361	1,286,109
NET POSITION (1)-(2)	99,600	(7,722)	2,828,014	704,112	78,263	3,702,267

20. AVERAGE INTEREST RATES AT 31 DECEMBER 2006

The average annual interest rates for December 2006 calculated as a weighted average for each asset and liability category can be presented as follows:

Assets	2006
Cash, cash equivalents and deposits	0.56%
Deposits	1.09%
Loans to clients, net	32.71%
Total assets	7,943,539
Total interest earning assets	7,580,747
Liabilities	
Borrowings	7.88%
Total liabilities	3,915,306
Total interest earning assets	3,861,451

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006

(all amounts are expressed in KM)

21. FOREIGN CURRENCY RISK

The Organisation takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below provides an analysis of the Organisation's main currency exposures. The Organisation seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

31 December 2006	KM	EUR	USD	Provisions	Total
Cash and cash equivalents	588,517	-	-	-	588,517
Deposits at the banks	270,000	-	-	-	270,000
Loans to clients, net	7,064,721	-	-	(122,493)	6,942,228
Other assets	6,405	-	-	-	6,405
Property, plant and equipment	136,389	-	-	-	136,389
TOTAL ASSETS (1)	8,066,032	-	-	(122,493)	7,943,539
Borrowings	2,494,572	977,915	-	-	3,472,487
Subsidized loans	-	-	388,964	-	388,964
Deferred income	9,245	-	-	-	9,245
Other liabilities	44,610	-	-	-	44,610
TOTAL LIABILITIES (2)	2,548,427	977,915	388,964	-	3,915,306
NET POSITION (1)-(2)	5,517,605	(977,915)	(388,964)	(122,493)	4,028,233
31 December 2005 restated	KM	EUR	USD	Provisions	Total
Cash and cash equivalents	61,630	-	765	-	62,395
Deposits at the banks	130,000	-	-	-	130,000
Loans to clients, net	4,755,350	-	-	(55,993)	4,699,357
Other assets	3,669	-	-	-	3,669
Property, plant and equipment	92,955	-	-	-	92,955
TOTAL ASSETS (1)	5,043,604	-	765	(55,993)	4,988,376
Borrowings	1,172,075	-	95,673	-	1,267,748
Other liabilities	18,361	-	-	-	18,361
TOTAL LIABILITIES (2)	1,190,436	-	95,673	-	1,286,109
NET POSITION (1)-(2)	3,853,168	-	(94,908)	(55,993)	3,702,267

Mikrokreditna organizacija Žene za Žene International Sarajevo
Notes to the financial statements
for the year ended 31 December 2006

(all amounts are expressed in KM)

22. CREDIT RISK

The Organisation takes on exposure to credit risk which is the risk upon credit approval and when counterparty will be unable to pay amounts in full when due. The Organisation structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

23. APPROVAL OF THE FINANCIAL STATEMENTS

These separate financial statements were approved by the Management Board on 21 March 2007.

Signed on behalf of the Management Board:

Director
Seida Sarić

Finance Manager
Sadžida Sarajlić