

Micro credit organization  
MI-BOSPO TUZLA

Financial Statements  
for the Years Ended 31 December  
2003 and 2002 together with the  
Independent Auditor's Report

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## **Responsibility for the financial statements**

Pursuant to the local Accounting Law ("Official Gazette FBiH" no. 2/95 and 12/98), the 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, the Management has a reasonable expectation that the organization have adequate resources to continue in operational existence for the foreseeable future. For this reason, the 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;
- 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.

The 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. The 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 the Management

**Nejira Nalić**

Micro credit organization MI BOSPO, Tuzla

Mirze Delibašića 5

75000 Tuzla

Bosnia and Herzegovina

13 February 2004

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## **Independent Auditor's Report**

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

We have audited the accompanying balance sheet of the Micro credit organization "MI-BOSPO" Tuzla, (referred hereafter as the Organization) as of 31 December 2003, and related statements of income, cash flows, and changes in equity for the year then ended. 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. Audit of the financial statements for year ended 31 December 2002 has been done by another auditor, who has expressed unmodified opinion on those financial statements.

We conducted our audit in accordance with International Standards on Auditing, which require that we plan and perform the audit to obtain reasonable assurance that 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 presentation of the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of 31 December 2003, and of the results of its operations, its cash flows and changes in equity for the year 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**

*Sarajevo, 13 February 2004*

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**MI-BOSPO Microcredit Organization Tuzla**  
**Financial Statements for the year ended 31 December 2003**

**INCOME STATEMENT**

	Notes	2003 KM	2002 KM
Interest income	4	3,189,938	2,291,268
Interest expense	4	(401,876)	(256,954)
<b>Operating income</b>		<b>2,788,062</b>	<b>2,034,314</b>
Operating cost	5	(1,623,039)	(1,239,383)
Provision for possible loan and other losses	10	(124,461)	(74,821)
Negative foreign exchange		(3,624)	(61,007)
<b>Operating expense</b>		<b>(1,751,124)</b>	<b>(1,375,211)</b>
Collected written-off receivables		7,040	7,811
Other income	6	28,179	9,400
<b>Net operating income</b>		<b>1,072,157</b>	<b>676,314</b>
<b>Funds and donations</b>	7	-	<b>1,493,292</b>
<b>SURPLUS</b>		<b>1,072,157</b>	<b>2,169,606</b>

The notes on pages 6 to 19 are an integral part of these financial statements.

**MI-BOSPO Microcredit Organization Tuzla**  
**Financial Statements for the year ended 31 December 2003**

**BALANCE SHEETS**

	Notes	2003 KM	2002 KM
<b>Assets</b>			
Cash and cash equivalent	8	578,047	436,206
Placements with banks	9	1,042,650	1,104,363
Customers loans, net	10	11,023,545	8,210,303
Tangible and intangible assets	12	464,259	202,276
Other assets	11	58,343	7,838
<b>TOTAL ASSETS</b>		<b>13,166,844</b>	<b>9,960,986</b>
<b>Liabilities</b>			
Borrowings	13	7,371,949	5,245,226
Subordinated debt	14	557,294	572,536
Other liabilities	15	152,871	130,396
<b>TOTAL LIABILITIES</b>		<b>8,082,114</b>	<b>5,948,158</b>
<b>Equity</b>			
Supplementary funds	16	2,048,469	92,238
Accumulated surplus		3,036,261	420,590
<b>TOTAL EQUITY</b>		<b>5,084,730</b>	<b>4,012,828</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>13,166,844</b>	<b>9,960,986</b>

The notes on pages 6 to 19 are an integral part of these financial statements.

The accompanying financial statement are the responsibility and have been approved by the Management.

