



MIKRO KREDITNA ORGANIZACIJA
MI – BOSPO TUZLA

Financial statements
for the year ended 31 December 2005
together with the independent auditors' report

Contents

	<i>Page</i>
Responsibility for financial statements	1
Independent auditors' report	2
Financial statements:	
Income statement	3
Balance sheet	4
Statement of cash flows	5
Statement of changes in net assets	6
Notes to the financial statements	7 – 35

Responsibility for the financial statements

Management is responsible for ensuring that the financial statements of Mikro kreditna 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 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, Executive Director

Mikro kreditna organizacija MI – BOSPO, Tuzla
Bosne Srebrene bb
75 000 Tuzla
Bosnia and Herzegovina
31 May 2006

Independent auditors' report

To Board of Directors of Mikro kreditna organizacija MI – BOSPO Tuzla:

We have audited the accompanying financial statements of MKO MI - BOSPO Tuzla (the "Organisation") which comprise the balance sheet as at 31 December 2005 and the related statement of income, statement of changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Organisation's management. Our responsibility is to express an opinion on these financial statements, taken as a whole, based on our audit.

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

In our opinion the financial statements present fairly, in all material respects, the financial position of the Organisation as at 31 December 2005, and of the results of its operations, changes in net assets and its cash flows and for the year then ended in accordance with Disclosure Guidelines for Financial Reporting by Microfinance Institutions and the basis of accounting described in Note 2.



Deloitte d.o.o.

Sarajevo, Bosnia and Herzegovina
31 May 2006

Mikro kreditna organizacija MI – BOSPO Tuzla
 Income statement
 for the year ended 31 December 2005
 (all amounts are expressed in KM)



	Note	2005	2004
Interest income	3	5,779,100	3,701,117
Interest expense	4	<u>(965,041)</u>	<u>(457,671)</u>
Net interest income		<u>4,814,059</u>	<u>3,243,446</u>
Other operating income	5	97,774	80,257
Operating expenses	6	(2,869,724)	(2,165,000)
Other operating expenses	7	(2,800)	(264)
Foreign exchange, net		<u>837</u>	<u>(1,434)</u>
Net operating expenses		<u>(2,773,913)</u>	<u>(2,086,441)</u>
NET INCOME BEFORE PROVISIONS FOR LOAN IMPAIRMENT		<u>2,040,146</u>	<u>1,157,005</u>
Provisions for loan impairment	8, 12	<u>(282,229)</u>	<u>(179,573)</u>
NET OPERATING INCOME		<u>1,757,917</u>	<u>977,432</u>
Donations	9, 18	<u>479,036</u>	<u>157,850</u>
EXCESS OF INCOME OVER EXPENDITURES (NET RESULT)		<u>2,236,953</u>	<u>1,135,282</u>

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

Mikro kreditna organizacija MI – BOSPO Tuzla
 Balance sheet
 as of 31 December 2005
 (all amounts are expressed in KM)



	Note	2005	2004
ASSETS			
Cash and cash equivalents	10	364,950	1,055,916
Bank deposits	11	1,157,759	1,101,716
Loans to clients, net	12	25,720,817	13,527,581
Other assets	13	75,492	37,323
Property, plant and equipment	14	1,328,543	702,874
Total assets		28,647,561	16,425,410
LIABILITIES			
Borrowings	15	19,882,993	9,526,323
Subordinated loans	16	-	479,036
Other liabilities	17	307,603	200,039
Total liabilities		20,190,596	10,205,398
NET ASSETS			
Supplementary Funds	18	2,685,355	2,206,319
Excess of income over expenditures		5,771,610	4,013,693
Total net assets		8,456,965	6,220,012
TOTAL LIABILITIES AND NET ASSETS		28,647,561	16,425,410

Signed on behalf of Mikro kreditna organizacija MI – BOSPO Tuzla on 31 May 2006:

Nejira Nalić 

Executive Director

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

Mikro kreditna organizacija MI – BOSPO Tuzla
Statement of cash flows
for the year ended 31 December 2005
(all amounts are expressed in KM)



