

**MIKROKREDITNA ORGANIZACIJA
MI-BOSPO TUZLA**

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

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Responsibility for the financial statements

Management is responsible for ensuring that the financial statements of Mikrokreditna organizacija MI-BOSPO Tuzla 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 Organisation 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 Organisation. Management must also ensure that the financial statements comply with the Accounting Law of Bosnia and Herzegovina. Management is also responsible for safeguarding the assets of the Organisation and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of Management


Nejira Nalić, Director

Mikrokreditna organizacija MI-BOSPO, Tuzla

Bosne srebrene bb

75 000 Tuzla

Bosnia and Herzegovina

15 February 2007

Independent Auditors' report

To the Board of Directors of Mikrokreditna organizacija MI-BOSPO Tuzla:

We have audited the accompanying financial statements of Mikrokreditna organizacija Mi-Bospo Tuzla (the "Organisation"), set out on pages 4 to 28, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in net assets and cash flow statement 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. 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 Organisation'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 Organisation'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 Organisation as of 31 December 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The logo for Deloitte, featuring the word "Deloitte" in a stylized, cursive script.

Deloitte d.o.o.

Sarajevo, 15 February 2007

Mikrokreditna organizacija MI-BOSPO Tuzla
Income statement
for the year ended 31 December 2006
(all amounts are expressed in KM)

	Note	2006	2005
Interest income	4	8,908,036	5,779,100
Interest expense	5	<u>(1,730,192)</u>	<u>(965,041)</u>
Net interest income		<u>7,177,844</u>	<u>4,814,059</u>
Operating expenses	6	(4,346,887)	(2,869,724)
Other operating income	7	99,017	97,774
Other operating expenses	8	(442)	(2,800)
Foreign exchange (losses) gains, net		<u>(3,351)</u>	<u>837</u>
Net operating expenses		<u>(4,251,663)</u>	<u>(2,773,913)</u>
NET INCOME BEFORE PROVISIONS FOR LOAN IMPAIRMENT		<u>2,926,181</u>	<u>2,040,146</u>
Provisions for loan impairment	9	<u>(362,612)</u>	<u>(282,229)</u>
NET OPERATING INCOME		<u>2,563,569</u>	<u>1,757,917</u>
Income from donations		<u>-</u>	<u>479,036</u>
EXCESS OF INCOME OVER EXPENDITURES (NET RESULT)		<u>2,563,569</u>	<u>2,236,953</u>

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

Mikrokreditna organizacija MI-BOSPO Tuzla
 Balance sheet
 as of 31 December 2006
 (all amounts are expressed in KM)

	Note	2006	2005
ASSETS			
Cash and cash equivalents	10	535,746	364,951
Bank deposits	11	1,159,795	1,157,759
Loans to clients, net	12	36,197,453	25,720,817
Other assets	13	132,948	75,491
Property, plant and equipment	14	<u>1,830,818</u>	<u>1,328,543</u>
Total assets		<u>39,856,760</u>	<u>28,647,561</u>
LIABILITIES			
Borrowings.	15	28,245,991	19,882,993
Other liabilities	16	<u>590,235</u>	<u>307,603</u>
Total liabilities		<u>28,836,226</u>	<u>20,190,596</u>
NET ASSETS			
Supplementary funds	17	2,685,355	2,685,355
Excess of income over expenditures		<u>8,335,179</u>	<u>5,771,610</u>
Total net assets		<u>11,020,534</u>	<u>8,456,965</u>
TOTAL LIABILITIES AND NET ASSETS		<u>39,856,760</u>	<u>28,647,561</u>

Signed on behalf of Management of Mikrokreditna organizacija MI-BOSPO Tuzla on 15 February 2007:


 Nejlira Nalic

Director

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

Mikrokreditna organizacija MI–BOSPO Tuzla
Statement of cash flows
for the year ended 31 December 2006
(all amounts are expressed in KM)