**Executive Director**

Nejira Nalić

**Finance Manager**

Elmedina Bećirović

**MI-BOSPO Microcredit Organization Tuzla**  
**Financial Statements for the year ended 31 December 2003**

**STATEMENTS OF CASH FLOWS**

	<b>2003</b>	<b>2002</b>
	<b>KM</b>	<b>KM</b>
<b>Operating activities</b>		
Net income	1,072,157	2,169,606
<i>Adjustment to reconcile net income to net cash used in operating activities</i>		
Depreciation	56,667	38,358
Net increase in provision for loan losses	124,201	74,469
Net increase in provision for interest	260	352
Net decrease / (increase) in placements with banks	61,713	(271,430)
Net (increase) in loans before provision for loan losses	(2,885,647)	(2,348,310)
Net (increase) in interest receivables before provision	(26,028)	(36,152)
Net (increase) / decrease in other assets	(76,533)	(40,908)
Net increase / (decrease) in other liabilities	22,475	90,725
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(1,650,735)</b>	<b>(323,290)</b>
<b>Investing activities</b>		
Net purchases of tangible and intangible assets	(318,905)	(92,122)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(318,905)</b>	<b>(92,122)</b>
<b>Financing activities</b>		
Net (decrease)/increase in subordinated debt	(15,242)	572,536
Net increase/(decrease) in commercial borrowings	2,126,723	(153,624)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>2,111,481</b>	<b>418,912</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>141,841</b>	<b>3,500</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>436,206</b>	<b>432,706</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>578,047</b>	<b>436,206</b>

The notes on pages 6 to 19 are an integral part of these financial statements.

**MI-BOSPO Microcredit Organization Tuzla**  
**Financial Statements for the year ended 31 December 2003**

**STATEMENT OF CHANGES IN EQUITY**

	<b>Supplementary Funds KM</b>	<b>Accumulated Result Surplus KM</b>	<b>Total Equity KM</b>
<b>Balance as of 31 December 2001</b>	<b>592,238</b>	<b>1,250,984</b>	<b>1,843,222</b>
Funds in 2002	-	1,456,231	1,456,231
Donations in 2002	-	37,061	37,061
Net result for the year	-	676,314	676,314
<b>Balance as of 31 December 2002</b>	<b>592,238</b>	<b>3,420,590</b>	<b>4,012,828</b>
Allocation of profit 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>

The notes on pages 6 to 19 are an integral part of these financial statements.

# **MI-BOSPO Microcredit Organization Tuzla**

## **Financial Statements for the year ended 31 December 2003**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1. GENERAL INFORMATION**

##### **Organization's Operations**

MI-BOSPO started its operations in October 1995 as a humanitarian organization BOSPO Tuzla. On the basis decision of 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 humanitarian organization BOSPO were transferred to the new registered Micro credit organization MI-BOSPO.

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

##### **Supervisory Board**

The Organization is overseen by an independent Supervisory Board:

Tahira Salihović	President
dr Dževad Šehić	Member
dr Kadrija Hodžić	Member
Sanja Hajdukov	Member
Admir Džumhur	Member

##### **Management**

Members of Management of MI-BOSPO are:

Nejira Nalić	Executive Director
Senad Krekić	Internal Auditor
Dženita Kičić	Loan Manager
Alma Bijedić	Human Resources
Edin Bakalović	Information systems specialist (MIS)
Rifa Bajrić	Branch Manager
Safet Husić	Branch Manager

##### **Authorised Offices and Registered Addresses**

Organization operates seven branch offices, with the Head Office in Tuzla, Mirze Delibašića 5. Other offices are as follows:

1. Živinice
2. Kalesija
3. Srebrenik
4. Zavidovići
5. Lukavac
6. Gradačac
7. Bijeljina.

**MI-BOSPO Microcredit Organization Tuzla**  
**Financial Statements for the year ended 31 December 2003**

**1. GENERAL INFORMATION (CONTINUED)**

**Performance Indicators**

<b><i>Efficiency Ratios</i></b>	<b>2003</b>
Clients per staff person: Active clients / Number of staff	184
Clients per loan officer: Active clients / Number of loan officers	326
Portfolio per loan officer: Net outstanding portfolio / Number of loan officers	494,374
Operating cost ratio: Percentage total operating expenses (incl. In-kind donations) / Average net portfolio	23.3 %

<b><i>Financial Ratios</i></b>	<b>2003</b>
Return on assets: Net operational result / Average total assets	4.7%
Return on equity: Net operational result / Average equity	11.9%
Yield on portfolio: Interest income and fees / Average net portfolio outstanding	33.2 %

**Accounting**

The Organization maintains its accounting records and prepares its statutory accounts in accordance with business and tax regulations of Bosnia and Herzegovina.

Certain accounting principles stipulated by Bosnian Law differ from ones accepted by international financial markets. In order to present the Organization's financial position and the results of its operations in accordance with International Financial Reporting Standards (IFRS), certain reclassifications have been made to the Organization's statutory financial statements that do not affect net income.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), under the historical cost convention, as modified by the revaluation of appropriate financial assets and liabilities.

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 = 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.

# **MI-BOSPO Microcredit Organization Tuzla**

## **Financial Statements for the year ended 31 December 2003**

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

#### **2.2. Foreign Currency**

Assets and liabilities denominated in foreign currencies are translated into KM at balance sheet date 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 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 accrued.