	2005	2004
Operating Activities		
Net result	2,236,953	1,135,282
<i>Adjustments to reconcile net result with funds from operations:</i>		
Depreciation	120,691	70,188
Net increase in provisions for possible loan impairment	132,211	179,573
Loss from disposal of property, plant and equipment	2,666	220
Conversion of subordinated debt to donation	(479,036)	(79,145)
Net (loss) gain in exchange rates	(837)	1,434
<i>Adjustment to reconcile net income to net cash provided by operating activities</i>	<i>2,012,648</i>	<i>1,307,552</i>
Net (increase) in loans granted	(12,184,074)	(2,660,891)
Net (increase) in interest receivable for loans to clients	(141,373)	(22,718)
Net (increase) decrease in other assets	(38,169)	21,020
Net increase in other liabilities	107,564	47,168
NET CASH USED IN OPERATING ACTIVITIES	<u>(10,243,404)</u>	<u>(1,307,869)</u>
Investing Activities		
Purchase of property, plant and equipment	(749,026)	(309,023)
Net (increase) in bank deposits	(27,679)	(59,613)
NET CASH USED IN INVESTING ACTIVITIES	<u>(776,705)</u>	<u>(368,636)</u>
Financing Activities		
Net increase in borrowings	10,329,143	2,154,374
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>10,329,143</u>	<u>2,154,374</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(690,966)</u>	<u>477,869</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,055,916</u>	<u>578,047</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>364,950</u>	<u>1,055,916</u>

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

Mikro kreditna organizacija MI – BOSPO Tuzla
 Statement of changes in net assets
 for the year ended 31 December 2005
 (all amounts are expressed in KM)



	Supplementary Funds	Excess of income over expenditure	Total
Balance at 1 January 2003	2,048,469	3,036,261	5,084,730
Donations	157,850	-	157,850
Net operating income	-	977,432	977,432
Balance at 1 December 2004	2,206,319	4,013,693	6,220,012
Donations	479,036	-	479,036
Net operating income	-	1,757,917	1,757,917
Balance at 31 December 2005	2,685,355	5,771,610	8,456,965

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

1. GENERAL

Mikro kreditna organizacija MI – BOSPO Tuzla (the 'Organisation') started its operations in March 1996 as a humanitarian organization BOSPO Tuzla. On the basis of a decision from the Federal Ministry for social policy, displaced persons and refugees No. 05-4-35-M1-1850/00 dated 18 December 2000, all rights, assets and liabilities of the humanitarian organization BOSPO were transferred to the newly registered Micro credit organization MI-BOSPO Tuzla. Organisation is involved only in one business segment – micro finance.

The executive office of the Organization is in Tuzla, Bosne Srebrene bb. The principal activity is financing of income generating and profitable economic activities of women entrepreneurs. The Organization offers loans through solidarity groups and individually for: manufacturing, sales, services and agriculture.

Bodies of the Organisation

Board of Directors:

Tahira Salihović	Chairperson
Sanja Hajdukov	Member
Admir Džumhur	Member
Kadrija Hodžić	Member
Mersija Jašarević	Member
Edina Arslanagić	Member (representative RFB Sarajevo)
Mirzet Ribić	Member (representative from LIP 2, without voting rights)

Management:

Nejira Nalić	Executive Director
Elmedina Bećirović	Financial Manager
Mevludin Hadžić	Internal Auditor
Senad Krekić	Credit Manager
Alma Bijedić	HR Manager
Edin Bakalović	IT Manager

1. GENERAL (CONTINUED)

The Organisation operates through thirteen 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 Krlježe 13
Prnjavor	Veljka Milankovića 3

1.1 PERFORMANCE INDICATORS

Efficiency Ratios	2005	2004
Active clients / Number of staff	250	205
Active clients / Number of loan officers	407	329
Net outstanding portfolio / Number of loan officers	734,880	483,128
Percentage total operating expenses / Average net portfolio	14.64%	17.65%

Financial Ratios	2005	2004
	%	%
Return on assets: Net operating income / average total assets	7.80	6.61
Return on equity: Net operating income / average total equity	23.95	17.29
Yield on portfolio: Interest income / average net portfolio outstanding	29.45	30.15

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 general accepted accounting principles requires from 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.

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 Micro credit Organisations ("Official Gazette of Federation of Bosnia and Herzegovina" 24/00).

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

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 Organization 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, 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 of and spouses 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 micro credit institutions in Bosnia and Herzegovina, MCOs are not allowed to keep saving accounts from their clients.

Employee benefits

The Organisation has no defined post-retirement benefit plans for its employees or management in Bosnia and Herzegovina. The Organisation makes contributions on behalf of its employees to mandatory federal pension plans. According to the local legislation and internal Rulebook on employment, Organisation is obligated to make retirement payments of minimum three average monthly salaries of the employee. Any future payments to employees is the responsibility of the Federation of Bosnia and Herzegovina or Republika Srpska and accordingly the Organisation has no outstanding liabilities for post employment benefits for either for its present or former employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property and equipment are started 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.

