

**MIKROKREDITNA FONDACIJA  
MI-BOSPO TUZLA**

Financial statements for the period  
from 1 January to 31 December 2009  
prepared in accordance with International  
Financial Reporting Standards  
as modified by the regulatory requirements  
of Banking Agency of Federation  
of Bosnia and Herzegovina and  
Independent Auditors' Report

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## Responsibility for the financial statements

Management is responsible for ensuring that the financial statements of Mikrokreditna fondacija MI-BOSPO Tuzla (the "Foundation") are prepared for each financial year or period in accordance with International Financial Reporting Standards (IFRS) as modified by the regulatory requirements prescribed by the Banking Agency of Federation of Bosnia and Herzegovina which give a true and fair view of the state of affairs and results of the Foundation for the period.

After making enquiries, Management has a reasonable expectation that the Foundation 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 Foundation 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 Foundation. Management must also ensure that the financial statements comply with the Accounting and Auditing Law of the Federation of Bosnia and Herzegovina. Management is also responsible for safeguarding the assets of the Foundation and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management:



Nejjira Nalic, Director

Mikrokreditna fondacija MI-BOSPO Tuzla

Bosne srebrene bb

75 000 Tuzla

Bosnia and Herzegovina

19 February 2010

## Independent Auditor's report

### **To the Board of Directors of Mikrokreditna fondacija MI-BOSPO Tuzla:**

We have audited the accompanying financial statements of Mikrokreditna fondacija MI-BOSPO Tuzla (the "Foundation"), set out on pages 4 to 36, which comprise the statement of financial position as of 31 December 2009, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year than ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as modified by the regulatory requirements prescribed by the Banking Agency of Federation of Bosnia and Herzegovina. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

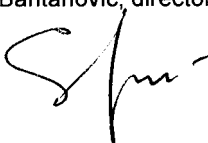
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Foundation as of 31 December 2009, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as modified by the regulatory requirements prescribed by the Banking Agency of Federation of Bosnia and Herzegovina.

*Emphasis of matter*

Without qualifying our opinion, we draw attention to the Notes 15 and 26 which describe the situation related to the Foundation's non-compliance with the loan agreement with lenders and regulatory requirements. Non compliance could result in the lenders' withdrawal of the facilities from the Foundation and demanding immediate repayment of the loans. The Management has communicated these matters to lenders and FBA and is not aware of any circumstances or information which would lead it to believe that these non-compliances will cause negative consequences.

**Deloitte d.o.o.**

Sead Bahtanović, director and certified auditor



Sarajevo, Bosnia and Herzegovina

19 February 2010

Mikrokreditna fondacija MI–BOSPO Tuzla  
Statement of comprehensive income  
for the year ended 31 December 2009  
*(all amounts are expressed in KM)*

	Note	2009	2008
Interest income	6	14,168,774	15,709,520
Interest expense	7	<u>(4,263,451)</u>	<u>(4,106,202)</u>
<b>Net interest income</b>		<b><u>9,905,323</u></b>	<b><u>11,603,318</u></b>
Operating expenses	8	(6,258,607)	(7,284,880)
Other operating income	9	140,015	52,000
Foreign exchange gains, net		<u>-</u>	<u>406</u>
<b>Net operating expenses</b>		<b><u>(6,118,952)</u></b>	<b><u>(7,232,474)</u></b>
<b>NET INCOME BEFORE PROVISIONS FOR LOAN IMPAIRMENT</b>		<b>3,786,731</b>	<b>4,370,844</b>
Impairment losses and provisions	12	(5,619,609)	(783,142)
Collected written off loan receivables		<u>115,497</u>	<u>53,522</u>
<b>EXCESS OF EXPENDITURES OVER INCOME / INCOME OVER EXPENDITURES (NET RESULT)</b>		<b><u>(1,717,381)</u></b>	<b><u>3,641,224</u></b>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income</b>		<b><u>(1,717,381)</u></b>	<b><u>3,641,224</u></b>

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

Mikrokreditna fondacija MI–BOSPO Tuzla  
Statement of financial position  
as of 31 December 2009  
(all amounts are expressed in KM)

	Note	2009	2008
<b>ASSETS</b>			
Cash and cash equivalents	10	1,244,935	1,436,908
Bank deposits	11	14,056,148	2,135,416
Loans to clients, net	12	49,068,217	73,712,613
Other assets	13	185,473	51,323
Property and equipment	14	2,411,011	2,756,034
<b>Total assets</b>		<b>66,965,784</b>	<b>80,092,294</b>
<b>LIABILITIES</b>			
Borrowings	15	49,906,114	61,055,704
Other liabilities	16	373,746	593,202
Provisions	17	108,657	148,740
<b>Total liabilities</b>		<b>50,388,517</b>	<b>61,797,646</b>
<b>NET ASSETS</b>			
Supplementary funds	18	2,685,355	2,685,355
Reserves		1,810,972	560,972
Excess of income over expenditures		12,080,940	15,048,321
<b>Total net assets</b>		<b>16,577,267</b>	<b>18,294,648</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>66,965,784</b>	<b>80,092,294</b>

