



**MIKRO KREDITNA ORGANIZACIJA  
MI – BOSPO TUZLA**

Financial statements  
for the year ended 31 December 2006  
together with the 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 Disclosure Guidelines for Financial Reporting by Microfinance Institutions as published by the Consultative Group to Assist the Poor (CGAP) and the basis of accounting described in Notes 2, 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 and Auditing Law of the Federation 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 MKO MI - BOSPO Tuzla ('the Organisation'), set out on pages 4 to 35, 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 Disclosure Guidelines for Financial Reporting by Microfinance Institutions as published by the Consultative Group to Assist the Poor (CGAP). 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 Disclosure Guidelines for Financial Reporting by Microfinance Institutions as published by the Consultative Group to Assist the Poor (CGAP) and the basis of accounting described in Note 2.

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

**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	3	8,908,036	5,779,100
Interest expense	4	<u>(1,730,192)</u>	<u>(965,041)</u>
<b>Net interest income</b>		<b><u>7,177,844</u></b>	<b><u>4,814,059</u></b>
Other operating income	5	99,017	97,774
Operating expenses	6	(4,346,887)	(2,869,724)
Other operating expenses	7	(442)	(2,800)
Foreign exchange (losses) gains, net		<u>(3,351)</u>	<u>837</u>
<b>Net operating expenses</b>		<b><u>(4,251,663)</u></b>	<b><u>(2,773,913)</u></b>
<b>NET INCOME BEFORE PROVISIONS FOR LOAN IMPAIRMENT</b>		<b><u>2,926,181</u></b>	<b><u>2,040,146</u></b>
Provisions for loan impairment	8, 11	<u>(362,612)</u>	<u>(282,229)</u>
<b>NET OPERATING INCOME</b>		<b><u>2,563,569</u></b>	<b><u>1,757,917</u></b>
Donations		<u>-</u>	<u>479,036</u>
<b>EXCESS OF INCOME OVER EXPENDITURES (NET RESULT)</b>		<b><u>2,563,569</u></b>	<b><u>2,236,953</u></b>

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
<b>ASSETS</b>			
Cash and cash equivalents	9	535,746	364,951
Bank deposits	10	1,159,795	1,157,759
Loans to clients, net	11	35,781,157	25,411,263
Interest receivables, net	12	416,296	309,554
Other assets	12	132,948	75,491
Property and equipment	13	1,830,818	1,328,543
<b>Total assets</b>		<b>39,856,760</b>	<b>28,647,561</b>
<b>LIABILITIES</b>			
Borrowings	14	28,245,991	19,882,993
Other liabilities	15	590,235	307,603
<b>Total liabilities</b>		<b>28,836,226</b>	<b>20,190,596</b>
<b>NET ASSETS</b>			
Supplementary funds	16	2,685,355	2,685,355
Excess of income over expenditures		8,335,179	5,771,610
<b>Total net assets</b>		<b>11,020,534</b>	<b>8,456,965</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>39,856,760</b>	<b>28,647,561</b>

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

  
 Nejjira 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)*



	<b>2006</b>	<b>2005</b>
<b>Operating activities</b>		
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 from disposal of property and equipment	442	2,666
Conversion of subordinated debt to donation	-	(479,036)
Net gain (loss) in exchange rates	3,351	(837)
<i>Adjustment to reconcile net income to net cash provided by operating activities</i>	2,927,733	2,012,648
Net increase in loans granted	(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	282,632	107,564
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b><u>(7,478,800)</u></b>	<b><u>(10,243,403)</u></b>
<b>Investing activities</b>		
Purchase of property and equipment	(708,016)	(749,026)
Net increase in bank deposits	(18,105)	(27,679)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b><u>(726,121)</u></b>	<b><u>(776,705)</u></b>
<b>Financing activities</b>		
Net increase in borrowings	8,375,716	10,329,143
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b><u>8,375,716</u></b>	<b><u>10,329,143</u></b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b><u>170,795</u></b>	<b><u>(690,965)</u></b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b><u>364,951</u></b>	<b><u>1,055,916</u></b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b><u>535,746</u></b>	<b><u>364,951</u></b>

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

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

## 1. GENERAL

Mikrokreditna organizacija MI – BOSPO Tuzla (the 'Organisation') started its operations in March 1996 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 Organisation is involved only in one business segment – micro finance.