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 Centralna banka Bosne i Hercegovine valid at the date of balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 fixed assets 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.

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 with the current year presentation.

3. INTEREST INCOME

	<u>2005</u>	<u>2004</u>
Interest income on loans to clients	5,735,941	3,661,669
Interest income on deposits	22,310	23,410
Penalty interest	20,849	16,038
	<u>5,779,100</u>	<u>3,701,117</u>

4. INTEREST EXPENSE

	<u>2005</u>	<u>2004</u>
Long – term loans		
Foundation for Sustainable Development of Federation of BiH (ODRAZ)	349,505	258,032
Hivos - Triodos Funds, Netherlands	86,944	-
Raiffeisen Bank BiH d.d., Sarajevo	74,105	37,852
Oikocredit	56,083	-
Tuzlanska Banka d.d., Tuzla	42,179	-
GMF	27,708	-
KFW-Kreditanstalt fur Wiederaufbau	10,307	12,498
	<u>646,831</u>	<u>308,382</u>
Short – term loans		
Raiffeisen bank BiH d.d., Sarajevo – revolving	124,881	95,406
GMF	81,651	-
MicroVest I, LP, USA	69,597	4,236
HVB Central Profit Banka d.d., Sarajevo	34,275	6,626
Deutsche Bank Microcredit Development Fund, Inc., Delaware, USA	4,079	3,942
Tuzlanska Banka d.d., Tuzla	3,727	-
Hivos - Triodos Funds, Netherlands	-	39,079
	<u>318,210</u>	<u>149,289</u>
	<u>965,041</u>	<u>457,671</u>

5. OTHER OPERATING INCOME

	<u>2005</u>	<u>2004</u>
Collected written off loan receivables	37,021	24,070
Other income	60,753	56,187

97,774	80,257
---------------	---------------

6. OPERATING EXPENSES

	2005	2004
Personnel expense	1,691,888	1,382,564
Other employee expenses	260,683	195,466
Professional services	207,839	121,694
Bank fees	121,318	67,235
Depreciation	120,691	70,188
Telephone and postal	103,415	55,355
Utilities expense	85,708	54,566
Rental fee	70,988	79,416
Office supplies	52,139	31,320
Board of Directors' fees	22,816	28,836
Membership fees	7,039	5,510
Other	125,200	72,850
	2,869,724	2,165,000

At 31 December 2005 the Organisation had 57 employees (2004 – 45 employees).

7. OTHER OPERATING EXPENSE

	2005	2004
Loss from sale/disposal of property, plant and equipment	2,666	220
Other expenses	134	44
	2,800	264

8. PROVISION FOR LOAN IMPAIRMENT

	2005	2004
Provision for loan impairment	280,815	179,348
Provision for interest receivables impairment	1,414	225
	282,229	179,573

9. DONATIONS

	<u>2005</u>	<u>2004</u>
UNHCR	479,036	
United Methodist Committee on Relief (UMCOR)	-	79,145
Women's World Banking (WWB)	-	78,705
	<u>479,036</u>	<u>157,850</u>

Income in amount of KM 479,036 as at 31 December 2005 relates to an interest-free subordinated loan granted by UNHCR on 1 January 1998, maturing on 31 December 2004. In accordance with the Agreement, UNHCR has donated these funds on 25 March 2005 (Note 18).

On 19 July 1998, UMCOR (United Methodist Committee on Relief) has granted the Organization subordinated debt in the amount of USD 50,000 (KM 79,145). On 13 March 2004, UMCOR donated this amount to the Organization (Note 18).

WWB donated USD 500,000 in accordance with the Capitalization contract, of which a first instalment in the amount of USD 250,000 (KM 575,625) was transferred on 9 July 2001 and a second instalment in the amount of USD 200,000 (KM 379,883) was transferred on 19 December 2002. The remaining amount of USD 50,000 (KM 78,705) has been transferred on 1 March 2004 (Note 18).

Organisation also received funds for the reimbursement of operating costs during 2005 and 2004. Total amount of reimbursed costs for 2005 and 2004 is KM 17,213 and KM 77,024 respectively.

