

**Micro credit organization**  
**MI-BOSPO TUZLA**

Financial Statements for the Years  
Ended 31 December 2004 and 2003  
together with the Independent Auditor's Report

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## **Responsibility for the 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 Organization 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 Management include ensuring that:

- ✍ suitable accounting policies are selected and then applied consistently;
- ✍ judgements 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 organization 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 organization and must also ensure that the financial statements comply with the local Accounting Law of Federation BIH. Management is also responsible for safeguarding the assets of the Organization and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of Management

**Nejira Nalic**

Micro credit organization MI BOSPO, Tuzla

Mirze Delibašica 5

75000 Tuzla

Bosnia and Herzegovina

9 February 2005

## **Independent Auditor's Report**

**To the Board of Directors of  
Micro credit organization MI BOSPO Tuzla:**

We have audited the accompanying balance sheets of the Micro credit organization "MI-BOSPO" Tuzla, (referred hereafter as "the Organization") as of 31 December 2004 and 2003, and related statements of income, cash flows, and changes in net assets for the years ended as of 31 December 2004 and 2003. These financial statements are the responsibility of the Organization's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with International Standards on Auditing, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as of 31 December 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards and guidelines set forth by the Consultative Group to Assist the Poorest (CGAP).

**Deloitte d.o.o**

9 February 2005

Micro Credit Organization MI-BOSPO Tuzla  
Income Statements  
For the years ended 31 December 2004 and 2003  
(in KM)

	Note	2004	2003
Interest income		3,701,117	3,189,938
Interest expense	4	(457,671)	(401,876)
<b>Net interest income</b>		<b>3,243,446</b>	<b>2,788,062</b>
Operating expenses	5	(2,165,000)	(1,615,518)
Other income	6	80,257	27,698
Other expenses	7	(1,698)	(3,624)
<b>Net operating expenses</b>		<b>(2,086,441)</b>	<b>(1,591,444)</b>
<b>NET INCOME BEFORE PROVISIONS FOR LOAN IMPAIRMENT</b>		<b>1,157,005</b>	<b>1,196,618</b>
<b>PROVISIONS FOR LOAN IMPAIRMENT</b>	11	<b>(179,573)</b>	<b>(124,461)</b>
<b>NET OPERATING INCOME</b>		<b>977,432</b>	<b>1,072,157</b>
<b>FUNDS AND DONATIONS</b>	8	<b>157,850</b>	<b>-</b>
<b>EXCESS OF INCOME OVER EXPENDITURES</b>		<b>1,135,282</b>	<b>1,072,157</b>

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

Micro Credit Organization MI-BOSPO Tuzla  
 Balance Sheets  
 As of 31 December 2004 and 2003  
 (in KM)

	Notes	2004	2003
<b>Assets</b>			
Cash and cash equivalents	9	1,055,916	578,047
Bank deposits	10	1,101,716	1,042,650
Customers loans, net	11	13,527,581	11,023,545
Other assets	12	37,323	58,343
Property, plant and equipment	13	702,874	464,259
<b>TOTAL ASSETS</b>		<b>16,425,410</b>	<b>13,166,844</b>
<b>Liabilities</b>			
Borrowings	14	9,526,323	7,371,949
Subordinated debt	15	479,036	557,294
Other liabilities	16	200,039	152,871
<b>TOTAL LIABILITIES</b>		<b>10,205,398</b>	<b>8,082,114</b>
<b>Net Assets</b>			
Supplementary funds	17	2,206,319	2,048,469
Accumulated excess of income over expenditures		4,013,693	3,036,261
<b>TOTAL NET ASSETS</b>		<b>6,220,012</b>	<b>5,084,730</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>16,425,410</b>	<b>13,166,844</b>

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

The accompanying financial statements have been approved by the Management.