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 loans through solidarity groups and individually for: manufacturing, sales, services and agriculture, 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	President
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	Manager for information technologies

## 1. GENERAL (CONTINUED)

The Organisation operates through 24 executive offices:

Tuzla	Bosne srebrene bb
Srebrenik	21. srebreničke brigade bb
Gradačac	Husein kapetana Gradašćevića 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 Krleža 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
Doboj	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

<b>Efficiency Ratios</b>	<b>2006</b>	<b>2005</b>
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%
<b>Financial Ratios</b>	<b>2006</b>	<b>2005</b>
	<b>%</b>	<b>%</b>
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. 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 Disclosure Guidelines for Financial Reporting by Microfinance Institutions as published by the Consultative Group to Assist the Poor (CGAP) and the basis of accounting described below. 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 financial statements are prepared on an accrual basis of accounting, under the going concern assumption.

The preparation of financial statements in conformity with generally accepted accounting principles 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 estimated.

### **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.

### **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 in accordance with the new Law.

### **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.

In course of its daily operations, Organisation does not have necessity for cash operations.

## 2. 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*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans included in the financial statements are stated in the principal amounts outstanding less the allowance for the loan impairment.

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.

In determining the overall level of loan allowance required, Management considers numerous factors including, but not limited to, the financial condition of the borrower, capacity for repayment, existence and quality of (social or physical) collateral, domestic economic conditions, the composition of the loan portfolio, and historic repayment and bad debt experience.

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

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

### Financial assets and liabilities (continued)

#### *Loans and receivables (continued)*

- for loans from 1-30 days late provisions are 20% from unpaid loan principal
- for loans from 31-60 days late provision are 60% from unpaid loan principal
- for loans from 61-90 days late provisions are 80% from unpaid loan principal
- for loans more than 90 days late provisions are 100% from unpaid loan principal.

The predicted loan impairment percentages are based on Management's analysis of historical outcomes of late loans.

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.

For the current loans, Organisation makes provisions for loan impairment in amount of 1% on the outstanding principal.

Loans more than 90 days overdue are written off according to the policy on loan write off. When this debt is collected, it is treated as outstanding debt collection income for the billing period. The Organisation stops accruing the interest on the loans more than 90 days overdue and on the loans that are classified as a loss due to the bankruptcy of the client or due to default of the loan agreement.

Loan book values, less allowance for loan impairment, do not significantly differ from loan cash flows in the amounts collectible in the future and discounted with the effective interest rates.

Changes in the level of allowance are recorded in the income statement.

Loans are considered overdue if any payment has fallen due and remained unpaid. Loan payments are applied first to interest due, and then to principal that is due but unpaid, beginning with the earliest instalment. The number of days of lateness is based on the due date of the earliest loan instalment that has not been fully paid. The Organisation does not convert late or penalty interest into principal.

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

### Financial assets and liabilities (continued)

#### *Loans and receivables (continued)*

##### *Renegotiated loans*

Renegotiation of loans represents any amendment in previously arranged repayment schedule. Conditions under which a loan can be renegotiated are as follows: low income from the business activity, member of the group has left the country, change of the business activity and problems in business (lack of funds for further business development). Client also has to settle all interest on the used funds before the renegotiation of the loan can be approved. Every renegotiation of a loan must be approved by the Branch manager in consent with the Credit Manager.

All renegotiated loans are treated as new loans and tracked separately from normal loans in the loan tracking system. Renegotiated loans are tracked separately because they have a higher risk profile than loans that have not been renegotiated. Interest rate for the renegotiation of loan is the same as in initial contract.

##### *Insider loans*

According with the policy on conflict of interest, the Organisation does not allow loans to related parties. Related parties according to this policy are defined as: members of the governing bodies or employees, relatives and spouses of the previously mentioned parties and companies in which the related parties have a controlling interest.

##### *Voluntary or obligatory savings*

In accordance with the Law on microcredit institutions in Bosnia and Herzegovina, MCOs are not allowed to keep saving accounts from their clients.

### 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.

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

### Employee benefits (continued)

#### **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.

#### **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%
Vehicles	16%
Computers	25%

#### **Foreign currency translation**

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.

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

### **Foreign currency translation (continued)**

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 by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet.

### **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.

Unrestricted donations are recorded in the financial statements in the period when the funds or the assets were received. Restricted donations are recognised only when the Management believes that all conditions are met and when it is reasonable to believe that the donation will be received.

Donations in property, plant and equipment are recorded as deferred income in the balance sheet and an amount equal to the period's depreciation is transferred to income over the useful life of the assets acquired.

Donations received as reimbursement of expenses related to expenses incurred in the prior periods are recorded when received as other income. Donations received and used entirely in the current period are recorded as other operating income or expense for the period.

In course of its operations, Organisation received various kinds of donations: (a) donations received as a part of the project for improvement of business – SEEP, (b) donations that are part of a contract (OdRaz), (c) in kind donations received from WWB as reimbursement of travel costs or consulting services. These donations do not include donations that are included in the supplementary funds and which are used to finance the loan portfolio.