Besides the amounts recorded in the financial statements, during 2005 and 2004, Organisation has received in kind donations in form of consultant services from Women World Banking and OdRaz. Management estimates a fair market value of these services in amount of KM 60,000 and KM 67,565 respectively.

10. CASH AND CASH EQUIVALENTS

	<u>2005</u>	<u>2004</u>
Cash on hand	456	140
Current accounts with banks	364,494	1,055,776
	<u>364,950</u>	<u>1,055,916</u>

11. BANK DEPOSITS

	<u>Maturity</u>	<u>Interest rate %</u>	<u>2005</u>	<u>2004</u>
Raiffeisen bank d.d., Sarajevo	5 Sept 2008	1.75%	1,054,243	1,026,716
Women World Banking (WWB)	23 Sept 2006	-	24,379	-
HVB - Central Profit Banka d.d., Sarajevo	15 Oct 2006	-	79,137	75,000
Total			<u>1,157,759</u>	<u>1,101,716</u>

Deposits with Raiffeisen bank d.d., Sarajevo and HVB - Central Profit Banka d.d., Sarajevo serve as a guarantee for the loans obtained from the mentioned banks. Deposit with the WWB serves as a guarantee for the Letter of Credit with the HVB - Central Profit Banka d.d., Sarajevo. This deposit does not cover the loan issued in amount of KM 300,000.

12. LOANS TO CLIENTS

Monthly interest rates for the loans placed during 2005 and 2004 range between 1.66% and 2.83%. Average loan maturity is 14 months (2004, 12 months). Interest rates are fixed, defined by the contract and included in the repayment schedule.

	<u>2005</u>	<u>2004</u>
Sector Analysis		
Agriculture	7,849,200	1,546,004
Services	5,731,629	2,496,055
Manufacturing	3,826,333	4,634,312
Sales	8,319,083	4,865,800
<i>Total loans before allowance for possible impairment</i>	<i>25,726,245</i>	<i>13,542,171</i>
Less: Allowance for possible loan impairment	(314,982)	(184,185)
Net loans	<u>25,411,263</u>	<u>13,357,986</u>
Interest receivable for loans to clients	312,681	171,308
Less: Allowance for interest receivables losses	(3,127)	(1,713)
Net interest receivables	<u>309,554</u>	<u>169,595</u>
	<u>25,720,817</u>	<u>13,527,581</u>

12. LOANS TO CLIENTS (CONTINUED)

Geographic analysis	2005	2004
Bijeljina	2,316,492	1,114,058
Brčko	1,339,933	211,342
Gračanica	437,817	-
Gradačac	2,495,691	1,232,370
Kalesija	2,810,035	2,147,125
Lukavac	3,976,816	1,586,658
Prnjavor	598,470	-
Srebrenica	435,795	139,281
Srebrenik	2,136,268	1,074,751
Tuzla	3,555,308	2,745,597
Zavidovići	1,640,065	1,117,939
Živinice	3,036,754	2,173,050
Zvornik	946,801	-
<i>Total loans before allowance for possible impairment</i>	<i>25,726,245</i>	<i>13,542,171</i>
Less: Allowance for possible loan impairment	(314,982)	(184,185)
Net loans	25,411,263	13,357,986
Interest receivable for loans to clients	312,681	171,308
Less: Allowance for interest receivables losses	(3,127)	(1,713)
Net interest receivables	309,554	169,595
	25,720,817	13,527,581
	2005	2004
Current loans	25,556,685	13,424,752
Loans overdue 1 to over 90 days	169,560	117,419
<i>Total loan portfolio</i>	<i>25,726,245</i>	<i>13,542,171</i>
Less: Allowance for loan impairment	(314,982)	(184,185)
Net loan portfolio	25,411,263	13,357,986
Movements in allowance for possible loan impairment are as follows:		
	2005	2004
Balance at 1 January	184,185	147,180
Additional provisions	280,815	179,348
Release of allowance due to write-offs	(150,018)	(142,343)

Balance at 31 December	314,982	184,185
-------------------------------	----------------	----------------

12. LOANS TO CLIENTS (CONTINUED)

Movements in allowance for possible interest impairment are as follows:

	2005	2004
Balance at 1 January	1,713	1,488
Additional provisions	1,414	225
Release of allowance due to write-offs	-	-
Balance at 31 December	3,127	1,713