	2006	2005
Operating Activities		
Net result	2,563,569	2,236,953
<i>Adjustments to reconcile net result with funds from operations:</i>		
Depreciation	205,299	120,691
Net increase in provisions for possible loan impairment	155,072	132,211
Loss on disposal of property and equipment	442	2,666
Conversion of subordinated debt to donation	-	(479,036)
Net loss / (gain) in exchange rates	3,351	(837)
<i>Operating cash flows before movements in working capital</i>	<u>2,927,733</u>	<u>2,012,648</u>
Net increase in loans to clients	(10,523,888)	(12,184,074)
Net increase in interest receivable for loans to clients	(107,820)	(141,373)
Net increase in other assets	(57,457)	(38,168)
Net increase in other liabilities	<u>282,632</u>	<u>107,564</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(7,478,800)</u>	<u>(10,243,403)</u>
Investing Activities		
Purchase of property and equipment	(708,016)	(749,026)
Net increase in bank deposits	<u>(18,105)</u>	<u>(27,679)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(726,121)</u>	<u>(776,705)</u>
Financing Activities		
Net increase in borrowings	<u>8,375,716</u>	<u>10,329,143</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>8,375,716</u>	<u>10,329,143</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>170,795</u>	<u>(690,965)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>364,951</u>	<u>1,055,916</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>535,746</u>	<u>364,951</u>

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

Mikrokreditna organizacija MI-BOSPO Tuzla
Statement of changes in net assets
for the year ended 31 December 2006
(all amounts are expressed in KM)

	<u>Supplementary funds</u>	<u>Excess of income over expenditure</u>	<u>Total</u>
Balance at 31 December 2004	2,206,319	4,013,693	6,220,012
Donations	479,036	-	479,036
Net operating income	-	1,757,917	1,757,917
Balance at 31 December 2005	2,685,355	5,771,610	8,456,965
Net operating income	-	2,563,569	2,563,569
Balance at 31 December 2006	2,685,355	8,335,179	11,020,534

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

Mikrokreditna organizacija MI–BOSPO Tuzla
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

1. GENERAL

Mikrokreditna organizacija MI – BOSPO Tuzla (the 'Organisation') started its operations in March 1995 as a Humanitarian organisation Bosanski savjet za pomoć BOSPO Tuzla. On the basis of a decision from the Federal Ministry for social policy, displaced persons and refugees No. 05-4-35-M1-1850/00 dated 18 December 2000, all rights, assets and liabilities of the Humanitarian organisation BOSPO were transferred to the newly registered Microcredit organisation MI-BOSPO Tuzla.

The executive office of the Organisation is in Tuzla, Bosne srebrene bb. The principal activity is financing of income generating and profitable economic activities of women entrepreneurs. The Organisation offers five types of loans: manufacturing, sales, agriculture, services and secondary loans, which are issued through individual and solidarity group methodology.

In September 2006, new Law on microcredit organisations was introduced (Official Gazette of Federation of Bosnia and Herzegovina 59/06). According to this law, microcredit organisations can transform into a profit organisation, either a joint stock company or a limited liability company. Within 12 months from introduction of this law all microcredit organisations have to make decisions on change of their legal status and organisation of microcredit foundation, prepare a statute, name bodies, obtain prescribed licences and submit application for registration with the authorized register in accordance with provisions of this law.

Bodies of the Organisation

Board of Directors:

Tahira Salihović	Chairperson
Sanja Hajdukov	Member
Admir Džumhur	Member
Kadrija Hodžić	Member
Mersija Jašarević	Member
Rajka Topčić	Member since February 2006
Edina Zvizdić	Member, representative of Raiffeisen bank d.d. BIH

Management:

Nejira Nalić	Director
Elmedina Bećirović	Financial Manager
Senad Krekić	Credit Manager
Alma Bijedić	Marketing Manager
Edin Bakalović	IT Manager

Mikrokreditna organizacija MI–BOSPO Tuzla
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

1. GENERAL (CONTINUED)

The Organisation operates through 24 Executive offices:

Tuzla	Bosne srebrene bb
Srebrenik	21. srebreničke brigade bb
Gradačac	Husein kapetana Gradaševića bb
Kalesija	Kalesijskih brigada bb
Srebrenica	Hrid 3
Zvornik	Svetog Save 5a
Lukavac	Trg Bremena bb
Gračanica	Gradski pasaž 4
Zavidovići	M. Tita bb
Živinice	II krajiške brigade do br. 85
Bijeljina	Srpske dobrovoljačke garde bb
Brčko	Miroslava Krležje 13
Prnjavor	Veljka Milankovića 3
Odžak	Titova bb
Banovići	Orb 2
Maglaj	Viteška 7
Žepče	Omladinska 1
Kladanj	Avdage Hasića 71
Čelić	Alije Izetbegovića bb
Doboј	Nikole Pašića 16-18/3
Derventa	Marije Bursać bb
Teslić	Karađorđeva bb
Ugljevik	Ćirila i Metodija bb
Vlasenica	Tržni centar bb