#### **2.4. Subordinated debt**

Subordinated debt 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 the provision for possible loan losses.

Matured outstanding principle 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.

#### **2.6. Provisioning for Loan Loss**

Loans to customers are stated net of provisions for 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.

The Organization ceases accruing the interest when there is objective evidence that a borrower is not or will not be able to settle the liability towards the Organization in a timely manner. Suspended interest is recognized as income when collected.

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

#### **2.7. Use of Estimates**

The preparation of financial statements in accordance with International Financial Reporting Standards required Management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. The possibility exists that actual results could differ from those estimates.

#### **2.8. Tangible and Intangible Assets**

Tangible and intangible assets are stated at historical cost less accumulated depreciation. Depreciation on tangible and intangible assets is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives.

**MI-BOSPO Microcredit Organization Tuzla  
Financial Statements for the year ended 31 December 2003**

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

**2.8. Tangible and Intangible Assets (Continued)**

Depreciation rates applied are as follows:

<b>Item</b>	<b>2003</b>	<b>2002</b>
Furniture and equipment	11% - 20%	11% - 20%
Vehicles	16%	16%
Computers	25%	25%

**2.9. 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.

Capital goods donations are shown as long-term deferrals and recorded as income in the income statement in the amount of capital goods depreciation. In-kind donations are benefits or subsidies that the Organization receives to support operations, which are paid by a third party.

**2.10. 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.

**2.11. Cash Flow Statement**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and the Organization's accounts at banks.

**2.12. Reclassification**

Due to the comparison of data from the year 2003, certain reclassifications of positions in financial statements for the year 2002 were made.

**MI-BOSPO Microcredit Organization Tuzla  
Financial Statements for the year ended 31 December 2003**

**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.

**3.3. Foreign currency risk**

Organization can invest its assets in a currency different than the reporting currency, Convertible Mark (KM). For this reason, organization is exposed the risk of changes in foreign currency exchange rates what can affect the assets denominated in foreign currencies.

**3.4. Interest rate risk**

Organization is exposed to effects of fluctuations in interest rates on its financial position and cash flows. Interest margins can increase as a result of these changes, but they can also decrease or result in losses if unexpected changes magnify.

**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 (minimal level of reinvestments of due debts is determined by experience and can be foreseen with high level of certainty).

**MI-BOSPO Microcredit Organization Tuzla**  
**Financial Statements for the year ended 31 December 2003**

**4. NET OPERATING INCOME**

	<b>2003</b>	<b>2002</b>
	<b>KM</b>	<b>KM</b>
<b>Interest and fees from loans</b>	<b>3,189,938</b>	<b>2,291,268</b>
<b>Interest expense:</b>		
- Interest for assets from LIP	221,258	117,092
- Loan interest	180,618	139,862
<b>Total</b>	<b>2,788,062</b>	<b>2,034,314</b>

**5. OPERATING COSTS**

	<b>2003</b>	<b>2002</b>
	<b>KM</b>	<b>KM</b>
Personnel expense	1,164,141	842,556
Depreciation	56,667	38,358
Professional services	73,421	61,106
Utilities expense	41,355	16,115
Transportation	-	31,736
Rental fee	65,862	56,665
Telephone and postal	42,445	31,677
Office supplies	32,990	24,621
Bank fees	55,658	42,170
Member fees	5,994	3,190
Audit expense	22,786	29,568
Supervisory Board fees	23,281	31,726
Other	38,439	29,895
<b>Total</b>	<b>1,623,039</b>	<b>1,239,383</b>

Personnel expense can be detailed as follows:

	<b>2003</b>	<b>2002</b>
	<b>KM</b>	<b>KM</b>
Net salaries	575,681	408,316
Taxes and contributions	397,644	271,627
Education	12,075	28,376
Temporary engagements	7,642	11,285
Business travel expense	14,495	28,750
Meal allowance	75,339	57,815
Other	81,265	36,387
<b>Total</b>	<b>1,164,141</b>	<b>842,556</b>

Average number of employees in 2003 and 2002 is 41 and 30.