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

### **Net assets**

The Organisation's net assets represent surplus of total assets over total liabilities. Net assets arise from excess of income over expenditures and donations. In accordance with the Organisation's policies surplus of income over expenditure is transferred to net assets. Income over expenditures has to be used for the micro credit operations. If the Organisation ceased to exist, the Board of Directors and the Director should take into account the founders' needs and accordingly decide on allocation of available net assets to the founders. If founders are inactive, the Board of Directors might decide to distribute funds to another MCO or if there are no MCOs as such, to some other non-profit organisation with similar activity.

### **Reclassification**

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

### 3. INTEREST INCOME

	<u>2006</u>	<u>2005</u>
Interest income on loans to clients	8,865,817	5,735,941
Interest income on deposits	21,559	22,310
Penalty interest	20,660	20,849
	<b><u>8,908,036</u></b>	<b><u>5,779,100</u></b>

### 4. INTEREST EXPENSE

	<u>2006</u>	<u>2005</u>
<b>Long – term loans</b>		
Foundation for Sustainable Development of Federation of BiH (ODRAZ)	290,017	349,505
GMF	274,941	27,708
Hivos - Triodos Funds, Netherlands	237,526	86,944
Oikocredit	202,078	56,083
Raiffeisen bank d.d. BiH, Sarajevo	199,156	74,105
DWM Securitizations s.a.	104,526	-
Symbiotics-RGM	78,010	-
MicroVest I, LP, USA	74,843	-
IFC	32,619	-
KFW-Kreditanstalt fur Wiederaufbau	8,741	10,307
NLB Tuzlanska banka d.d. Tuzla (previously Tuzlanska banka d.d., Tuzla)	5,836	42,179
Calvert Foundation	5,569	-
	<b><u>1,513,862</u></b>	<b><u>646,831</u></b>
<b>Short – term loans</b>		
HVB Central Profit Banka d.d., Sarajevo	71,825	34,275
Raiffeisen bank d.d. BiH, Sarajevo – revolving	52,245	124,881
GMF	50,219	81,651
MicroVest I, LP, USA	40,095	69,597
NLB Tuzlanska banka d.d. Tuzla (previously Tuzlanska banka d.d., Tuzla)	73	3,727
	<b><u>216,330</u></b>	<b><u>318,210</u></b>
	<b><u>1,730,192</u></b>	<b><u>965,041</u></b>

### 5. 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
	<b><u>99,017</u></b>	<b><u>97,774</u></b>

## 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	219,476	125,200
	<b><u>4,346,887</u></b>	<b><u>2,869,724</u></b>

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

## 7. OTHER OPERATING EXPENSES

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

## 8. PROVISION 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
	<b><u>362,612</u></b>	<b><u>282,229</u></b>

## 9. CASH AND CASH EQUIVALENTS

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

## 10. BANK DEPOSITS

	<u>Maturity</u>	<u>Interest rate %</u>	<u>2006</u>	<u>2005</u>
Raiffeisen bank d.d. BiH	June 2009	1.75%	847,005	847,005
Raiffeisen bank d.d. BiH	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
<b>Total</b>			<b><u>1,159,795</u></b>	<b><u>1,157,759</u></b>

Deposits with Raiffeisen bank d.d. BiH, Sarajevo and HVB - Central Profit Banka d.d., Sarajevo serve as collateral for the short term revolving bank 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.

## 11. LOANS TO CLIENTS

Monthly interest rates for the loans placed during 2006 range between 1.50% and 2.75%. Average loan maturity is 13 months (2005, 14 months). Interest rates are fixed, defined by the contract and included in the repayment schedule.

	<u>2006</u>	<u>2005</u>
<b>Sector analysis</b>		
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)
<b>Net loans</b>	<b><u>35,781,157</u></b>	<b><u>25,411,263</u></b>
Interest receivable for loans to clients	420,501	312,681
Less: Allowance for interest receivables losses	(4,205)	(3,127)
<b>Net interest receivables</b>	<b><u>416,296</u></b>	<b><u>309,554</u></b>
	<b><u>36,197,453</u></b>	<b><u>25,720,817</u></b>

## 11. LOANS TO CLIENTS (CONTINUED)

Geographic analysis	<u>2006</u>	<u>2005</u>
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	-
Čelić	13,000	-
Teslić	11,723	-
Derventa	9,500	-
Maglaj	5,700	-
Ugljevik	5,600	-
<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	<i>(468,976)</i>	<i>(314,982)</i>
<b>Net loans</b>	<b><u>35,781,157</u></b>	<b><u>25,411,263</u></b>
Interest receivable for loans to clients	420,501	312,681
Less: Allowance for interest receivables losses	<i>(4,205)</i>	<i>(3,127)</i>
<b>Net interest receivables</b>	<b><u>416,296</u></b>	<b><u>309,554</u></b>
	<b><u>36,197,453</u></b>	<b><u>25,720,817</u></b>