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
	99.92%	25,705,093		312,943
Renegotiated loans				
Current	0.04%	11,538	1%	115
1–30 days late	0.04%	9,614	20%	1,923
31–60 days late	-	-	-	-
61–90 days late	-	-	-	-
More than 90 days late	-	-	-	-
	0.08%	21,152		2,038
	100,00	25,726,245		314,982

12. LOANS TO CLIENTS (CONTINUED)

Allowance for loan impairment as at 31 December 2004 can be disclosed as follows:

	Outstanding loan portfolio (principal)		Allowance for loan impairment	
	Share of total	Amount		Amount
Current	98.55%	13,346,301	1%	133,462
1–30 days late	0.43%	58,763	20%	11,753
31–60 days late	0.32%	43,697	60%	26,218
61–90 days late	0.11%	14,959	80%	11,967
More than 90 days late	0.00%	-	100%	-
	<u>99.92%</u>	<u>13,463,720</u>		<u>183,400</u>
Renegotiated loans				
Current	0.58%	78,451	1%	785
1–30 days late	-	-	-	-
31–60 days late	-	-	-	-
61–90 days late	-	-	-	-
More than 90 days late	-	-	-	-
	<u>0.08%</u>	<u>78,451</u>		<u>785</u>
	<u>100,00</u>	<u>13,542,171</u>		<u>184,185</u>

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 150,018 in 2005 and KM 142,343 in 2004.

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 312,680 on 31 December 2005 and KM 171,308 on 31 December 2004.

	Number	2005 Outstanding loan portfolio (principal)	Number	2004 Outstanding loan portfolio (principal)
Normal loans	15,655	25,705,093	9,300	13,463,720
Renegotiated loans	6	21,152	18	78,451
Total loans	15,661	25,726,245	9,318	13,542,171

As at 31 December 2005 and 2004, Organisation had 15,661 and 9,318 outstanding loan accounts respectively.

13. OTHER ASSETS

	<u>2005</u>	<u>2004</u>
Prepaid expenses	75,102	-
Receivables for advance payments	-	37,188
Other receivables	<u>390</u>	<u>135</u>
	<u>75,492</u>	<u>37,323</u>

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and Equipment	Vehicles	Computers	Investment in progress	Total
<u>Cost</u>						
As of 31 December 2004	-	78,961	284,218	100,609	430,396	894,184
- Additions	23,143	42,911	460,901	95,220	126,851	749,026
- Transfer from/to	505,023	23,333	-	28,891	(557,247)	-
- Disposals	-	(1,080)	-	(5,904)	-	(6,984)
As of 31 December 2005	<u>528,166</u>	<u>144,125</u>	<u>745,119</u>	<u>218,816</u>	<u>-</u>	<u>1,636,226</u>
<u>Accumulated depreciation</u>						
As of 31 December 2004	-	24,864	109,376	57,070	-	191,310
- Depreciation for the year	3,450	15,322	63,997	37,922	-	120,691
- Disposals	-	(460)	-	(3,858)	-	(4,318)
As of 31 December 2005	<u>3,450</u>	<u>39,726</u>	<u>173,373</u>	<u>91,134</u>	<u>-</u>	<u>307,683</u>
<u>Net book value</u>						
As of 31 December 2005	<u>524,716</u>	<u>104,399</u>	<u>571,746</u>	<u>127,682</u>	<u>-</u>	<u>1,328,543</u>
As of 31 December 2004	<u>-</u>	<u>54,097</u>	<u>174,842</u>	<u>43,539</u>	<u>430,396</u>	<u>702,874</u>