**MI-BOSPO Microcredit Organization Tuzla**  
**Financial Statements for the year ended 31 December 2003**

**6. OTHER INCOME**

	<b>2003 KM</b>	<b>2002 KM</b>
Refunded expenses	20,150	-
Donations for current expense	7,521	9,377
Other	508	23
<b>Total</b>	<b>28,179</b>	<b>9,400</b>

**7. FUNDS AND DONATIONS**

<b>Donor</b>	<b>2003 KM</b>	<b>2002 KM</b>
ODRAZ	-	947,361
CWS	-	145,600
WWB	-	382,381
DRC	-	17,950
<b>Total</b>	<b>-</b>	<b>1,493,292</b>

After the first loan agreement has expired on 31 March 2002, the Organization has signed a new loan agreement on 5 September 2002 with Local Initiative Project of Agency for Sustainable Development (ODRAZ). In accordance with the new contract, ODRAZ recognized the remaining amount of 947,361 KM (484,378 EUR) from the previous loan contract as supplementary funds of the Organization.

In accordance with an Agreement dated 11 November 2002 relating to subordinated credit funds, CWS recognized debt in amount of 145,600 KM as supplementary funds, what is in accordance with the Memorandum of understanding dated on 11 July 2001.

Donations from the Women World Banking include:

- a) Amount of 1,121 USD (KM 2,131) is attempted to cover the transportation expense to one of the workshops;
- b) Amount of 500,000 USD in accordance with the Contract on capitalization, of which first installment amounted 250,000 (KM 580,572)USD was transferred 9 July 2001; second installment in amount of 200,000 USD (KM 380,250) was transferred 19 december 2002. The remaining amount of will be transferred at the beginning of the year 2004.

Donated funds from DRC in amount of 9,403 EUR or 17,950 KM during the year 2002, are aimed to cover the expenses of seminars.

**MI-BOSPO Microcredit Organization Tuzla  
Financial Statements for the year ended 31 December 2003**

**8. CASH AND CASH EQUIVALENTS**

	<b>2003 KM</b>	<b>2002 KM</b>
Cash on hand	747	212
Tuzlanska Banka d.d. Sarajevo	382,657	224,593
Raiffeisen Bank BiH d.d. Sarajevo	137,829	195,848
Central Profit Bank d.d. Sarajevo	56,814	15,553
<b>Total</b>	<b>578,047</b>	<b>436,206</b>

**9. PLACEMENTS WITH BANKS**

	<b>2003 KM</b>	<b>2002 KM</b>
Deposits at Raiffeisen Bank BiH d.d. Sarajevo are as follows:		
- first grant from Women World Banking	486,993	486,993
- second grant from Women World Banking	360,011	379,920
- term deposit (collateral for borrowing from Deutsche Bank)	195,646	237,450
<b>Total</b>	<b>1,042,650</b>	<b>1,104,363</b>

Term deposits at the Raiffeisen Bank BiH d.d. are instruments of insurance for the loans, which the Organization uses. Time deposit is for the period to 21 November 2005 and with an interest rate of 1.75% yearly (see Note 9).

Interest rates on deposits in 2002 were in range 1.20% to 1.75% monthly.

**10. CUSTOMER LOANS, LESS PROVISION FOR POSSIBLE LOSS**

**(a) Interest Rate Analysis**

Interest rates are calculated on yearly basis and amount as follows:

<b>Product</b>	<b>Yearly interest rate in %</b>
<i>Loans for solidarity groups</i>	
- I cycle	36%
- II cycle	34%
- III cycle and others	32% - 28%
<i>Individual loans for sales, services and manufacturing</i>	
- to 3,000 KM (I cycle)	36%
- from 3,001 to 10,000 KM (I cycle)	33%
- from 3,001 to 5,000 KM (II cycle)	33%
- od 5,001 do 15,000 KM (II cycle)	30%
- other cycles	30% - 26%

During 2002 new loan type for development of agricultural activities has been introduced with yearly interest rates between 24% - 28%.

**MI-BOSPO Microcredit Organization Tuzla**  
**Financial Statements for the year ended 31 December 2003**

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

**(b) Sector Analysis**

Loan portfolio can be shown as follows:

	<b>2003 KM</b>	<b>2002 KM</b>
Agriculture	3,089,252	2,652,555
Manufacturing	1,219,999	485,165
Sales	4,871,737	3,850,981
Service	1,842,410	1,197,081
	<u>11,023,398</u>	<u>8,185,782</u>
Interest receivables	148,815	122,847
<i>Specific provision for loan risk</i>	<i>(37,730)</i>	<i>(15,531)</i>
<i>Other provision for loan risks</i>	<i>(109,450)</i>	<i>(81,507)</i>
<i>Provision for interest receivables</i>	<i>(1,488)</i>	<i>(1,288)</i>
	<u>(148,668)</u>	<u>98,326</u>
<b>Total</b>	<b><u>11,023,545</u></b>	<b><u>8,210,303</u></b>

Loan terms are defined according to the loan type and is as follows:

- for solidarity groups up to 15 months
- for individual loans up to 24 months.