## 11. LOANS TO CLIENTS (CONTINUED)

	<u>2006</u>	<u>2005</u>
Current loans	35,957,086	25,556,685
Loans overdue 1 to over 90 days	293,048	169,560
<i>Total loan portfolio</i>	36,250,133	25,726,245
Less: Allowance for loan impairment	<u>(468,976)</u>	<u>(314,982)</u>
<b>Net loan portfolio</b>	<b><u>35,781,157</u></b>	<b><u>25,411,263</u></b>

Movements in allowance for possible loan impairment are as follows:

	<u>2006</u>	<u>2005</u>
<b>Balance at 1 January</b>	<b>314,982</b>	<b>184,185</b>
Additional provisions	361,534	280,815
Release of allowance due to write-offs	<u>(207,540)</u>	<u>(150,018)</u>
<b>Balance at 31 December</b>	<b><u>468,976</u></b>	<b><u>314,982</u></b>

Movements in allowance for possible interest impairment are as follows:

	<u>2006</u>	<u>2005</u>
<b>Balance at 1 January</b>	<b>3,127</b>	<b>1,713</b>
Additional provisions	1,078	1,414
Release of allowance due to write-offs	<u>-</u>	<u>-</u>
<b>Balance at 31 December</b>	<b><u>4,205</u></b>	<b><u>3,127</u></b>

Allowance for loan impairment as at 31 December 2006 can be disclosed as follows:

	Outstanding loan portfolio (principal)		Allowance for loan impairment	
	Share of total	Amount		Amount
Current	99.15%	35,942,657	1%	359,427
1–30 days late	0.53%	190,498	20%	38,100
31–60 days late	0.16%	58,988	60%	35,394
61–90 days late	0.11%	38,254	80%	30,604
More than 90 days late	0.01%	5,307	100%	5,307
	99.96%	36,235,704		468,832
Renegotiated loans				
Current	0.04%	14,429	1%	144
1–30 days late	0%	-	20%	-
31–60 days late	0%	-	60%	-
61–90 days late	0%	-	80%	-
More than 90 days late	0%	-	100%	-
	0.04%	14,429		144
	<b>100.00%</b>	<b>36,250,133</b>		<b>468,976</b>

## 11. LOANS TO CLIENTS (CONTINUED)

Allowance for loan impairment as at 31 December 2005 can be disclosed as follows:

	Outstanding loan portfolio (principal)		Allowance for loan impairment	
	Share of total	Amount		Amount
Current	99.30%	25,545,147	1%	255,450
1–30 days late	0.42%	107,695	20%	21,539
31–60 days late	0.12%	31,147	60%	18,688
61–90 days late	0.07%	19,191	80%	15,353
More than 90 days late	0.01%	1,913	100%	1,913
	<u>99.92%</u>	<u>25,705,093</u>		<u>312,943</u>
Renegotiated loans				
Current	0.04%	11,538	1%	115
1–30 days late	0.04%	9,614	20%	1,923
31–60 days late	-	-	60%	-
61–90 days late	-	-	80%	-
More than 90 days late	-	-	100%	-
	<u>0.08%</u>	<u>21,152</u>		<u>2,038</u>
	<b>100.00%</b>	<b>25,726,245</b>		<b>314,982</b>

At the end of each month, Management reviews all loans that are over 90 days late from the date of the latest instalment that has not been paid in full and for which 100% provisions are created. Loan write-off is made on case-by-case basis depending on whether reasonable collection efforts have failed. Loans are written off by deducting the outstanding principal balance from the loan portfolio and from the allowance for loan loss. Management wrote off loans in total amount of KM 207,540 in 2006 and KM 150,018 in 2005.

Interest income on loans is collected with monthly loan repayments. Due but unpaid interest is accrued on late loans in the outstanding loan portfolio until the loan write-off. Accrued interest was KM 420,502 on 31 December 2006 and KM 312,680 on 31 December 2005.

	Number	2006 Outstanding loan portfolio (principal)	Number	2005 Outstanding loan portfolio (principal)
Current loans	23,369	36,235,704	15,655	25,705,093
Renegotiated loans	3	14,429	6	21,152
<b>Total loans</b>	<b>23,372</b>	<b>36,250,133</b>	<b>15,661</b>	<b>25,726,245</b>

As at 31 December 2006 and 2005, the Organisation had 23,372 and 15,661 outstanding loan accounts respectively.