**Executive Director**

Nejira Nalic

**Finance Manager**

Elmedina Becirovic

Micro Credit Organization MI-BOSPO Tuzla  
 Statements of Cash FLOws  
 For the years ended 31 December 2004 and 2003  
 (in KM)

	<b>2004</b>	<b>2003</b>
<b>Operating activities</b>		
Net income	1,135,282	1,072,157
<i>Adjustment to reconcile excess of income over expenditures</i>		
Depreciation	70,188	56,667
Loss on disposal of property, plant and equipment	220	
Conversion of subordinated debt to donation	(79,145)	
Net increase in provisions for possible loan impairment	179,573	124,461
Net loss in exchange rates	1,434	3,624
Net (increase) in interest receivables	(22,718)	(26,028)
Net decrease / (increase) in other assets	21,020	(76,533)
Net increase in other liabilities	47,168	22,475
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>1,353,022</b>	<b>1,176,823</b>
<b>Investing activities</b>		
Net (increase) / decrease in deposits	(59,613)	58,089
Net (increase) in loans before provision for possible loan impairments	(2,660,891)	(2,885,647)
Purchases of property, plant and equipment	(309,023)	(318,905)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(3,029,527)</b>	<b>(3,146,463)</b>
<b>Financing activities</b>		
Net (decrease)/increase in subordinated debt	-	(15,242)
Net increase in commercial borrowings	2,154,374	2,126,723
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>2,154,374</b>	<b>2,111,481</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>477,869</b>	<b>141,841</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>578,047</b>	<b>436,206</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>1,055,916</b>	<b>578,047</b>

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

Micro Credit Organization MI-BOSPO Tuzla  
 Statements in Changes in Net Assets  
 For the years ended 31 December 2004 and 2003  
 (in KM)

	Supplementary Funds	Accumulated excess of income over expenditures	Total
<b>Balance as of 31 December 2002</b>	<b>592,238</b>	<b>3,420,590</b>	<b>4,012,828</b>
Allocation of net result for the year 2002	1,456,231	(1,456,231)	-
Other	-	(255)	(255)
Net result for the year	-	1,072,157	1,072,157
<b>Balance as of 31 December 2003</b>	<b>2,048,469</b>	<b>3,036,261</b>	<b>5,084,730</b>
Funds and donations	157,850	-	157,850
Net operating income	-	977,432	977,432
<b>Balance as of 31 December 2004.</b>	<b>2,206,319</b>	<b>4,013,693</b>	<b>6,220,012</b>

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

## 1. GENERAL INFORMATION

### Organization's Operations

MI-BOSPO started its operations in March 1995 as a humanitarian organization 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 organization BOSPO were transferred to the newly registered Micro credit organization MI-BOSPO Tuzla.

The Organization finances female population with low income in a solidarity group and individual loans for women with profitable businesses. The Organization offers four types of individual loans: manufacturing, sales, services and agriculture.

#### **Supervisory Board:**

Tahira Salihovic	President
Dr Kadrija Hodžic	Member
Sanja Hajdukov	Member
Admir Džumhur	Member
Mersija Jašarevic	Member
Esad Šahinagic	Member

#### **Management:**

Nejira Nalic	Executive Director
Elmedina Becirovic	Finance Manager
Senad Krekic	Loan manager
Alma Bijedic	Human Resources
Zamir Hadžiabdic	Chief Accountant
Edin Bakalovic	Information systems specialist (MIS)
Rifa Bajric	Branch Manager
Safet Husic	Branch Manager

Mevludin Hadžic	Internal auditor
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**1. GENERAL INFORMATION (CONTINUED)**

***Authorised Offices and Registered Addresses***

The Organization operates eleven branch offices, with the Head Office in Tuzla, Mirze Delibašica 5. Other offices are as follows:

- ? Bijeljina Srpske dobrovoljacke garde bb;
- ? Brcko, Bulevar mira 3;
- ? Gradacac, Husein kapetan Gradašcevic bb;
- ? Kalesija, Kalesijskih brigada bb;
- ? Lukavac, Trg Bremena bb;
- ? Prnjavor, Ul. Veljka Milankovi ca broj 3.
- ? Srebrenica, Hrid br.3;
- ? Srebrenik, Ul. 21. srebrenicke brigade bb;
- ? Zavidovici, Maršala Tita bb;
- ? Živinice, Ul. II Krajiška bb;
- ? Zvornik, Ul. Svetog Save broj 5/a;

**Performance Indicators**

<b><i>Efficiency Ratios</i></b>	<b>2004</b>	<b>2003</b>
<i>Clients per staff person:</i>		
Active clients / Number of staff	205	184
<i>Clients per loan officer:</i>		
Active clients / Number of loan officers	329	326
<i>Portfolio per loan officer:</i>		
Net outstanding portfolio / Number of loan officers	483,128	501,070
<i>Operating cost ratio:</i>		
Percentage total operating expenses / Average net portfolio	17.63%	17.12 %

<b><i>Financial Ratios</i></b>	<b>2004</b>	<b>2003</b>
<i>Return on assets:</i>		
Net operational result / Average total assets	6.60%	9.27%
<i>Return on net assets:</i>		
Net operational result / Average net assets	17.29%	23.57%
<i>Yield on portfolio:</i>		
Interest income and fees / Average net portfolio outstanding	30.13%	33.21%

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1. Basis for the Presentation of Financial Statements**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), on a historical cost basis except for the revaluation of certain financial instruments.