**(c) Geographic Analysis**

All loans are approved for citizens of Bosnia and Herzegovina.

	<b>2003 KM</b>	<b>2002 KM</b>
"Tuzlanski" Canton	8,876,686	7,115,162
"Zeničko-dobojski" Canton	992,635	920,346
"Posavski" Canton	18,812	1,342
"Srednje-bosanski" Canton	1,247	1,234
Republic of Srpska	1,068,857	108,175
Brčko District	65,161	39,523
	<u>11,023,398</u>	<u>8,185,782</u>
<b>Total</b>	<b><u>11,023,398</u></b>	<b><u>8,185,782</u></b>

**(d) Loans in Arrears**

Loans in arrears may be analyzed as follows:

	<b>2003 KM</b>	<b>2002 KM</b>
1 – 30 days overdue	55,306	18,084
31 – 60 days overdue	9,118	8,311
61 – 90 days overdue	7,429	8,659
Over 90 days overdue	6,516	-

**MI-BOSPO Microcredit Organization Tuzla**  
**Financial Statements for the year ended 31 December 2003**

<b>Total</b>	<b>78,369</b>	<b>35,054</b>
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**10. CUSTOMER LOANS, LESS PROVISION FOR POSSIBLE LOSS (CONTINUED)**

**(e) Provision**

Movements in provision for possible loan and interest receivable losses are as follows:

	<b>2003 KM</b>	<b>2002 KM</b>
Balance as of January 1	98,326	79,229
New provision	124,461	74,821
Write offs	(74,119)	(55,724)
<b>Balance as of December 31</b>	<b>148,668</b>	<b>98,326</b>

**11. OTHER ASSETS**

	<b>2003 KM</b>	<b>2002 KM</b>
Receivables from advance payments	57,923	6,345
Receivables from employees	285	900
Advance rent payments	-	450
Doubtfull receivables	15,944	15,944
Other	135	143
	<b>74,287</b>	<b>23,782</b>
Provision for other assets	(15,944)	(15,944)
<b>Total</b>	<b>58,343</b>	<b>7,838</b>

Movements in provision for possible losses and losses in other assets are as follows:

	<b>2003 KM</b>	<b>2002 KM</b>
Balance as of January 1	15,944	15,944
New provision	-	-
<b>Balance as of December 31</b>	<b>15,944</b>	<b>15,944</b>

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**12. TANGIBLE AND INTANGIBLE ASSETS**

	<b>Furniture and equipment KM</b>	<b>Vehicles KM</b>	<b>Computers KM</b>	<b>Intangible assets KM</b>	<b>Total KM</b>
<i>Purchase cost</i>					
<b>31 December 2002</b>	<b>46,457</b>	<b>166,794</b>	<b>77,037</b>	-	<b>290,288</b>
Opening balance adjustments	(7,420)	-	-	-	(7,420)
Additions	17,360	33,327	17,146	251,072	318,905
Disposals	-	-	(2,895)	-	(2,895)
<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>
<i>Depreciation</i>					
<b>31 December 2002</b>	<b>16,267</b>	<b>39,639</b>	<b>32,106</b>	-	<b>88,012</b>
Opening balance adjustments	(7,165)	-	-	-	(7,165)
Depreciation for the year	6,485	30,789	19,393	-	56,667
Disposal	-	-	(2,895)	-	(2,895)
<b>31 December 2003</b>	<b>15,587</b>	<b>70,428</b>	<b>48,604</b>	-	<b>134,619</b>
<i>Net book value</i>					
<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>
<b>31 December 2002</b>	<b>30,190</b>	<b>127,155</b>	<b>44,931</b>	-	<b>202,276</b>

**13. BORROWINGS**

	<b>2003 KM</b>	<b>2002 KM</b>
<i>Short-term loans:</i>		
Raiffeisen Bank BiH d.d. Sarajevo	1,907,000	1,690,000
Hivos – Triodos Funds, Netherlands	391,166	-
Current portion of long-term debt	86,840	-
	<b>2,385,006</b>	<b>1,690,000</b>
<i>Long-term loans:</i>		
ODRAZ	4,530,390	2,926,610
Deutsche Bank	195,646	237,450
Kreditanstalt für Wiederaufbau, Germany	347,747	391,166
Current portion of long-term debt	(86,840)	-
	<b>4,986,943</b>	<b>3,555,226</b>
<b>Total</b>	<b>7,371,949</b>	<b>5,245,226</b>

The Organization uses three short-term loans at Raiffeisen Bank BiH d.d. Sarajevo on a revolving basis, with an interest rate of 8.5% annually and maturity of 1 year (see Note 10).

