

MIKRO KREDITNA ORGANIZACIJA
MI – BOSPO TUZLA

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

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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 International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the state of affairs and results of the Organisation for that period.

After making enquiries, Management has a reasonable expectation that the Organisation has adequate resources to continue in operational existence for the foreseeable future. For this reason, Management continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Organisation will continue in business.

Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company. Management must also ensure that the financial statements comply with the Accounting Law of Bosnia and Herzegovina. Management is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of Management



Nejjira Nalić, Executive Director

Mikro kreditna organizacija MI – BOSPO, Tuzla

Bosne Srebrene bb

75 000 Tuzla

Bosnia and Herzegovina

23 February 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 Company as at 31 December 2005, and of the results of its operations, changes in equity and its cash flows and for the year then ended in accordance with International Financial Reporting Standards.


Deloitte d.o.o.

Sarajevo, Bosnia and Herzegovina
23 February 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>
Operating expenses	5	(2,869,724)	(2,165,000)
Other operating income	6	97,774	80,257
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	<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	<u>1,328,543</u>	<u>702,874</u>
Total assets		<u>28,647,561</u>	<u>16,425,410</u>
LIABILITIES			
Borrowings	15	19,882,993	9,526,323
Subordinated loans	16	-	479,036
Other liabilities	17	<u>307,603</u>	<u>200,039</u>
Total liabilities		<u>20,190,596</u>	<u>10,205,398</u>
NET ASSETS			
Supplementary Funds	18	2,685,355	2,206,319
Excess of income over expenditures		<u>5,771,610</u>	<u>4,013,693</u>
Total net assets		<u>8,456,965</u>	<u>6,220,012</u>
TOTAL LIABILITIES AND NET ASSETS		<u>28,647,561</u>	<u>16,425,410</u>

Signed on behalf of Mikro kreditna organizacija MI – BOSPO Tuzla on 23 February 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.

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

1. GENERAL

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

The 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 four types of individual loans: 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

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

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 Krleže 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 International Financial Reporting Standards ('IFRS') as published by the International Accounting Standards Board. The financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial instruments at fair value. These financial statements are presented in the official currency of Bosnia and Herzegovina, the Konvertibilna Marka ("KM"), which is officially pegged to Euro (EUR 1 = KM 1.95583).

The financial statements are prepared on an accrual basis of accounting, under the going concern assumption.

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.

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.

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.

Loan and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers.

An allowance for loan impairment is established if there is objective evidence that the Organisation will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Specific allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (continued)

Loans and receivables (continued)

Objective evidence of impairment for financial assets assessed collectively for impairment are adverse changes in the payment status of borrowers in the group (eg an increased number of delayed payments) or national or local economic conditions that correlate with defaults on the assets in the group.

When a loan is uncollectable, it is written off against the related allowance for impairment; subsequent recoveries are credited to the 'Impairment losses on loans and advances' line in the income statement.

The Organisation stops accruing the interest on the loans that are classified as a loss due to the bankruptcy of the client or due to default of the loan agreement.

Employee benefits

The Organisation has no defined post-retirement benefit plans for its employees or management in Bosnia and Herzegovina or abroad. 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.

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%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 officialy 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.

Donations

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

Net assets

The Organisation's net assets represent surplus of total assets over total liabilities. Net assets arise from excess of income over expenditures and donations. Income over expenditures has to be used for the micro credit operations. If the Organisation ceased to exist, the Board of Directors has to decide on distribution on Organisation's net assets.

Reclassification

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

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

3. INTEREST INCOME

	<u>2005</u>	<u>2004</u>
Interest income on loans to clients	5,756,790	3,677,707
Interest income on deposits	<u>22,310</u>	<u>23,410</u>
	<u>5,779,100</u>	<u>3,701,117</u>

4. INTEREST EXPENSE

	<u>2005</u>	<u>2004</u>
Interest for assets from Odraz (LIP)	349,505	258,032
Loan interest	<u>615,536</u>	<u>199,639</u>
	<u>965,041</u>	<u>457,671</u>

5. OPERATING EXPENSES

	<u>2005</u>	<u>2004</u>
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	<u>125,200</u>	<u>72,850</u>
	<u>2,869,724</u>	<u>2,165,000</u>

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

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

6. OTHER OPERATING INCOME

	<u>2005</u>	<u>2004</u>
Collected written off loan receivables	37,021	24,070
Other income	60,753	56,187
	<u>97,774</u>	<u>80,257</u>

7. OTHER OPERATING EXPENSE

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

8. PROVISION FOR LOAN IMPAIRMENT

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

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).

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

10. CASH AND CASH EQUIVALENTS

	<u>2005</u>	<u>2004</u>
Cash on hand	456	140
Current accounts with banks	<u>364,494</u>	<u>1,055,776</u>
	<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	-	<u>79,137</u>	<u>75,000</u>
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.