These financial statements are presented in the official currency of Bosnia and Herzegovina, the Konvertibilna Marka ("KM"), which is officially tied to the Euro (EUR 1 = 1.95583 KM).

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.

### **2.2. Foreign Currency**

Assets and liabilities denominated in foreign currencies are translated into KM at the balance sheet date using exchange rates quoted by the Central Bank of Bosnia and Herzegovina (CB BiH). Income and expenses in foreign currencies are converted at the rate of exchange on the date of the transaction. Resulting foreign exchange gains and losses are recorded in the income statement.

### **2.3. Interest Income and Expense**

Interest income and expense are recorded in the income statement in the period they are earned or incurred.

### **2.4. Subordinated debt**

Subordinated debt is a liability which is not considered as a first priority in terms of repayment and it is stated at amortised cost using the effective interest rate method. Interest expense arising from subordinated debt is included in the income statement.

### **2.5. Loans**

Loans included in the financial statements are stated in the principal amounts outstanding less provision for possible loan impairment.

Matured outstanding principal and interest claims are treated as doubtful, if collection is not in accordance with previously agreed terms. In these cases, accrued interest is not included in the balance sheet but presented as income once it has been collected.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.6. Provisioning for Possible Loan Impairment**

Loans to customers are stated net of provisions for possible loan impairment. A provision 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 provision 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. Provisions are assessed based on the expected cash flows, which are determined with reference to the repayment history, the credit standing and performance of the borrower, value of any collateral or third party guarantees. Changes in provision are charged to the income statement.

### **2.7. Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost of assets over values over their estimated useful lives, on the following bases:

Furniture and equipment	11% - 20%
Vehicles	16%
Computers	25%

Land and assets in the course of construction are not depreciated. The Organisation periodically tests its property, plant and equipment for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposal of assets are determined by reference to their carrying amount and are taken into account in determining operating income. Repairs and renewals are charged to the income statement when the expenditure is incurred.

### **2.8. Donations**

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

### **2.9. Income Tax**

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.

### **2.10. Reclassification**

Due to the comparison of data from the year 2004, certain reclassifications of positions in financial statements for the year 2003 were made.

### **3. RISK IN FINANCIAL INSTRUMENTS**

The Organization's business practice is to offer its clients different financial instruments. These financial instruments involve the risks outlined below.

#### **3.1. Credit Risk**

In conducting business activities, the Organization is exposed to the possibility that borrowers may default on their obligations. To minimize this risk the Organization evaluates each applicant's credit worthiness on a case-by-case basis. The amount of collateral (social or physical) obtained is based on Management's credit evaluation of the applicant. The Organization requires guarantors to secure all loans and strives to maintain a credit risk profile that is diverse in terms of sector, loan term, loan size, borrower concentration, and geographic location.

#### **3.2. Market Risk**

The Organization faces market risk from changes in interest rates and foreign currency exchange rates. The Organization monitors general and specific market movements and attempts to minimize risks compatible with its own foreign assets and resources and to maintain competitive interest rates.

The Organization can invest its assets in a currency different than the reporting currency. For this reason, the organization is exposed the risk of changes in foreign currency exchange rates what can affect the assets denominated in foreign currencies. The Organization is managing foreign exchange risk by including a foreign exchange clause in its contracts with Clients, defining that in case of changes in foreign exchange rates of Convertible Mark (KM) to Euro (EUR), the loan is supposed to be repaid in accordance with the new loan repayment schedule, recalculated in accordance with new exchange rate.

The Organization is exposed to effects of fluctuations in interest rates on its financial position and cash flows. Interest margins can increase or decrease as a result of these changes.

#### **3.5. Liquidity Risk**

Liquidity risk arises from the possibility that the Organization may be unable to satisfy current and future financial commitments. The Organization attempts to minimize liquidity risk by coordinating inflows from repaid loans and outflows of money into accounts payable (a minimal level of reinvestments of debts is determined by experience and can be foreseen with high level of certainty).