## 12. 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>
	<b><u>132,948</u></b>	<b><u>75,491</u></b>

## 13. PROPERTY AND EQUIPMENT

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

#### 14. BORROWINGS

	Interest rate %	Average principal in 2006	Average principal in 2005	2006	2005
<b>Short-term loans</b>					
Symbiotic - RGM	8.30	977,915	-	977,915	-
HVB Central Profit Banka d.d., Sarajevo	Euribor + 5.00	710,417	1,260,000	-	1,450,000
HVB - Central Profit Banka d.d., Sarajevo	7.00	256,000	251,875	-	30,000
Raiffeisen bank d.d. BiH Sarajevo - revolving	7.45	-	732,677	-	1,000,000
MicroVest I, LP, USA	9.00	-	781,772	-	782,332
Deutsche Bank Microcredit Development Fund, Inc., Delaware, USA	2.00	-	193,475	-	207,238
GMF	9.50	-	1,386,663	-	1,369,081
Tuzlanska Banka d.d., Tuzla	9.50	-	829,285	-	750,000
				<b>977,915</b>	<b>4,838,651</b>
<b>Long-term loans</b>					
Foundation for Sustainable Development of Federation of BiH (ODRAZ)	5.00	7,220,406	6,608,834	7,220,406	7,220,406
DWM Securitization	7.75	2,933,745	-	2,933,745	-
Hivos - Triodos Funds, Netherlands	8.75	2,542,579	977,915	2,738,162	2,346,996
GMF I	8.50	1,955,830	1,955,830	1,955,830	1,955,830
GMF II	8.25	1,955,830	-	1,955,830	-
Oikocredit I	8.80	1,186,544	1,172,092	1,173,498	1,173,498
Oikocredit II	8.00	1,955,830	-	1,955,830	-
IFC	8.55	1,955,830	-	1,955,830	-
MicroVest I, LP, USA	8.00	1,369,081	-	1,955,830	-
Raiffeisen bank d.d. BiH, Sarajevo	6M Euribor + 5.45	345,455	690,909	172,727	518,181
Raiffeisen bank d.d. BiH, Sarajevo	6M Euribor + 4.95	1466,667	-	1,333,333	-
Raiffeisen bank d.d. BiH, Sarajevo	6M Euribor + 5,45	659,000	-	800,000	-
Raiffeisen bank d.d. BiH, Sarajevo	6M Euribor + 5.45	583,334	695,000	466,667	700,000
Raiffeisen bank d.d. BiH, Sarajevo	6M Euribor + 5.25	458,333	-	416,667	-
KfW-Kreditanstalt fur Wiederaufbau*	Euribor	130,552	217,488	87,034	174,069
KfW-Kreditanstalt fur Wiederaufbau*	Euribor	176,025	234,700	146,687	205,362
				<b>27,268,076</b>	<b>15,044,342</b>
				<b>28,245,991</b>	<b>19,882,993</b>

Oikocredit 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.

\* According to the letter signed by KfW dated 11 November 2005, Organisation was notified about the procedure of transfer of funds from KfW to European Fund for Southeast Europe (EFSE).

#### 14. BORROWINGS (CONTINUED)

On 10 October 2003, the Organisation signed a Consolidated loan contract with the Foundation for Sustainable Development of Federation of BiH (ODRAZ). Amount granted in the Consolidated loan agreement and in the subsequently signed Appendices is KM 7,220,406 (EUR 3,691,735). Agreed interest rate is EURIBOR + 1%. No loan fees were charged. The contract expires on 17 March 2017. The loan was granted with a five-year grace period for the principal repayment. The Organisation shall repay the loan in equal semi-annual instalments starting from September 2007 to September 2017. Under the contract, the loan will be used to refinance the loan portfolio of targeted clients.

On 6 October 2005, the Organisation received a loan from Hivos-Triadods Fonds in amount of KM 2,738,162 (EUR 1,400,000) with 8.75% interest rate and 1.00 % loan fee. The loan is to be repaid in two equal instalment (EUR 700,000) on 1 July 2007 and 1 February 2008. The loan was granted with a 21-month grace period for the principal repayment. The loan is secured by bills of exchange and an assignment of receivables. Accrued interest as at 31 December 2006 and 2005 is KM 0 and KM 3,162, respectively.

On 28 October 2005, the Organisation received a loan from Global Microfinance Facility in amount of KM 1,955,830 (EUR 1,000,000), with 8.50% interest rate and loan fee free. The loan is to be repaid in equal quarterly instalments starting from 28 October 2006 to 28 October 2008. The loan is secured by a bill of exchange. Accrued interest as at 31 December 2006 and 2005 is KM 28,631 and KM 27,708, respectively.