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

Signed on behalf of Management of Mikrokreditna fondacija MI–BOSPO Tuzla as of 19 February 2010:

Nejira Nalic,

Director



Mikrokreditna fondacija MI–BOSPO Tuzla  
Statement of cash flows  
for the year ended 31 December 2009  
(all amounts are expressed in KM)

	2009	2008
<b>Operating activities</b>		
Net result	(1,717,381)	3,641,224
<i>Adjustments to reconcile net result with funds from operations:</i>		
Depreciation	368,801	341,024
Loss / (gain) on disposal of property and equipment	2,177	(14,243)
(Release of) / increase in provisions, net	(40,083)	20,535
Increase in allowance for impairment of loans, net	1,803,188	166,295
<i>Operating cash flows before movements in working capital</i>	416,702	4,154,835
Net decrease / (increase) in loans to clients	22,841,208	(17,491,028)
Net (increase) / decrease in other assets	(134,150)	71,170
Net (decrease) / increase in other liabilities	(219,456)	201,064
<b>NET CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES</b>	<b>22,904,304</b>	<b>(13,063,959)</b>
<b>Investing activities</b>		
Purchase of property and equipment	(25,955)	(1,260,765)
Net increase of deposits from banks	(11,920,732)	(975,621)
Proceeds from sale of property and equipment	-	19,989
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(11,946,687)</b>	<b>(2,216,397)</b>
<b>Financing activities</b>		
Net (repayment of) / proceeds from borrowings	(11,149,590)	15,822,762
<b>NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES</b>	<b>(11,149,590)</b>	<b>15,822,762</b>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(191,973)</b>	<b>542,406</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>1,436,908</b>	<b>894,502</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>	<b>1,244,935</b>	<b>1,436,908</b>

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

Mikrokreditna fondacija MI–BOSPO Tuzla  
Statement of changes in net assets  
for the year ended 31 December 2009  
*(all amounts are expressed in KM)*

	<b>Supplementary funds</b>	<b>Excess of income over expenditures</b>	<b>Reserves</b>	<b>Total</b>
<b>31 December 2007</b>	<b>2,685,355</b>	<b>11,968,069</b>	<b>-</b>	<b>14,653,424</b>
Net operating income for the year	-	3,641,224	-	3,641,224
Transfer of income over expenditure to reserves	-	(560,972)	560,972	-
Other comprehensive income	-	-	-	-
<b>31 December 2008</b>	<b>2,685,355</b>	<b>15,048,321</b>	<b>560,972</b>	<b>18,294,648</b>
Net operating loss for the year	-	(1,717,381)	-	(1,717,381)
Transfer of income over expenditure to reserves	-	(1,250,000)	1,250,000	-
Other comprehensive income	-	-	-	-
<b>31 December 2009</b>	<b>2,685,355</b>	<b>12,080,940</b>	<b>1,810,972</b>	<b>16,577,267</b>

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

Mikrokreditna fondacija MI–BOSPO Tuzla  
Notes to the financial statements  
for the year ended 31 December 2009  
*(all amounts are expressed in KM)*

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**1. GENERAL**

Mikrokreditna fondacija MI–BOSPO Tuzla (the 'Foundation') started its operations in March 1995 as a Humanitarian organisation Bosanski savjet za pomoc BOSPO Tuzla. In 2000 all rights, assets and liabilities of the Humanitarian organisation BOSPO were transferred to the newly registered Microcredit organisation MI-BOSPO. In accordance with new Law on microcredit (Official Gazette of the Federation of Bosnia and Herzegovina no. 59/06) on 9 July 2007, the Banking Agency of the Federation of Bosnia and Herzegovina issued a license authorising the Organisation to undertake micro-credit operations. On 31 March 2008 the Organisation was registered as a Microcredit foundation MI BOSPO Tuzla ('Foundation') by the Decision of the Ministry of Justice of Federation of Bosnia and Herzegovina (Decision no. 04-02-1825/07). All rights, liabilities and assets from microcredit organisation are transferred to the microcredit foundation, whereby the Foundation became the legal successor of the Organisation.