Micro Credit Organization MI-BOSPO Tuzla  
Notes to Financial Statements  
For the years ended 31 December 2004 and 2003  
(in KM)

**4. INTEREST EXPENSES**

	<b>2004</b>	<b>2003</b>
Interest for assets from LIP	258,032	221,258
Loan interest	199,639	180,618
	<b>457,671</b>	<b>401,876</b>

**5. OPERATING EXPENSES**

	<b>2004</b>	<b>2003</b>
Personnel expense	1,578,030	1,156,620
Depreciation	70,188	56,667
Professional services	98,908	73,421
Utilities expense	54,566	41,355
Rental fee	79,416	65,862
Telephone and postal	55,355	42,445
Office supplies	31,320	32,990
Bank fees	67,235	55,658
Member fees	5,510	5,994
Audit expense	22,786	22,786
Supervisory Board fees	28,836	23,281
Other	72,850	38,439
	<b>2,165,000</b>	<b>1,615,518</b>

Personnel expense can be detailed as follows:

	<b>2004</b>	<b>2003</b>
Net salaries	817,105	575,681
Taxes and contributions	565,459	397,644
Education	2,499	12,075
Temporary engagements	31,708	7,642
Business travel expense	15,712	6,974
Meal allowance	77,661	75,339
Other	67,886	81,265
	<b>1,578,030</b>	<b>1,156,620</b>

Average number of employees in 2004 is 45 (2003, 41).

Micro Credit Organization MI-BOSPO Tuzla  
Notes to Financial Statements  
For the years ended 31 December 2004 and 2003  
(in KM)

**6. OTHER INCOME**

	<u>2004</u>	<u>2003</u>
Collected written off loan receivables	24,070	7,040
Other	56,187	20,658
	<u><b>80,257</b></u>	<u><b>27,698</b></u>

**7. OTHER EXPENSES**

	<u>2004</u>	<u>2003</u>
Foreign exchange losses	1,434	3,624
Loss on disposal of property, plant and equipment	220	
Other	44	-
	<u><b>1,698</b></u>	<u><b>3,624</b></u>

**8. FUNDS AND DONATIONS**

	<u>2004</u>	<u>2003</u>
United Methodist Committee on Relief (UMCOR)	79,145	-
Women World Banking (WWB)	78,705	-
	<u><b>157,850</b></u>	<u><b>-</b></u>

On 19 July 2002, UMCOR (United Methodist Committee on Relief) has granted the Organization subordinated debt in the amount of USD 50,000 (KM 79,145). On 13 March 2004, UMCOR donated this amount to the Organization (Note 15 and 17).

WWB donated USD 500,000 in accordance with the Capitalization contract, of which a first installment in the amount of USD 250,000 (KM 575,625) was transferred on 9 July 2001 and a second installment in the amount of 200,000 USD (KM 379,883) was transferred on 19 December 2002. The remaining amount of USD 50,000 (KM 78,705) has been transferred on 1 March 2004 (Note 17).

**9. CASH AND CASH EQUIVALENTS**

	<u>2004</u>	<u>2003</u>
Cash on hand	140	747
Cash with banks	1,055,776	577,300
	<u><b>1,055,916</b></u>	<u><b>578,047</b></u>

Micro Credit Organization MI-BOSPO Tuzla  
Notes to Financial Statements  
For the years ended 31 December 2004 and 2003  
(in KM)

**10. BANK DEPOSITS**

	<u>2004</u>	<u>2003</u>
Raiffeisen Bank BiH d.d. Sarajevo	1,026,716	1,042,650
HVB-Central Profit Banka d.d. Sarajevo	75,000	-
	<u><b>1,101,716</b></u>	<u><b>1,042,650</b></u>

Deposits at Raiffeisen Bank BiH d.d. Sarajevo in the amount of KM 486,993 ,KM 360,011 and KM 179,712 are providede as a collateral for loans of the Organization. Deposits mature on 21 June 2007 and bear interest rate at 1.75% per annum (see Note 14).

Deposit at HVB-Central Profit Bank d.d. Sarajevo is provided as a collateral for the short-term loan of the Organization. The deposit matures on 27 April 2005 and bears no interest (see Note 14.).