On 19 May 2006, the Organisation was granted with a loan from Global Microfinance Facility in amount of KM 1,955,830 (1,000,000 EUR), with 8.25% interest rate and loan fee free. The loan is to be repaid in single payment on 3 May 2009. The loan is secured by a bill of exchange. Accrued interest as at 31 December 2006 is KM 18,663.

On 6 May 2005, the Organisation was granted a loan from Oikocredit, Ecumenical Development Cooperative Society U.A in amount of KM 1,173,498 (EUR 600,000), with 8.80% interest rate and 1.00% loan fee. The loan is to be repaid in single payment on 6 June 2007. The loan was granted with a 2-year grace period for the principal repayment. The loan is secured by bills of exchange and an assignment of receivables. Accrued interest as at 31 December 2006 and 2005 is KM 4,590 and KM 4,590, respectively.

On 20 April 2006, the Organisation was granted a loan from Oikocredit, Ecumenical Development Cooperative Society U.A in amount of KM 1,955,830 (EUR 1,000,000), with 8.00% interest rate and 1.00% loan fee. The loan is to be repaid in six instalments in amount of EUR 150,000 and one instalment in amount of EUR 100,000 until 20 April 2011. The loan is secured by bills of exchange and an assignment of receivables. Accrued interest as at 31 December 2006 is KM 31,293.

#### **14. BORROWINGS (CONTINUED)**

On 5 September 2005, Raiffeisen bank d.d. BiH Sarajevo ("RZB") granted the Organisation a loan in the amount of KM 700,000, with 6-month Euribor + 5.45% interest rate and 1.00% loan fee. The contract expires on 5 September 2008 with 6-month grace period. The loan is to be repaid in semi-annual instalments starting from 5 December 2005 to 5 September 2008. The loan is secured by assignment of loan receivables and deposit in amount of EUR 248,996, EUR 184,071 and EUR 107,000 (collaterals relate to all RZB loans – mentioned below).

Accrued interest as at 31 December 2006 and 2005, is KM 2,728 and KM 3,664, respectively.

On 21 June 2004, Raiffeisen bank d.d. BiH, Sarajevo granted the Organisation a loan in the amount of KM 950,000, with 6-month Euribor + 5.45% interest rate and 1.20% loan fee. 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. Accrued interest as at 31 December 2006 and 2005 is KM 414 and KM 1,134, respectively.

On 31 March 2006, Raiffeisen bank d.d. BiH, Sarajevo granted the Organisation a loan in the amount of KM 1,600,000, with 6-month Euribor + 4.95% interest rate and 0.75% loan fee. The contract expires on 15 June 2009. The loan is to be repaid in semi-annual instalments starting from 15 December 2006 to 15 June 2009. Accrued interest as at 31 December 2006 is KM 4,436.

On 15 March 2006, Raiffeisen bank d.d. BiH, Sarajevo granted the Organisation a loan in the amount of KM 500,000, with 6 month's Euribor + 5.25% interest rate and 0.75% loan fee. The contract expires on 15 April 2009. The loan is to be repaid in semi-annual instalments starting from 15 October 2006 to 15 April 2009. Accrued interest as at 31 December 2006 is KM 1,441.

On 3 July 2006, Raiffeisen bank d.d. BiH, Sarajevo granted the Organisation a revolving loan in the amount of KM 1,000,000 with 7.25% interest rate and 0.3% loan fee. The contract expires on 3 July 2008. Accrued interest as at 31 December 2006 is KM 745.

On 19 November 2003 the Organisation was granted with a loan from KfW in the amount of KM 293,375 (EUR 150,000), with Euribor interest rate. The loan is to be repaid in 10 equal semi-annual instalments starting from 30 September 2004 to do 31 March 2009. There is no collateral for this loan.

On 25 July 2002, the Organization was granted with a loan from KfW in the amount of KM 391,166 (200,000 EUR), with Euribor interest rate. Under the contract, the loan will be used to finance the loan portfolio. The loan is to be repaid in equal semi-annual instalments starting from 30 September 2003 to 30 September 2007. There is no collateral for this loan. Accrued interest as at 31 December 2006 and 2005 for both loans are KM 2,126 and KM 2,182, respectively.

On 15 March 2006, International Finance Corporation granted the Organisation a loan in the amount of KM 3,911,660 (EUR 2,000,000), with 8.55% interest rate and 1% loan fee. The contract expires on 15 June 2009. The loan is to be repaid in four equal instalments starting from 15 December 2007 to 15 June 2009. Accrued interest as at 31 December 2006 is KM 13,006.