The executive office of the Foundation is in Tuzla, Bosne srebrene bb. The principal activity is financing of income generating and profitable economic activities of women entrepreneurs. The Foundation offers five types of loans: manufacturing, trade, agriculture, services and secondary loans, which are issued through individual and solidarity group methodology.

As of registration date, the Foundation had following assets and liabilities:

	<b>30 March 2008</b>
<i>Cash and cash equivalents</i>	2,046,028
<i>Deposits held at banks</i>	1,159,795
<i>Net loan receivables</i>	65,485,520
<i>Other assets</i>	43,574
<i>Property, plant and equipment</i>	2,547,476
<b>TOTAL ASSETS</b>	<b>71,282,393</b>
<i>Borrowings</i>	54,466,885
<i>Other liabilities</i>	478,646
<i>Provisions for employees</i>	128,205
<i>Total liabilities</i>	55,073,736
<i>Supplementary funds</i>	2,685,355
<i>Reserves</i>	560,972
<i>Excess of income over expenditures</i>	12,962,330
<i>Total net assets</i>	16,208,657
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>71,282,393</b>

Mikrokreditna fondacija MI–BOSPO Tuzla  
Notes to the financial statements  
for the year ended 31 December 2009  
(all amounts are expressed in KM)

**1. GENERAL (CONTINUED)**

Below is given a summary of Organisation/Foundation's operations for period 1 January 2008 – 31 March 2008 and 1 April 2008 – 31 December 2008.

	<b>01.01 -31.03</b>	<b>01.04 -31.12</b>
<i>Interest income</i>	3,508,345	12,201,175
<i>Interest expenses</i>	(840,683)	(3,265,519)
<b>Net interest income</b>	<b>2,667,662</b>	<b>8,935,656</b>
<i>Operating expenses</i>	(1,542,732)	(5,742,148)
<i>Other operating expenses</i>	35,806	69,716
<i>Net FOREX (loss)/gain</i>	(21)	427
<b>Net operating expenses</b>	<b>(1,506,947)</b>	<b>(5,672,005)</b>
<b>NET INCOME BEFORE PROVISIONS FOR LOAN IMPAIRMENT</b>	<b>1,160,715</b>	<b>3,263,651</b>
<i>Impairment losses and provisions</i>	394,518	(1,177,660)
<b>EXCESS OF INCOME OVER EXPENDITURES (NET RESULT)</b>	<b>1,555,233</b>	<b>2,085,991</b>

*Bodies of the Foundation*

**Management board:**

Sanja Hajdukov	President
Zarko Miladinović	Member, and Deputy president
Amira Jusufović	Member
Adisa Omerbegović	
Arapović	Member (from 13 October 2009)
Sead Agić	Member (from 13 October 2009)

**Management:**

Nejira Nalić	Director
Elmedina Bećirović	Financial Manager
Senad Krekić	Credit Manager
Alma Bijedić	Marketing Manager
Edin Bakalović	IT Manager
Safet Husić	Risk Manager
Mirza Salkić	HR and legal Manager

**Audit Board:**

Sabina Nurdinović	Member, and President
Zineta Habul	Member
Ismet Kalić	Member

The Foundation operates through 27 offices (2008 – 28 offices).

Mikrokreditna fondacija MI–BOSPO Tuzla  
Notes to the financial statements  
for the year ended 31 December 2009  
(all amounts are expressed in KM)

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**1. GENERAL (CONTINUED)**

**1.1 PERFORMANCE INDICATORS**

<b>Efficiency Ratios</b>	<b>2009</b>	<b>2008</b>
Active clients / Number of staff	161	210
Active clients / Number of loan officers	277	325
Gross outstanding portfolio / Number of loan officers	595,406	778,489
Percentage total operating expenses / Average net portfolio (%)	9.77 %	11.2%
<b>Financial Ratios</b>	<b>2009</b>	<b>2008</b>
	<b>%</b>	<b>%</b>
Return on assets: Net operating income / Average total assets	(2.33)	5.17
Return on equity: Net operating income / Average total net assets	(9.85)	22.10
Yield on portfolio: Interest income / Average net portfolio outstanding	22.74	24.15

**2. ADOPTION OF NEW AND REVISED STANDARDS**

**2.1 Standards and Interpretations effective in the current period**

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 7 "Financial Instruments: Disclosures" and IFRS 4 "Insurance Contracts" - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 1 "First-time Adoption of IFRS" and IAS 27 "Consolidated and Separate Financial Statements" – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009),
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009),
- IAS 1 (revised) "Presentation of Financial Statements" – A revised presentation (effective for annual periods beginning on or after 1 January 2009),
- IAS 23 (revised) "Borrowing Costs" (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 2 "Share-based Payment" – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009),

## **2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)**

### **2.1 Standards and Interpretations effective in the current period (continued)**

- Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" - Embedded Derivatives (effective for annual periods ending on or after 30 June 2009),
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009),
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008),

The adoption of these standards, revisions and interpretations did not have material impact on the financial statements of the Foundation.