**11. CUSTOMER LOANS, LESS PROVISION FOR POSSIBLE LOAN IMPAIRMENT**

**(a) Interest Rate Analysis**

Interest rates are calculated on an annual basis as follows:

<b>Product</b>	<b>Annual interest rate in %</b>
<i>Loans for solidarity groups</i>	
- I cycle	33
- II cycle	32
- III cycle and others	31 - 26
<i>Individual loans for sales, services and manufacturing</i>	
- to 3,000 KM (I cycle)	34
- to 3,000 KM (other cycles)	33 - 28
- from 3,001 to 5,000 KM (I cycle)	32
- from 5,501 to 30,000 KM (other cycles)	30 - 25
<i>Individual loans for agriculture</i>	
- from 500 to 3,000 KM	28
- from 3,500 to 20,000 KM	20-22

Micro Credit Organization MI-BOSPO Tuzla  
Notes to Financial Statements  
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(in KM)

**11. CUSTOMER LOANS, LESS PROVISION FOR POSSIBLE LOSS (CONTINUED)**

**(b) Sector Analysis**

Loan terms are defined according to the loan type. For solidarity groups loan terms are up to 15 months and for individual loans up to 24 months.

	<u>2004</u>	<u>2003</u>
Agriculture	1,546,004	3,089,252
Manufacturing	4,634,312	1,219,999
Sales	4,865,800	4,871,737
Service	2,496,055	1,842,410
<i>Total loans before provision for possible loan impairment</i>	<u>13,542,171</u>	<u>11,023,398</u>
<i>Interest receivables</i>	171,308	148,815
<i>Less: Provisions for possible loan impairment</i>	<u>(185,898)</u>	<u>(148,668)</u>
<b>Total</b>	<b><u>13,527,581</u></b>	<b><u>11,023,545</u></b>

**(c) Geographic Analysis**

	<u>2004</u>	<u>2003</u>
Bijeljina	1,114,058	208,686
Brcko	211,342	-
Gradacac	1,232,370	866,733
Kalesiji	2,147,125	2,094,247
Lukavac	1,586,658	1,175,636
Srebrenica	139,281	
Srebrenik	1,074,751	1,022,646
Tuzli	2,745,597	2,955,604
Zavidovici	1,117,939	785,444
Živinice	2,173,050	1,914,402
<i>Total loans before provision for possible loan impairment</i>	<u>13,542,171</u>	<u>11,023,398</u>
<i>Interest receivables</i>	171,308	148,815
<i>Less: Provisions for possible loan impairment</i>	<u>(185,898)</u>	<u>(148,668)</u>
<b>Total</b>	<b><u>13,527,581</u></b>	<b><u>11,023,545</u></b>

Micro Credit Organization MI-BOSPO Tuzla  
Notes to Financial Statements  
For the years ended 31 December 2004 and 2003  
(in KM)

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**11. CUSTOMER LOANS, LESS PROVISION FOR POSSIBLE LOSS (CONTINUED)**

**(d) Loans in Arrears**

Loans in arrears may be analyzed as follows:

	<u>2004</u>	<u>2003</u>
1 – 30 days overdue	58,763	55,306
31 – 60 days overdue	43,697	9,118
61 – 90 days overdue	14,959	7,429
Over 90 days overdue	-	6,516
	<u><b>117,419</b></u>	<u><b>78,369</b></u>

**(e) Provision**

Movements in provisions for possible loan impairment are as follows:

	<u>2004</u>	<u>2003</u>
Balance as of January 1	148,668	98,326
New provision	179,573	124,461
Write offs	(142,343)	(74,119)
<b>Balance as of December 31</b>	<u><b>185,898</b></u>	<u><b>148,668</b></u>

**12. OTHER ASSETS**

	<u>2004</u>	<u>2003</u>
Receivables from advance payments	37,188	57,923
Receivables from employees	-	285
Other	135	135
	<u><b>37,323</b></u>	<u><b>58,343</b></u>

Micro Credit Organization MI-BOSPO Tuzla  
Notes to Financial Statements  
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**13. PROPERTY, PLANT AND EQUIPMENT**