#### 14. BORROWINGS (CONTINUED)

On 28 June 2006, DWM Securitizations S.A. granted the Organisation a loan in the amount of KM 2,933,745 (EUR 1,500,000), with 7.75% interest rate and 1% loan fee. The contract expires on 28 June 2011. The loan is to be repaid in single payment (principle) on 28 June 2011 and interest semi annually. Accrued interest as at 31 December 2006 is KM 14,527.

On 27 June 2006, MicroVest I,LP,Delaware,USD granted the Organisation a loan in the amount of KM 1,955,830 (EUR 1,000,000), with 8% interest rate and 1.5% loan fee. The contract expires on 30 June 2009. The loan is to be repaid in four equal instalments starting with 30 September 2008 until 30 June 2009. There was no accrued interest as at 31 December 2006 .

On 19 January 2006, Simbiotic – RGM (Credit Suisse Microfinance Fund Management) granted the Organization a loan in the amount of KM 977,915 (EUR 500,000), with 8.3% interest rate and loan fee free. The contract expires on 19 July 2007. The loan is to be repaid in two equal instalments on 19 January 2007 and 19 June 2007. Accrued interest as at 31 December 2006 is KM 37,427.

During 2006 and 2005, Organisation has met all its obligations on time relating to the above-mentioned loans.

#### 15. OTHER LIABILITIES

	<u>2006</u>	<u>2005</u>
Liabilities toward employees	333,811	139,920
Accrued interest liabilities	193,982	109,228
Other liabilities	<u>62,442</u>	<u>58,455</u>
	<b><u>590,235</u></b>	<b><u>307,603</u></b>

#### 16. 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	947,361	947,361
UNHCR	479,036	479,036
CWS	145,600	145,600
UMCOR	<u>79,145</u>	<u>79,145</u>
	<b><u>2,685,355</u></b>	<b><u>2,685,355</u></b>

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.

## 17. CUMMULATIVE DONATIONS

Below is an overview of cumulative donations received through 2006:

### *Donations for capitalisation*

<b>Donor</b>	<b>Year</b>	<b>Amount</b>
Women's World Banking	2001	575,625
Sustainable Development Foundation Federation BiH	2002	947,361
Church World Service	2002	145,600
Women's World Banking	2002	379,883
	<u>2002</u>	<u>1,472,844</u>
Women's World Banking	2004	78,705
UMCOR	2004	79,145
	<u>2004</u>	<u>157,850</u>
UNHCR	2005	479,036
		<u>2,685,355</u>

### *Donations for operating cost*

<b>Donor (purpose)</b>	<b>Year</b>	<b>Amount</b>
Women's World Banking (operating costs)	2001	4,112
Women's World Banking (operating costs)	2002	2,498
Fresta (operating costs)	2002	17,950
	<u>2002</u>	<u>20,448</u>
Fresta (operating costs)	2003	7,521
Fresta (operating costs)	2004	774
CGAP (co-financing for rating)	2004	13,028
SEEP (improving efficiency)	2004	56,187
SEEP (operating costs)	2004	7,035
	<u>2004</u>	<u>77,024</u>
Women's World Banking (operating costs)	2005	2,497
CGAP (transparency award)	2005	8,121
CGAP (co-financing for rating)	2005	6,595
	<u>2005</u>	<u>17,213</u>
SEEP (expenses of travelling to India – SEEP workshop)	2006	6,666
Women's World Banking (operating costs)	2006	21,433
SEEP (improving efficiency)	2006	52,429
Microvest (operating translating expenses)	2006	309
	<u>2006</u>	<u>80,827</u>
		<u>207,155</u>

## 17. CUMMULATIVE DONATIONS (CONTINUED)

*In kind donations*

Year	Estimated Amount
2002	23,700
2004	67,565
2005	60,000
2006	47,735
	<b>199,000</b>

## 18. RELATED-PARTY TRANSACTIONS

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

	<u>2006</u>	<u>2005</u>
Management 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
	<b><u>372,218</u></b>	<b><u>282,721</u></b>

## 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

Capital commitments in 2007 in the amount of KM 78,000 relate to 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 sheets 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 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 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 re-price to a market rate of interest before maturity, the next re-pricing 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 re-pricing 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 draw downs. 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.

As a part of the liquidity risk prevention, Organisation has a revolving loan facility with the Raiffeisen Bank d.d. BiH Sarajevo and HVB Central Profit banka d.d. Sarajevo. As at 31 December 2006 Organisation did not have any outstanding balances according to these loans, except for the long term revolving loan at Raiffeisen Bank d.d. BiH Sarajevo in the amount of KM 800,000.

Those assets and liabilities that do not have contractual maturity date or are not interest bearing are included in 'maturity undefined' category.