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).

	<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>	25,726,245	13,542,171
Less: Allowance for possible loan impairment	<u>(314,982)</u>	<u>(184,185)</u>
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	<u>(3,127)</u>	<u>(1,713)</u>
Net interest receivables	<u>309,554</u>	<u>169,595</u>
	<u>25,720,817</u>	<u>13,527,581</u>

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

12. LOANS TO CLIENTS (CONTINUED)

Geographic analysis	<u>2005</u>	<u>2004</u>
Bijeljina	2,316,492	1,114,058
Brčko	1,339,933	211,342
Gračanica	437,817	-
Gradačac	2,495,691	1,232,370
Kalesiji	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>	25,726,245	13,542,171
Less: Allowance for possible loan impairment	<u>(314,982)</u>	<u>(184,185)</u>
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	<u>(3,127)</u>	<u>(1,713)</u>
Net interest receivables	<u>309,554</u>	<u>169,595</u>
	<u>25,720,817</u>	<u>13,527,581</u>

Loans in arrears maybe analysed as follows:

	<u>2005.</u>	<u>2004.</u>
- 1 to 30 days overdue	117,309	58,763
- 31 to 60 days overdue	31,147	43,697
- 61 to 90 days overdue	19,191	14,959
- over 91 days overdue	1,913	-
	<u>169,560</u>	<u>117,419</u>

Movements in allowance for possible loan impairment are as follows:

	<u>2005</u>	<u>2004</u>
Balance at 1 January	185,898	148,668
Additional provisions	282,229	179,573
Release of allowance due to write-offs	<u>(150,018)</u>	<u>(142,343)</u>
Balance at 31 December	<u>318,109</u>	<u>185,898</u>

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

13. OTHER ASSETS

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

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15. BORROWINGS

	Maturity	Interest rate %	2005	2004
Short-term loan				
HVB Central Profit Banka d.d., Sarajevo	15 Oct 2006	Euribor + 5.00	1,450,000	-
GMF	May 2006	9.50	1,369,081	-
Raiffeisen bank BiH d.d., Sarajevo	1 July 2006	7.99	1,000,000	295,000
MicroVest I, LP, USA	November 2006	9.00	782,332	733,436
Deutsche Bank Microcredit Development Fund, Inc., Delaware, USA	26 July 2006	2.00	207,238	179,712
HVB - Central Profit Banka d.d., Sarajevo	15 June 2006	7.00	30,000	150,000
Hivos - Triodos Funds, Netherlands	-	9.00	-	782,332
Total short-term loans			4,838,651	2,140,480
Long-term loan				
Foundation for Sustainable Development of Federation of BiH (ODRAZ)	March 2017	5.00	7,220,406	5,997,263
Hivos - Triodos Funds, Netherlands	1 Feb 2008	8.75	2,346,996	-
GMF	28 Oct 2008	8.50	1,955,830	-
Oikocredit	6 June 2007	8.80	1,173,498	-
Raiffeisen Bank BiH d.d., Sarajevo	5 Sept 2008	Euribor + 5.80	700,000	-
Tuzlanska Banka d.d., Tuzla	6 June 2007	9.50	750,000	-
Raiffeisen Bank BiH d.d., Sarajevo	21 Jun 2007	Euribor + 5.80	518,181	863,636
KFW-Kreditanstalt fur Wiederaufbau*	31 March 2009	Euribor	205,362	264,037
KFW-Kreditanstalt fur Wiederaufbau*	30 Sept 2007	Euribor	174,069	260,907
			15,044,342	7,385,843
			19,882,993	9,526,323

* 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.

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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	113,874	38,340
Other liabilities	53,809	43,235
	<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	479,036	-
	<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. RELATED-PARTY TRANSACTIONS

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

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

20. 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.

21. 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.

22. INTEREST RATE RISK AND LIQUIDITY RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Organisation's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of the Organisation to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet.

Liquidity risk is a measure of the extent to which the Organisation may be required to raise funds to meet its commitments associated with financial instruments. The table below provides an analysis of assets, and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The Organisation is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan drawdowns. The Organisation does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Organisation sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

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22. INTEREST RISK AND LIQUIDITY RISK (CONTINUED)

	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

	On demand	Up to 6 months	6-12 months	Over 12 months	Maturity undefined	Total
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

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23. 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

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24. FOREIGN CURRENCY RISK

The Organisation takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below provides an analysis of the Organisation's main currency exposures. The Organisation seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

	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

25. 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.

26. 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.

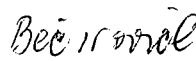
27. APPROVAL OF THE FINANCIAL STATEMENTS

These separate financial statements were approved by the Management Board on 23 February 2006.

Signed on behalf of the Management Board:



Executive Director
Nejra Nalić



Finance Manager
Elmedina Bećirović