	<b>Furniture and equipment</b>	<b>Vehicles</b>	<b>Computers</b>	<b>Investment in progress</b>	<b>Total</b>
<i>Purchase cost</i>					
<b>31 December 2003</b>	<b>56,397</b>	<b>200,121</b>	<b>91,288</b>	<b>251,072</b>	<b>598,878</b>
Additions	22,564	84,097	23,038	179,324	309,023
Disposals	-	-	(13,717)	-	(13,717)
<b>31 December 2004</b>	<b>78,961</b>	<b>284,218</b>	<b>100,609</b>	<b>430,396</b>	<b>894,184</b>
<i>Depreciation</i>					
<b>31 December 2003</b>	<b>15,587</b>	<b>70,428</b>	<b>48,604</b>	-	<b>134,619</b>
Depreciation for the year	9,277	38,948	21,963	-	70,188
Disposal	-	-	(13,497)	-	(13,497)
<b>31 December 2004</b>	<b>24,864</b>	<b>109,376</b>	<b>57,070</b>	-	<b>191,310</b>
<i>Net book value</i>					
<b>31 December 2004</b>	<b>54,097</b>	<b>174,842</b>	<b>43,539</b>	<b>430,396</b>	<b>702,874</b>
<b>31 December 2003</b>	<b>40,810</b>	<b>129,693</b>	<b>42,684</b>	<b>251,072</b>	<b>464,259</b>

**14. BORROWINGS**

<i>Short-term loans:</i>	Interest % per annum	<b>2004</b>	<b>2003</b>
Hivos - Triodos Funds, Netherlands	9	782,332	391,166
MicroVest I, LP, USA	9.9	733,436	-
Raiffeisen bank BiH d.d. Sarajevo	8.25	295,000	1,907,000
Central Profit Bank d.d. Sarajevo	7	150,000	-
		<b>1,960,768</b>	<b>2,298,166</b>
<i>Long-term loans:</i>			
Foundation for Sustainable Development of Federation of BiH (ODRAZ)	5	5,997,263	4,530,390
Raiffeisen Bank BiH d.d. Sarajevo	EURIBOR+5.8	863,636	-
KFW-Kreditanstalt fur Wiederaufbau	EURIBOR	524,944	347,747
Deutsche Bank Microcredit Development Fund, Inc., Delaware, USA	2	179,712	195,646
		<b>7,565,555</b>	<b>5,073,783</b>
<b>Total</b>		<b>9,526,323</b>	<b>7,371,949</b>

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On 4 November 2004, Hivos-Triadods Funds, Netherlands granted the Organization a loan in the amount of KM 782,332 (EUR 400,000). The loan has been granted for the period of one year.

**14. BORROWINGS (CONTINUED)**

On 15 December 2004, MicroVest I, LP USA granted the Organization a loan in the amount of KM 733,436 (EUR 375,000). The loan has been granted for the period of one year. The loan is secured by a promissory note.

In accordance with Contract signed on 03 July 2004 signed with Raiffeisen bank BiH d.d. Sarajevo, the Organization has been granted with a one year revolving loan up to KM 2 million. The loan is secured by deposits (see Note 10), bills of exchange and an assignment of receivables from micro credit loans granted using these funds.

On 20 April 2004, HVB - Central Profit Bank d.d. Sarajevo granted the Organization a revolving loan in the amount of KM 150,000. The loan was granted for the period of one year. The loan is secured by deposits and bills of exchange(see Note 10).

On 10 October 2002, the Organization signed a Consolidated loan contract with the Foundation for Sustainable Development of Federation of BiH (ODRAZ) in the amount of KM 4,530,390 (EUR 2,316,352). The contract expires on 17 March 2017. The loan was granted with a five-year grace period for the principal repayment. The Organization shall repay the loan in equal semi-annual instalments starting from March 2007 to September 2017. Under the contract, the loan will be used to refinance the loan portfolio of targeted clients. The loan is secured by bills of exchange and an assignment of receivables from micro credit loans granted using these funds. On 2 December 2004 the Organization signed Appendices to the Consolidated loan contract, whereby the amount of the loan was increased to KM 5,997,263 (EUR 3,066,352).

On 25 July 2002, the Organization was granted with a loan from KfW in the amount of KM 391,166 (200,000 EUR). Under the contract, the loan will be used to finance the loan portfolio. The loan is to be repaid in equal semi-annual installments starting from 30 September 2003 to 30 September 2007. On 26 January 2005 the Organization was granted a second loan from KfW in the amount of KM 293,375 (EUR 150,000). The loan is to be repaid in 10 equal semi-annual installments starting from 30 September 2004 to do 31 March 2009. godine. The loans are secured by an assignment of receivables from micro credit loans granted using these funds.