1.1 PERFORMANCE INDICATORS

Efficiency Ratios	2006	2005
Active clients / Number of staff	175	250
Active clients / Number of loan officers	277	407
Gross outstanding portfolio / Number of loan officers	517,859	734,880
Percentage total operating expenses / Average net portfolio	14.22%	14.64%
Financial Ratios	2006	2005
	%	%
Return on assets: Net operating income / Average total assets	7.48	7.80
Return on equity: Net operating income / Average total equity	26.32	23.95
Yield on portfolio: Interest income / Average net portfolio outstanding	29.11	29.45

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 Interpretation was in issue but not yet effective but relevant for the Organisation:

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

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

- IFRS 8 Operating Segments - Effective for annual periods beginning on or after 1 January 2009;
- 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
- IFRIC 12 Service Concession Arrangements - Effective for annual periods beginning on or after 1 January 2008

Organisation's Management 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant 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).

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires Management to make estimates and assumptions that affect the reported amounts of 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 information available as of the date of the financial statements and actual results could differ from those estimates.

Estimates are used for, but not limited to: depreciable lives and residual values of property and equipment and allowances for loan impairment. Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgment and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Organisation's operating environment changes. Actual results may differ from those estimates.

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.

Fee expense

Loan origination fees, after approval and draw down of loans, are deferred and recognised as an adjustment to the effective yield of the loan over its life.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Organisation has assets and liabilities originated in KM, which are linked to foreign currency with one-way currency clause. Due to this clause the Organisation has an option to revalue the asset by higher of: foreign exchange rate valid as of the date of maturity, or foreign exchange rate valid as of the date of origination of the financial instrument. In case of liability linked to this clause the counterparty has this option. Due to the specific conditions in Bosnia and Herzegovina (KM is officially pegged to Euro) the fair value of this option can not be calculated as the forward rates for KM are not available. As such the Organisation values its assets and liabilities related to this clause or by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet or by applying contracted currency rate of option, i.e. original rate if it's higher.

Employee benefits

On behalf of its employees, the Organisation 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 Organisation is paying the above contributions into the Pension and Health Fund of Federation of Bosnia and Herzegovina and Republic of Srpska and Brčko District, as per the set legal rates during the course of the year on the gross salary paid. In addition, meal allowances, transport 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

The Organisation makes retirement severance payments in the amount of three average salaries disbursed in the Organisation or disbursed to the employee in preceding three months, depending on what is more favourable to employee.

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The liability for retirement benefits is unfunded.

Mikrokreditna organizacija MI–BOSPO Tuzla
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

The Organisation is not subject to income tax because it is defined as a non-profit organisation in accordance with the Law on Microcredit Organisations (“Official Gazette of the Federation of Bosnia and Herzegovina” 24/00), if Organisation does not transform into one of the profitable forms in accordance with the new Law.

Property and equipment

Property 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:

Buildings	1.30%
Furniture and equipment	11% - 20%
Motor vehicles	16%
Computers	25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and the Organisation’s accounts with banks.

Impairment

At each balance sheet date, the Organisation reviews the carrying amounts of its property and equipment 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 (or cash generating unit) is reduced to its recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities

Financial assets held by the Organisation are categorised into portfolios in accordance with the Organisation's intent on the acquisition and pursuant to the Organisation'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 Organisation 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 Organisation 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

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.

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 Organisation 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.

Donations

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

Net assets

The Organisation's net assets represent surplus of total assets over total liabilities. Surplus arises from excess of income over expenditures and donations. Income over expenditures has to be used for the micro credit operations. If the Organisation ceased to exist upon settlement of all liabilities, the Board of Directors and Organisation's Director are obliged to allocate remaining assets in compliance with Law and Organisation's Statute.

Reclassification

Certain amounts in the previous year financial statements have been reclassified to conform to the current year presentation.