15. BORROWINGS

	Interest rate %	Average principal during the year in 2005	Average principal during the year in 2004	2005	2004
Short-term loan					
HVB Central Profit Banka d.d., Sarajevo	6M Euribor + 5.00	1,260,000	-	1,450,000	-
HVB - Central Profit Banka d.d., Sarajevo	7.00	251,875	150,000	30,000	150,000
Raiffeisen bank BiH d.d., Sarajevo – revolving	7.99	732,677	534,000	1,000,000	295,000
MicroVest I, LP, USA Deutsche Bank Microcredit Development Fund, Inc., Delaware, USA	9.00	782,332	733,436	782,332	733,436
GMF	2.00	193,475	187,687	207,238	179,712
GMF	9.50	1,369,081	-	1,369,081	-
Hivos - Triodos Funds, Netherlands	9.00	-	423,763	-	782,332
				<u>4,838,651</u>	<u>2,140,480</u>
Long-term loan					
Foundation for Sustainable Development of Federation of BiH (ODRAZ)	5.00	6,608,834	5,263,827	7,220,406	5,997,263
Hivos - Triodos Funds, Netherlands	8.75	977,915	-	2,346,996	-
GMF	8.50	1,955,830	-	1,955,830	-
Oikocredit	8.80	1,173,498	-	1,173,498	-
Raiffeisen Bank BiH d.d., Sarajevo	6M Euribor + 5.80	695,000	-	700,000	-
Raiffeisen Bank BiH d.d., Sarajevo	6M Euribor + 5.80	690,909	935,606	518,181	863,636
Tuzlanska Banka d.d., Tuzla	9.50	829,285	-	750,000	-
KfW-Kreditanstalt fur Wiederaufbau*	Euribor	234,700	278,706	205,362	264,037
KfW-Kreditanstalt fur Wiederaufbau*	Euribor	217,488	304,327	174,069	260,907
				<u>15,044,342</u>	<u>7,385,843</u>
				<u>19,882,993</u>	<u>9,526,323</u>

* 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). Please see Note 26.

15. BORROWINGS (CONTINUED)

On 12 October 2005, HVB - Central Profit Bank d.d. Sarajevo granted the Organization a revolving loan in the amount of KM 1,450,000, with Euribor + 5.00% interest rate, payable in 12 monthly instalments beginning one month after disbursement. The loan matures on 15 October 2006. Loan fee was 1.50% of the principal granted. Loan is secured by a letter of credit of WWB, assignment of loan receivables, bill of exchange and bank deposit in amount of EUR 40,462.

On 22 April 2005, HVB - Central Profit Bank d.d. Sarajevo granted the Organization a revolving loan in the amount of KM 300,000 with 7.00% interest rate, payable in 14 monthly instalments beginning one month after disbursement. The loan matures on 15 June 2006. Loan fee was 1.50% of the principal granted. Loan is secured by assignment of loan receivables, bill of exchange and bank deposit in amount of EUR 40,462. Accrued interest as at 31 December 2005 and 2004, related to both of HVB loans (mentioned above) is KM 4,584 and KM 462.

Raiffeisen bank BiH d.d. Sarajevo granted the Organization a loan in the amount of KM 1,000,000, with 7.99% interest rate and 0.25% loan fee. The contract expires on 1 July 2006 with no grace period. The loan is secured by assignment of loan receivables and deposit in amount of EUR 248,996, EUR 184,071, and EUR 125,000. Accrued interest as at 31 December 2005 and 2004 is KM 5,473 and KM 1,330.

Loan from MicroVest is granted on November 21st, 2005 in amount of EUR 400,000, with 9.00% interest rate. Loan is to be repaid in three equal instalments beginning with September 2006. Interest is payable at quarterly basis until the Maturity date (November 2006). The loan is secured by a bill of exchange. Accrued interest rate in the year 2005 and 2004, is KM 6,063 and KM 4,236.

On 22 June 2001, the Organization was granted with a loan from Deutsche Bank in the amount of USD 125,000, with 2.00% interest rate. The loan is to be repaid by 26 July 2006 in equal quarterly instalments beginning 5 years after disbursement. The loan will be used to finance the loan portfolio. The loan was not secured and the fee was 1.00% of the principal granted. Accrued interest as at 31 December 2005 and 2004, is KM 530 and KM 459.

Loan from GMF was granted on May 13th, 2005 in amount of EUR 700,000, with 9.50% interest rate. Loan will be repaid in a single payment at maturity being May 2006. Interest is payable on a quarterly basis until the Maturity date. The loan is secured by a bill of exchange. Accrued interest as at 31 December 2005, is KM 15,174.

On 10 October 2003, the Organization 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%, but Organisation pay 5% interest. 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 Organization 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.

15. BORROWINGS (CONTINUED)

The loan is secured by bills of exchange and an assignment of receivables from micro credit loans granted using these funds. Accrued interest as at 31 December 2005 and 2004 is KM 30,663 and KM 25,469.

On 6 October 2005, the Organisation was granted with a loan from Hivos-Triadods Fonds in amount of KM 2,738,162 (1,400,000 EUR) with 8.75% interest rate and 1.00 % loan fee. The loan is to be repaid in two equal instalment (EUR 700,000) on 01 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 2005 is KM 3,162.

On 28 October 2005, the Organisation was granted with a loan from Global Microfinance Facility in amount of KM 1,955,830 (1,000,000 EUR), 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 bill of exchange. Accrued interest as at 31 December 2005 is KM 27,708.