On 21 June 2004, Raiffeisen bank BiH d.d. Sarajevo granted the Organization a loan in the amount of KM 950,000. The contract expires on 21 June 2007. The loan is to be repaid in equal quarterly instalments starting from 21 December 2004 to 21 June 2007. The loan is secured by deposits, bills of exchange and an assignment of receivables from micro credit loans granted using these funds(see Note 10).

On 22 June 2001, the Organization was granted with a loan from Deutsche Bank in the amount of KM 195,646 (USD 125,000). The loan bears is to be repaid on 26 July 2006. The loan is secured by deposit (see Note 10).

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**15. SUBORDINATED DEBT**

	<u>2004</u>	<u>2003</u>
UNHCR	479,036	479,036
UMCOR	-	78,258
<b>Total</b>	<b><u>479,036</u></b>	<b><u>557,294</u></b>

On 1 January 1998 UNHCR granted the Organization an interest-free subordinated debt in the amount of KM 479,036, maturing on 31 December 2004. The purpose of these funds is to support social policy for refugees, and bears no interest. In accordance with the Agreement, UNHCR should render a decision on the further status of these funds.

On 19 July 2002 UMCOR (The United Methodist Committee on Relief) granted the Organization an interest-free, subordinated debt in the amount of KM 78,258 (USD 50,000). The purpose of the loan was to support microcredit operations. During 2004 the loan was donated to the Organization (Note 8).

**16. OTHER LIABILITIES**

	<u>2004</u>	<u>2003</u>
Liabilities toward employees	118,464	93,065
Audit fee	19,370	19,679
Accrued interest liabilities	38,340	26,791
Other liabilities	23,865	13,336
	<b><u>200,039</u></b>	<b><u>152,871</u></b>

**17. SUPPLEMENTARY FUNDS**

	<u>2004</u>	<u>2003</u>
CWS	145,600	145,600
WWB	1,034,213	955,508
Foundation for Sustainable Development of the Federation of BiH (ODRAZ) - Local Initiative Project	947,361	947,361
UMCOR	79,145	-
	<b><u>2,206,319</u></b>	<b><u>2,048,469</u></b>

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

**18. ASSETS AND LIABILITIES FAIR MONETARY VALUE**

International Accounting Standard 32 - Financial Instruments: Disclosure and Presentation, and International Accounting Standard 39 – Financial Instruments: Recognition and Measurement provide for the disclosure in the notes to the financial statements of information about fair value of financial assets and liabilities. Fair value for this purpose is defined as the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. It is the policy of the Organization to disclose the fair value information on those assets and liabilities for which published market information is readily available. Sufficient market experience, stability or liquidity does not currently exist for certain financial assets and liabilities for which published market information is not readily available. Accordingly, their fair values cannot be reliably determined. In the opinion of management, their recorded recoverable amounts are the most valid and useful reporting value in these circumstances.

**19. MANAGEMENT EXPENSES**

	<u>2004</u>	<u>2003</u>
Management salaries	304,364	196,781
Fees to Supervisory Board	28,836	23,281
<b>Total</b>	<b><u>333,200</u></b>	<b><u>220,062</u></b>

**20. MATURITY of ASSETS, LIABILITIES**

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31 December 2004	Current due	Up to 6 months	6-12 months	Over 12 months	Maturity undefined	Total
<b>ASSETS</b>						
Cash and cash equivalents	1,055,916	-	-	-	-	1,055,916
Placements with banks	-	-	75,000	1,026,716	-	1,101,716
Net customer loans	1,675,810	6,854,225	4,057,710	1,125,734	(185,898)	13,527,581
Other assets	37,323	-	-	-	-	37,323
Property, plant and equipment	-	-	-	-	702,874	702,874
<b>TOTAL ASSETS (1)</b>	<b>2,769,049</b>	<b>6,854,225</b>	<b>4,132,710</b>	<b>2,152,450</b>	<b>516,976</b>	<b>16,425,410</b>
<b>LIABILITIES</b>						
Borrowings	-	395,484	2,056,252	7,074,587	-	9,526,323
Subordinated debt	-	-	-	479,036	-	479,036
Other liabilities	172,955	27,084	-	-	-	200,039
<b>TOTAL LIABILITIES (2)</b>	<b>172,955</b>	<b>422,568</b>	<b>2,056,252</b>	<b>7,553,623</b>	<b>-</b>	<b>10,205,398</b>
<b>NET POSITION (1) – (2)</b>	<b>2,596,094</b>	<b>6,431,657</b>	<b>2,076,458</b>	<b>(5,401,173)</b>	<b>516,976</b>	<b>6,220,012</b>