The Organization has signed a loan agreement on 10 October 2002 with Local Initiative Project of Agency for Sustainable Development of FBiH (ODRAZ). In accordance with this contract, ODRAZ recognized the amount of 947,361 KM (484,378 EUR) from the previous loan contract as additional supplementary Organization's funds. New contract has defined new obligations in total amount of 4,530,390 KM (2,316,352 EUR) with maturity at 16 March 2017 and grace period of 5 years and

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annual interest rate of 5%. Repayment will be done in 20 equal semi-annual installments starting 15 September 2007.

**13. BORROWINGS (CONTINUED)**

On 22 June 2001, the Organization has received a loan from Deutsche Bank in amount of 125,000 USD (M 195,646). Interest rate amounts to 2% annually and is paid quarterly, principal will be repaid in after the contract expires on 26 July 2006.

On 25 July 2002, the Organization has received a loan from KfW in amount of 200,000 EUR (KM 391,166) for the purpose of granting micro credits. Interest rate is EURIBOR, repayment will be done in equal semi-annual installments beginning 30 September 2003 to 30 September 2007.

Organization has signed a loan agreement with Hivos-Triodos Fonds on 1 September 2003 in amount of 391,166 KM (200,000 EUR) for the period of one year and an interest rate of 9.5% annually which is paid quarterly.

**14. SUBORDINATED DEBT**

	<b>2003 KM</b>	<b>2002 KM</b>
UNHCR	479,036	479,036
UMCOR	78,258	93,500
<b>Total</b>	<b>557,294</b>	<b>572,536</b>

Loan granted from UNHCR as of 1 January 1998 is in amount of KM 479,036 and with maturity date as of 31 December 2004. The purpose of the loan is to support social policy for refugees, and bears no interest.

Loan granted from UMCOR as of 19 July 2002 is in amount of USD 50,000 (in 2003 KM 78,258 and in 2002, KM 93,500) with maturity date 31 Decemebr 2004. The purpose of the loan is to support microcredit operations and bears no interest.

**15. OTHER LIABILITIES**

	<b>2003 KM</b>	<b>2002 KM</b>
Liabilities toward employees	93,065	67,869
Audit fee	19,679	29,568
Accrued interest liabilities	26,791	16,860
Bank fees	-	2,275
Other liabilities	13,336	13,824
<b>Total</b>	<b>152,871</b>	<b>130,396</b>

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**16. SUPPLEMENTARY FUNDS**

	<b>2003</b>	<b>2002</b>
	<b>KM</b>	<b>KM</b>
CWS	145,600	-
WWB	955,508	575,625
LOIN	947,361	-
Other	-	16,613
<b>Total</b>	<b>2,048,469</b>	<b>592,238</b>

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

**17. 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.

**18. MANAGEMENT EXPENSES**

	<b>2003</b>	<b>2002</b>
	<b>KM</b>	<b>KM</b>
Management salaries	196,781	148,698
Fees to Board of Directors	23,281	31,726
<b>Total</b>	<b>220,062</b>	<b>180,424</b>

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**19. MATURED ASSETS, LIABILITIES AND INTEREST RISK**

31 December 2003	Current due	Up to 6 months	6-12 months	Over 12 months	Provision	Without pricing period	Total
	KM	KM	KM	KM	KM	KM	KM
<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
Tangible and intangible assets	-	-	-	-	-	464,259	464,259
Other assets	-	-	-	-	(15,944)	74,287	58,343
<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>(164,612)</b>	<b>538,546</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>-</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>(164,612)</b>	<b>538,546</b>	<b>5,084,730</b>
<b>NET POSITION in 2002</b>	<b>455,729</b>	<b>5,635,295</b>	<b>1,449,037</b>	<b>(3,623,077)</b>	<b>(114,270)</b>	<b>210,114</b>	<b>4,012,828</b>

**20. ASSETS AND LIABILITIES CURRENCY STRUCTURE**

31 December 2003	KM	EUR	USD	Provision	Total KM
<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>
<b>NET POSITION in 2002</b>	<b>3,704,929</b>	<b>288,051</b>	<b>116,886</b>	<b>(97,038)</b>	<b>4,012,828</b>