Mikrokreditna organizacija MI-BOSPO Tuzla
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

4. INTEREST INCOME

	<u>2006</u>	<u>2005</u>
Interest income on loans to clients	8,886,477	5,756,790
Interest income on deposits	<u>21,559</u>	<u>22,310</u>
	<u>8,908,036</u>	<u>5,779,100</u>

5. INTEREST EXPENSE

	<u>2006</u>	<u>2005</u>
Interest expenses from borrowings	1,440,175	615,536
Interest for assets from Odraz (LIP)	<u>290,017</u>	<u>349,505</u>
	<u>1,730,192</u>	<u>965,041</u>

6. OPERATING EXPENSES

	<u>2006</u>	<u>2005</u>
Personnel expenses	2,428,031	1,691,888
Other employee expenses	441,789	260,683
Professional services	336,184	207,839
Bank fees	210,484	121,318
Depreciation	205,299	120,691
Telephone and postal	138,927	103,415
Rental fees	100,924	70,988
Utilities expenses	50,130	30,992
Fuel	88,910	54,716
Office supplies	73,600	52,139
Board of Directors' fees	46,021	22,816
Membership fees	7,112	7,039
Other	<u>219,476</u>	<u>125,200</u>
	<u>4,346,887</u>	<u>2,869,724</u>

At 31 December 2006 the Organisation had 111 employees (2005, 57 employees).

Mikrokreditna organizacija MI-BOSPO Tuzla
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

7. OTHER OPERATING INCOME

	<u>2006</u>	<u>2005</u>
Collected written off loan receivables	37,618	37,021
Income from sale of property and equipment	1,310	-
Other income	60,089	60,753
	<u>99,017</u>	<u>97,774</u>

8. OTHER OPERATING EXPENSE

	<u>2006</u>	<u>2005</u>
Loss upon disposal of property and equipment	442	2,666
Other expenses	-	134
	<u>442</u>	<u>2,800</u>

9. PROVISIONS FOR LOAN IMPAIRMENT

	<u>2006</u>	<u>2005</u>
Provision for loan impairment	361,534	280,815
Provision for interest receivables impairment	1,078	1,414
	<u>362,612</u>	<u>282,229</u>

10. CASH AND CASH EQUIVALENTS

	<u>2006</u>	<u>2005</u>
Current accounts with banks	535,661	364,495
Cash on hand	85	456
	<u>535,746</u>	<u>364,951</u>

Mikrokreditna organizacija MI-BOSPO Tuzla
Notes to the financial statements
for the year ended 31 December 2006
(all amounts are expressed in KM)

11. BANK DEPOSITS

	Maturity	Interest rate %	2006	2005
Raiffeisen bank d.d. BiH, Sarajevo	June 2009	1.75%	847,005	847,005
Raiffeisen bank d.d. BiH, Sarajevo	June 2009	1.75%	209,274	207,238
HVB - Central Profit Banka d.d., Sarajevo	June 2007	-	79,137	79,137
Women's World Banking (WWB)	September 2007	-	24,379	24,379
Total			1,159,795	1,157,759

Deposits with Raiffeisen bank d.d. BiH, Sarajevo and HVB - Central Profit Banka d.d., Sarajevo serve as collateral for the loans obtained from the mentioned banks. Deposit with the WWB serves as a guarantee for the Letter of Credit with the HVB - Central Profit Banka d.d., Sarajevo.

12. LOANS TO CLIENTS, NET

Monthly interest rates for the loans placed during 2006 range between 1.5% and 2.75%.

Average loan maturity is 13 months (2005, 14 months).

	2006	2005
Sector analysis		
Sales	10,461,860	8,319,083
Manufacturing	9,405,824	3,826,333
Services	8,228,847	5,731,629
Agriculture	8,090,302	7,849,200
Secondary loans	63,300	-
<i>Total loans before allowance for possible impairment</i>	<i>36,250,133</i>	<i>25,726,245</i>
Less: Allowance for possible loan impairment	(468,976)	(314,982)
Net loans	35,781,157	25,411,263
Interest receivable for loans to clients	420,501	312,681
Less: Allowance for interest receivables losses	(4,205)	(3,127)
Net interest receivables	416,296	309,554
	36,197,453	25,720,817

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12. LOANS TO CLIENTS, NET (Continued)