20. MATURITY of ASSETS, LIABILITIES (CONTINUED)

31 December 2003	Current due	Up to 6 months	6-12 months	Over 12 months	Maturity undefined	Total
<b>ASSETS</b>						
Cash and cash equivalents	578,047	-	-	-	-	578,047
Placements with banks	-	-	-	1,042,650	-	1,042,650
Net customer loans	193,635	7,245,753	3,255,007	477,818	(148,668)	11,023,545
Other assets	-	-	-	-	58,343	58,343
Property, plant and equipment	-	-	-	-	464,259	464,259
<b>TOTAL ASSETS (1)</b>	<b>771,682</b>	<b>7,245,753</b>	<b>3,255,007</b>	<b>1,520,468</b>	<b>(373,934)</b>	<b>13,166,844</b>
<b>LIABILITIES</b>						
Borrowings	-	843,420	1,541,586	4,986,943	-	7,371,949
Subordinated debt	-	78,258	-	479,036	-	557,294
Other liabilities	106,401	46,470	-	-	-	152,871
<b>TOTAL LIABILITIES (2)</b>	<b>106,401</b>	<b>968,148</b>	<b>1,541,586</b>	<b>5,465,979</b>	<b>-</b>	<b>8,082,114</b>
<b>NET POSITION (1) – (2)</b>	<b>665,281</b>	<b>6,277,605</b>	<b>1,713,421</b>	<b>(3,945,511)</b>	<b>(373,934)</b>	<b>5,084,730</b>

21. ASSETS AND LIABILITIES CURRENCY STRUCTURE

31 December 2004	KM	EUR	USD	Provision	Total
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<b>ASSETS</b>					
Cash and cash equivalents	1,037,291	8,817	9,808	-	1,055,916
Placements with banks	-	922,005	179,711	-	1,101,716
Net customer loans	13,713,479	-	-	(185,898)	13,527,581
Other assets	37,323	-	-	-	37,323
Property, plant and equipment	702,874	-	-	-	702,874
<b>TOTAL ASSETS (1)</b>	<b>15,490,967</b>	<b>930,822</b>	<b>189,519</b>	<b>(185,898)</b>	<b>16,425,410</b>
<b>LIABILITIES</b>					
Borrowings	1,787,672	7,558,940	179,711	-	9,526,323
Subordinated debt	-	479,036	-	-	479,036
Other liabilities	200,039	-	-	-	200,039
<b>TOTAL LIABILITIES (2)</b>	<b>1,987,711</b>	<b>8,037,976</b>	<b>179,711</b>	<b>-</b>	<b>10,205,398</b>
<b>NET POSITION (1) – (2)</b>	<b>13,503,256</b>	<b>(7,107,154)</b>	<b>9,808</b>	<b>(185,898)</b>	<b>6,220,012</b>

**21. ASSETS AND LIABILITIES CURRENCY STRUCTURE**

31 December 2003	KM	EUR	USD	Provision	Total
<b>ASSETS</b>					
Cash and cash equivalents	564,868	10,821	2,358	-	578,047
Placements with banks	-	847,004	195,646	-	1,042,650
Net customer loans	11,172,213	-	-	(148,668)	11,023,545
Tangible and intangible assets	464,259	-	-	-	464,259
Other assets	74,287	-	-	(15,944)	58,343
<b>TOTAL ASSETS (1)</b>	<b>12,275,627</b>	<b>857,825</b>	<b>198,004</b>	<b>(164,612)</b>	<b>13,166,844</b>
<b>LIABILITIES</b>					
Borrowings	1,907,000	5,269,303	195,646	-	7,371,949
Subordinated debt	-	479,036	78,258	-	557,294
Other liabilities	152,871	-	-	-	152,871
<b>TOTAL LIABILITIES (2)</b>	<b>2,059,871</b>	<b>5,748,339</b>	<b>273,904</b>	<b>-</b>	<b>8,082,114</b>
<b>NET POSITION (1) – (2)</b>	<b>10,215,756</b>	<b>(4,890,514)</b>	<b>(75,900)</b>	<b>(164,612)</b>	<b>5,084,730</b>