## 21. INTEREST RISK AND LIQUIDITY RISK (CONTINUED)

	On demand	Up to 6 months	6-12 months	Over 12 months	Maturity undefined	Total
<b>31 December 2006</b>						
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
<b>TOTAL ASSETS (1)</b>	<b>3,813,075</b>	<b>14,063,077</b>	<b>10,764,936</b>	<b>11,688,853</b>	<b>(473,181)</b>	<b>39,856,760</b>
Borrowings	488,957	275,885	5,346,357	22,134,792	-	28,245,991
Other liabilities	244,852	320,632	-	24,751	-	590,235
<b>TOTAL LIABILITIES (2)</b>	<b>733,809</b>	<b>596,517</b>	<b>5,346,357</b>	<b>22,159,543</b>	<b>-</b>	<b>28,836,226</b>
<b>NET POSITION (1)-(2)</b>	<b>3,079,266</b>	<b>13,461,761</b>	<b>5,418,579</b>	<b>(10,465,891)</b>	<b>(473,181)</b>	<b>11,020,534</b>
	On demand	Up to 6 months	6-12 months	Over 12 months	Maturity undefined	Total
<b>31 December 2005</b>						
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
<b>TOTAL ASSETS (1)</b>	<b>2,891,948</b>	<b>10,088,947</b>	<b>7,580,998</b>	<b>8,403,777</b>	<b>(318,109)</b>	<b>28,647,561</b>
Borrowings	-	2,218,471	3,844,484	13,820,038	-	19,882,993
Other liabilities	254,523	53,080	-	-	-	307,603
<b>TOTAL LIABILITIES (2)</b>	<b>254,523</b>	<b>2,271,551</b>	<b>3,844,484</b>	<b>13,820,038</b>	<b>-</b>	<b>20,190,596</b>
<b>NET POSITION (1)-(2)</b>	<b>2,637,425</b>	<b>7,817,396</b>	<b>3,736,514</b>	<b>(5,416,261)</b>	<b>(318,109)</b>	<b>8,456,965</b>

## 22. AVERAGE INTEREST RATES AT 31 DECEMBER 2006

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

<b>Assets</b>	<u>2006</u>	<u>2005</u>
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>
<b>Total assets</b>	<b><u>39,856,760</u></b>	<b><u>28,647,561</u></b>
<b>Total interest earning assets</b>	<b><u>37,373,182</u></b>	<b><u>26,933,973</u></b>
<b>Liabilities</b>		
Borrowings	<u>7.33%</u>	<u>7.00%</u>
<b>Total liabilities</b>	<b><u>28,836,226</u></b>	<b><u>20,190,596</u></b>
<b>Total interest bearing liabilities</b>	<b><u>28,245,991</u></b>	<b><u>19,882,993</u></b>

### 23. 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.

	KM	EUR	USD	Allowance	Total
<b>31 December 2006</b>					
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
<b>TOTAL ASSETS (1)</b>	<b>39,165,961</b>	<b>1,163,980</b>	<b>-</b>	<b>(473,181)</b>	<b>39,856,760</b>
Borrowings	3,189,394	25,056,597	-	-	28,245,991
Other liabilities	434,405	155,830	-	-	590,235
<b>TOTAL LIABILITIES (2)</b>	<b>3,623,799</b>	<b>25,212,427</b>	<b>-</b>	<b>-</b>	<b>28,836,226</b>
<b>NET POSITION (1)-(2)</b>	<b>35,542,162</b>	<b>(24,048,447)</b>	<b>-</b>	<b>(473,181)</b>	<b>11,020,534</b>
	KM	EUR	USD	Allowance	Total
<b>31 December 2005</b>					
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
<b>TOTAL ASSETS (1)</b>	<b>27,793,513</b>	<b>958,443</b>	<b>213,714</b>	<b>(318,109)</b>	<b>28,647,561</b>
Borrowings	4,448,182	15,227,573	207,238	-	19,882,993
Other liabilities	241,529	58,879	7,195	-	307,603
<b>TOTAL LIABILITIES (2)</b>	<b>4,689,711</b>	<b>15,286,452</b>	<b>214,433</b>	<b>-</b>	<b>20,190,596</b>
<b>NET POSITION (1)-(2)</b>	<b>23,103,802</b>	<b>(14,328,009)</b>	<b>(719)</b>	<b>(318,109)</b>	<b>8,456,965</b>

Other than disclosed in Income Statement, the Organisation had no realised or unrealized foreign exchange gains or losses.

#### 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.

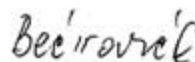
#### 25. APPROVAL OF THE FINANCIAL STATEMENTS

These separate 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