	<u>2006</u>	<u>2005</u>
Geographic analysis		
Tuzla	4,438,069	3,555,308
Lukavac	4,140,601	3,976,816
Bijeljina	3,590,944	2,316,492
Gradačac	3,542,378	2,495,691
Kalesija	3,031,536	2,810,035
Srebrenik	3,001,759	2,136,268
Živinice	2,813,658	3,036,754
Brčko	2,286,485	1,339,933
Zavidovići	2,196,749	1,640,065
Zvornik	1,955,813	946,801
Gračanica	1,409,280	437,817
Banovići	1,069,601	-
Srebrenica	978,474	435,795
Prnjavor	919,441	598,470
Odžak	743,822	-
Vlasenica	38,600	-
Doboj	30,700	-
Kladanj	16,700	-
Celić	13,000	-
Teslić	11,723	-
Derвента	9,500	-
Maglaj	5,700	-
Ugljevik	5,600	-
<i>Total loans before allowance for possible impairment</i>	36,250,133	25,726,245
Less: Allowance for possible loan impairment	<i>(468,976)</i>	<i>(314,982)</i>
Net loans	35,781,157	25,411,263
Interest receivable for loans to clients	420,501	312,681
Less: Allowance for interest receivables losses	<i>(4,205)</i>	<i>(3,127)</i>
Net interest receivables	416,296	309,554
	36,197,453	25,720,817

Loans in arrears may be analysed as follows:

	<u>2006</u>	<u>2005</u>
- 1 to 30 days overdue	190,498	117,309
- 31 to 60 days overdue	58,988	31,147
- 61 to 90 days overdue	38,254	19,191
- over 90 days overdue	5,307	1,913
	293,047	169,560

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12. LOANS TO CLIENTS, NET (Continued)

Movements in allowance for possible loan impairment are as follows:

	<u>2006</u>	<u>2005</u>
Balance at 1 January	318,109	185,898
Additional provisions	362,612	282,229
Release of allowance due to write-offs	<u>(207,540)</u>	<u>(150,018)</u>
Balance at 31 December	<u>473,181</u>	<u>318,109</u>

13. OTHER ASSETS

	<u>2006</u>	<u>2005</u>
Prepaid expenses	125,639	75,101
Receivables for advance payments	4,800	-
Other receivables	<u>2,509</u>	<u>390</u>
	<u>132,948</u>	<u>75,491</u>

14. PROPERTY AND EQUIPMENT

	Buildings	Furniture and Equipment	Vehicles	Computers	Investment in progress	Total
<u>Cost</u>						
31 December 2005	528,166	144,125	745,119	218,816	-	1,636,226
- Additions	-	76,160	258,798	62,145	310,913	708,016
- Disposals	-	(220)	(10,356)	(6,692)	-	(17,268)
31 December 2006	<u>528,166</u>	<u>220,065</u>	<u>993,561</u>	<u>274,269</u>	<u>310,913</u>	<u>2,326,974</u>
<u>Accumulated depreciation</u>						
31 December 2005	3,450	39,726	173,373	91,134	-	307,683
- Depreciation for the year	6,810	21,972	120,556	55,961	-	205,299
- Disposals	-	(154)	(10,128)	(6,544)	-	(16,826)
31 December 2006	<u>10,260</u>	<u>61,544</u>	<u>283,801</u>	<u>140,551</u>	<u>-</u>	<u>496,156</u>
<u>Net book value</u>						
31 December 2006	<u>517,906</u>	<u>158,521</u>	<u>709,760</u>	<u>133,718</u>	<u>310,913</u>	<u>1,830,818</u>
31 December 2005	<u>524,716</u>	<u>104,399</u>	<u>571,746</u>	<u>127,682</u>	<u>-</u>	<u>1,328,543</u>