On 06 May 2005, the Organisation was granted with a loan from Oikocredit, Ecumenical Development Cooperative Society U.A in amount of KM 1,173,498 (600,000 EUR), 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 2005 is KM 4,590.

On 5 September 2005, Raiffeisen bank BiH d.d. Sarajevo granted the Organization a loan in the amount of KM 700,000, with Euribor + 5.80% 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 125,000 (collaterals relate to both of RZB loans – mentioned bellow). Accrued interest as at 31 December 2005, is KM 3,664.

On 21 June 2004, Raiffeisen bank BiH d.d. Sarajevo granted the Organization a loan in the amount of KM 950,000, with Euribor + 5.80% 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 2005 and 2004 is KM 1,134 and KM 1,893.

On 06 July 2005, the Organisation was granted with a loan from Tuzlanska banka d.d. Tuzla in amount of KM 1,000,000 (EUR 511,292), with 9.50% interest rate and 0.50% loan fee. The loan is to be repaid in equal quarterly instalments starting from 6 November 2005 to 6 June 2007. The loan is secured by bills of exchange and an assignment of receivables. Accrued interest as at 31 December 2005 is KM 4,301.

15. BORROWINGS (CONTINUED)

On 19 November 2003 the Organization 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 2005 and 2004 for both loans are KM 2,182 and KM 3,018.

During 2005 and 2004, Organisation has met all its obligations on time relating to the above-mentioned loans.

16. SUBORDINATED DEBT

As of 31 December 2004 the amount of KM 479,036 relates to an interest-free subordinated debt granted by UNHCR on 1 January 1998, maturing on 31 December 2004. The purpose of these funds was to support social policy for refugees (Note 9).

17. OTHER LIABILITIES

	<u>2005</u>	<u>2004</u>
Liabilities toward employees	139,920	118,464
Accrued interest liabilities	109,228	36,866
Other liabilities	<u>58,455</u>	<u>44,709</u>
	<u>307,603</u>	<u>200,039</u>

18. SUPPLEMENTARY FUNDS

	<u>2005</u>	<u>2004</u>
CWS	145,600	145,600
WWB	1,034,213	1,034,213
Foundation for Sustainable Development of the Federation of BiH (ODRAZ) - Local Initiative Project	947,361	947,361
UMCOR	79,145	79,145
UNHCR	<u>479,036</u>	<u>-</u>
	<u>2,685,355</u>	<u>2,206,319</u>

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

19. CUMMULATIVE DONATIONS

Below is an overview of cumulative donations received through 2005:

Donations for capitalisation

Donor	Year	Amount
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>2005</u>	<u>479,036</u>
		<u>2,685,355</u>

Donations for operating cost

Donor (purpose)	Year	Amount
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>
		<u>126,318</u>

In kind donations

Year	Estimated Amount
2002	23,700
2004	67,565
2005	<u>60,000</u>
	<u>151,265</u>

20. RELATED-PARTY TRANSACTIONS

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

	<u>2005</u>	<u>2004</u>
Management gross salaries	235,451	220,903
Board of Directors' remuneration	22,817	28,836
Other benefits	16,207	15,507
Benefits in kind	<u>8,246</u>	<u>8,246</u>
	<u>282,721</u>	<u>273,492</u>

21. COMMITMENTS

Rental commitments

The Organisation has entered into certain commitments for the rent of business premises. In 2006 these commitments will result in liabilities amounting to KM 66,798.

22. 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 2005.

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 2005 and 31 December 2004.

23. 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 Tuzlanska Bank d.d. Tuzla. As at 31 December 2005 Organisation did not have any outstanding balances according to this loan.

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

23. INTEREST RISK AND LIQUIDITY RISK (CONTINUED)

Mikro kreditna organizacija MI – BOSPO Tuzla
Notes to the financial statements
for the year ended 31 December 2005
(all amounts are expressed in KM)



	On demand	Up to 6 months	6-12 months	Over 12 months	Maturity undefined	Total
31 December 2005						
Cash and cash equivalents	364,950	-	-	-	-	364,950
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	75,492	-	-	-	-	75,492
Property, plant and equipment	-	-	-	1,328,543	-	1,328,543
TOTAL ASSETS (1)	2,891,948	10,088,947	7,580,998	8,403,777	(318,109)	28,647,561
Borrowings	-	2,218,471	3,844,484	13,820,038	-	19,882,993
Other liabilities	254,523	53,080	-	-	-	307,603
TOTAL LIABILITIES (2)	254,523	2,271,551	3,844,484	13,820,038	-	20,190,596
NET POSITION (1)-(2)	2,637,425	7,817,396	3,736,514	(5,416,261)	(318,109)	8,456,965
31 December 2004						
Cash and cash equivalents	1,055,916	-	-	-	-	1,055,916
Bank deposits	-	-	75,000	1,026,716	-	1,101,716
Loans to clients, net	1,675,810	6,854,225	4,057,710	1,125,734	(185,898)	13,527,581
Other assets	37,323	-	-	-	-	37,323
Property, plant and equipment	-	-	-	-	702,874	702,874
TOTAL ASSETS (1)	2,769,049	6,854,225	4,132,710	2,152,450	516,976	16,425,410
Borrowings	-	395,484	2,056,252	7,074,587	-	9,526,323
Subordinated debt	-	-	-	479,036	-	479,036
Other liabilities	172,955	27,084	-	-	-	200,039
TOTAL LIABILITIES (2)	172,955	422,568	2,056,252	7,553,623	-	10,205,398
NET POSITION (1)-(2)	2,596,094	6,431,657	2,076,458	(5,401,173)	516,976	6,220,012

24. AVERAGE INTEREST RATES AT 31 DECEMBER 2005

The average interest rates for December 2005 calculated as a weighted average for each asset and liability

category.

Assets

Cash and cash equivalents	0.27%
Bank deposits	1.75%
Loans to clients, net	29.20%

Total assets 28,647,561

Total interest earning assets 26,933,973

Liabilities

Bank loans	7.00%
------------	-------

Total liabilities 20,190,596

Total interest bearing liabilities 19,882,993

25. FOREIGN CURRENCY RISK

The Organisation takes on exposure to effects of fluctuations in the prevailing foreign currency exchange

Mikro kreditna organizacija MI – BOSPO Tuzla
Notes to the financial statements
for the year ended 31 December 2005
(all amounts are expressed in KM)



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	Provision	Total
31 December 2005					
Cash and cash equivalents	350,552	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	75,492	-	-	-	75,492
Property and equipment	1,328,543				1,328,543
TOTAL ASSETS (1)	27,793,513	958,443	213,714	(318,109)	28,647,561
Bank loans	4,448,182	15,227,573	207,238	-	19,882,993
Other liabilities	241,529	58,879	7,195	-	307,603
TOTAL LIABILITIES (2)	4,689,711	15,286,452	214,433	-	20,190,596
NET POSITION (1)-(2)	23,103,802	(14,328,009)	(719)	(318,109)	8,456,965
	KM	EUR	USD	Provision	Total
31 December 2004					
Cash and cash equivalents	1,037,291	8,817	9,808	-	1,055,916
Bank deposits	-	922,005	179,711	-	1,101,716
Loans to clients, net	13,713,479	-	-	(185,898)	13,527,581
Other assets	702,874	-	-	-	702,874
Property and equipment	37,323	-	-	-	37,323
TOTAL ASSETS (1)	15,490,967	930,822	189,519	(185,898)	16,425,410
Bank loans	1,787,672	7,558,940	179,711	-	9,526,323
Subordinated debt	-	479,036	-	-	479,036
Other liabilities	200,039	-	-	-	200,039
TOTAL LIABILITIES (2)	1,987,711	8,037,976	179,711	-	10,205,398
NET POSITION (1)-(2)	13,503,256	(7,107,154)	9,808	(185,898)	6,220,012

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

26. 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.


27. SUBSEQUENT EVENTS

Organization was officially notified about the transfer of any and all rights and obligations under the Agreements from Kreditanstalt fuer Wiederaufbau to the European Fund for Southeast Europe (EFSE) on 14 March 2006. Effective date of the transfer is 15 December 2005, being the date when EFSE has been created. ESFE was created based on the decision of donors of funds to the micro-credit organizations (MCOs) to continue with the revolving credit operations, which started under the European Funds for Bosnia and Herzegovina (EFBH) as a major refinancing facility for banks and MCOs in BiH in 1998.


28. APPROVAL OF THE FINANCIAL STATEMENTS

These separate financial statements were approved by the Management Board on 31 May 2006.

Signed on behalf of the Management Board:



Executive Director
Nejira Nalić



Finance Manager
Elmedina Bećirović