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15. BORROWINGS

	<u>Maturity</u>	<u>Interest rate %</u>	<u>2006</u>	<u>2005</u>
Short-term loans				
Symbiotic - RGM	19 July 2007	8.30	977,915	-
HVB Central Profit Banka d.d., Sarajevo	15 Oct 2006	Euribor + 5.00	-	1,450,000
GMF	May 2006	9.50	-	1,369,081
Raiffeisen bank d.d. BiH, Sarajevo	1 July 2006	7.45	-	1,000,000
MicroVest I, LP, USA	November 2006	9.00	-	782,332
Deutsche Bank Microcredit Development Fund, Inc., Delaware, USA	26 July 2006	2.00	-	207,238
HVB - Central Profit Banka d.d., Sarajevo	15 June 2006	7.00	-	30,000
Total short-term loans			977,915	4,838,651
Long-term loan				
Foundation for Sustainable Development of Federation of BiH (ODRAZ)	March 2017	5.00	7,220,406	7,220,406
DWM Securitization	28 June 2011	7.75	2,933,745	-
Hivos - Triodos Funds, Netherlands	1 Feb 2008	8.75	2,738,162	2,346,996
GMF I	28 Oct 2008	8.50	1,955,830	1,955,830
GMF II	3 May 2009	8.25	1,955,830	-
IFC	15 June 2009	8.55	1,955,830	-
MicroVest I, LP, USA	30 June 2009	8.00	1,955,830	-
Oikocredit I	6 June 2007	8.80	1,173,498	1,173,498
Oikocredit II	20 April 2011	8.00	1,955,830	-
Raiffeisen Bank d.d. BiH, Sarajevo	21 June 2007	6M Euribor + 5.45	172,727	518,181
Raiffeisen Bank d.d. BiH, Sarajevo	3 July 2008	7.25	800,000	-
Raiffeisen Bank d.d. BiH, Sarajevo	15 June 2009	6M Euribor + 4.95	1,333,333	-
Raiffeisen Bank d.d. BiH, Sarajevo	5 Sept 2008	Euribor + 5.45	466,667	700,000
Raiffeisen Bank d.d. BiH, Sarajevo	15 April 2009	6M Euribor + 5.25	416,667	-
Tuzlanska Banka d.d., Tuzla	6 June 2007	9.50	-	750,000
European Fund for Southeast Europe (EFSE) (previously KFW-Kreditanstalt fur Wiederaufbau)	30 Sept 2007	Euribor	87,034	174,069
European Fund for Southeast Europe (EFSE) (previously KFW-Kreditanstalt fur Wiederaufbau)	31 March 2009	Euribor	146,687	205,362
Total long-term loans			27,268,076	15,044,342
			28,245,991	19,882,993

Oicocredit in amount of KM 1,173,498 (2005 – KM 1,173,498), loans at Raiffeisen Bank d.d. BiH Sarajevo in amount of KM 172,727 (2005 – KM 518,181) and KFW in amount of KM 87,034 (2005 – KM 174.069) mature in 2007.

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16. OTHER LIABILITIES

	<u>2006</u>	<u>2005</u>
Liabilities toward employees	333,811	139,920
Accrued interest liabilities	193,982	113,874
Other liabilities	62,442	53,809
	<u>590,235</u>	<u>307,603</u>

17. SUPPLEMENTARY FUNDS

	<u>2006</u>	<u>2005</u>
WWB	1,034,213	1,034,213
Foundation for Sustainable Development of the Federation of BiH (ODRAZ) - Local Initiative Project (LIP)	947,361	947,361
UNHCR	479,036	479,036
CWS	145,600	145,600
UMCOR	79,145	79,145
	<u>2,685,355</u>	<u>2,685,355</u>

MI BOSPO is registered as a non-profit organisation whose supplementary funds result from cash collections within net assets and in relation to contracts with above-mentioned agencies.

18. RELATED-PARTY TRANSACTIONS

The remuneration of management and the Board of Directors was as follows:

	<u>2006</u>	<u>2005</u>
Gross salaries	300,310	235,451
Board of Directors' remuneration	46,021	22,817
Other benefits	16,369	16,207
Benefits in kind	9,518	8,246
	<u>372,218</u>	<u>282,721</u>

19. COMMITMENTS

Rental commitments

The Organisation has entered into certain commitments for the rent of business premises. In 2007 these commitments will result in liabilities amounting to KM 138,443.

Capital commitments

The Organisation has entered into capital commitments in 2007 in the amount of KM 78,000 relating to the construction of business premises.

20. 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 at 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 the central bank are generally deemed to approximate their fair value.

(b) Loans and advances to customers

The fair value of variable yield loans that are re-priced regularly, 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 31 December 2005.

21. 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.

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21. INTEREST RISK AND LIQUIDITY RISK (Continued)

31 December 2006	On demand	Up to 6 months	6-12 months	Over 12 months	Maturity undefined	Total
Cash and cash equivalents	535,746	-	-	-	-	535,746
Bank deposits	-	-	103,516	1,056,279	-	1,159,795
Loans to clients, net	3,275,210	14,038,388	10,555,280	8,801,756	(473,181)	36,197,453
Other assets	2,119	24,689	106,140	-	-	132,948
Property and equipment	-	-	-	1,830,818	-	1,830,818
TOTAL ASSETS (1)	3,813,075	14,063,077	10,764,936	11,688,853	(473,181)	39,856,760
Borrowings	488,957	275,885	5,346,357	22,134,792	-	28,245,991
Other liabilities	244,852	320,632	-	24,751	-	590,235
TOTAL LIABILITIES (2)	733,809	596,517	5,346,357	22,159,543	-	28,836,226
NET POSITION (1)-(2)	3,079,266	13,461,761	5,418,579	(10,465,891)	(473,181)	11,020,534
31 December 2005	On demand	Up to 6 months	6-12 months	Over 12 months	Maturity undefined	Total
Cash and cash equivalents	364,951	-	-	-	-	364,951
Bank deposits	-	-	103,516	1,054,243	-	1,157,759
Loans to clients, net	2,451,506	10,088,947	7,477,482	6,020,991	(318,109)	25,720,817
Other assets	75,491	-	-	-	-	75,491
Property and equipment	-	-	-	1,328,543	-	1,328,543
TOTAL ASSETS (1)	2,891,948	10,088,947	7,580,998	8,403,777	(318,109)	28,647,561
Borrowings	-	2,218,471	3,844,484	13,820,038	-	19,882,993
Other liabilities	254,523	53,080	-	-	-	307,603
TOTAL LIABILITIES (2)	254,523	2,271,551	3,844,484	13,820,038	-	20,190,596
NET POSITION (1)-(2)	2,637,425	7,817,396	3,736,514	(5,416,261)	(318,109)	8,456,965

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22. AVERAGE INTEREST RATES

The average interest rates at 31 December 2006 and 2005 respectively, calculated as a weighted average for each asset and liability category can be presented as follows:

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	0.27%	0.27%
Bank deposits	1.75%	1.75%
Loans to clients, net	<u>27.92%</u>	<u>29.20%</u>
Total assets	<u>39,856,760</u>	<u>28,647,561</u>
Total interest earning assets	<u>37,373,182</u>	<u>26,933,973</u>
Liabilities		
Borrowings	<u>7.33%</u>	<u>7.00%</u>
Total liabilities	<u>28,836,226</u>	<u>20,190,596</u>
Total interest bearing liabilities	<u>28,245,991</u>	<u>19,882,993</u>

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24. 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	Allowance	Total
Cash and cash equivalents	531,561	4,185	-	-	535,746
Bank deposits		1,159,795	-	-	1,159,795
Loans to clients, net	36,670,634	-	-	(473,181)	36,197,453
Other assets	132,948	-	-	-	132,948
Property and equipment	1,830,818	-	-	-	1,830,818
TOTAL ASSETS (1)	39,165,961	1,163,980	-	(473,181)	39,856,760
Borrowings	3,189,394	25,056,597	-	-	28,245,991
Other liabilities	434,405	155,830	-	-	590,235
TOTAL LIABILITIES (2)	3,623,799	25,212,427	-	-	28,836,226
NET POSITION (1)-(2)	35,542,162	(24,048,447)	-	(473,181)	11,020,534
31 December 2005	KM	EUR	USD	Allowance	Total
Cash and cash equivalents	350,553	7,922	6,476	-	364,951
Bank deposits		950,521	207,238	-	1,157,759
Loans to clients, net	26,038,926	-	-	(318,109)	25,720,817
Other assets	75,491	-	-	-	75,491
Property and equipment	1,328,543	-	-	-	1,328,543
TOTAL ASSETS (1)	27,793,513	958,443	213,714	(318,109)	28,647,561
Borrowings	4,448,182	15,227,573	207,238	-	19,882,993
Other liabilities	241,529	58,879	7,195	-	307,603
TOTAL LIABILITIES (2)	4,689,711	15,286,452	214,433	-	20,190,596
NET POSITION (1)-(2)	23,103,802	(14,328,009)	(719)	(318,109)	8,456,965

24. 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.

25. APPROVAL OF THE FINANCIAL STATEMENTS

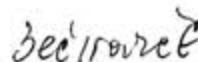
These financial statements were approved by the Management Board on 15 February 2007.

Signed on behalf of the Management Board:



Director

Nejira Nalić



Finance Manager

Elmedina Bećirović