### **2.2 Standards and Interpretations effective in the current period**

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (revised) "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008),
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 18 "Transfers of Assets from Customers" (effective for transfer of assets from customers received on or after 1 July 2009).

The Foundation has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Foundation anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Foundation in the period of initial application.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Statement of compliance**

As required by local legislation, the Foundation prepares financial statements in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board and modified in respect to the calculation of allowance for impairment of financial instruments based on a matrix system, which is based on number of days overdue. This is not in accordance with International Accounting Standard 39 'Financial Instruments: Recognition and Measurement', which requires assessment at each financial position date as to whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### **Basis of presentation**

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The financial statements are presented in Convertible Mark (KM) which is the functional currency of the Foundation. KM is pegged to the Euro (EUR 1 = KM 1.95583).

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

Significant accounting policies adopted in the preparation of these financial statements are set out below.

#### **Interest income and expense**

Interest income and expense are recognised in the statement of comprehensive income 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.

#### **Fee and commission expenses**

Loan origination fees and commissions, after approval and draw down of loans, are deferred and recognised as an adjustment to the effective yield of the loan over its life. Fees for payment transactions are recognized in the period when services are rendered.

#### **Foreign currencies**

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 denominated in such currencies are retranslated at the rates prevailing on the financial position 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 comprehensive income for the period.

The Foundation values its assets and liabilities using the middle rate of Central Bank of Bosnia and Herzegovina valid at the date of financial position.

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

#### **Employee benefits**

On behalf of its employees, the Foundation pays pension and health insurance on and from salaries, which are calculated on the gross salary paid, as well as taxes, which are calculated on the net salary paid. The Foundation is paying the above contributions into the Pension and Health Funds of the Federation of Bosnia and Herzegovina, Republic of Srpska and Brčko District, as per the set legal rates during the course of the period on the gross salary paid. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recorded in the statement of comprehensive income in the period in which the salary expense is incurred.

#### *Retirement severance payments*

The Foundation makes retirement severance payments in the amount of three average salaries disbursed in the Foundation or disbursed to the employee in the preceding three months, depending on what is more favourable to employee.

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each financial position date. Actuarial gains and losses are recognised in full in the period in which they occur. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

#### **Taxation**

The Foundation 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 the FBiH" 24/00), until its transformation in accordance with the new Law. The Foundation, as the legal successor of the Foundation in accordance with the new Law on micro credit organisations ("Official Gazette of the FBiH" 59/06) is also defined as a not for profit organisation and is not subject to income tax.

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

#### Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated costs 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 comprehensive 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:

	Useful life	Depreciation rate
Buildings	77 years	(1.30%)
Furniture and equipment	5 to 9 years	(11% - 20%)
Motor vehicles	6.25 years	(16%)
Computers	4 years	(25%)

#### Impairment of property and equipment

At each balance sheet date, the Foundation reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Foundation estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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

#### **Cash and cash equivalents**

For the purposes of reporting cash flows, cash and cash equivalents include bank accounts and term deposits with initial maturity up to three months.

#### **Financial assets**

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

#### *Held-to-maturity investments*

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Foundation has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

#### *Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each financial position date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

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

#### **Financial assets (continued)**

##### *Impairment of financial assets (continued)*

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Management assesses allowance for loan impairment every month in order to maintain an adequate allowance for impaired loans. The allowance for loan impairment is determined by applying estimated loss percentages to aged loans, grouped by the numbers of days overdue. A loan becomes late as soon as a scheduled instalment is missed. Starting from 1 April 2008, Foundation has used presented matrix for impairment of loans:

- overdue from 1 to 15 days impairment allowance is set to 2% of loan receivable outstanding
- overdue from 16 to 30 days impairment allowance is set to 15% of loan receivable outstanding,
- overdue from 31 to 60 days impairment allowances is set to 50% of loan receivable outstanding,
- overdue from 61 to 90 days impairment allowance is set to 80% of loan receivable outstanding
- overdue for more than 91 days impairment allowance is set to 100% of loan receivable outstanding

Starting from 1 April 2008, Foundation has used presented matrix for impairment of interest receivable:

- overdue from 1 to 15 days impairment allowance is set to 2% of interest receivable outstanding
- overdue for more than 15 days impairment allowance is set to 100% of interest receivable outstanding.

Until 31 March 2008, the Foundation has used the following matrix for the determination of the allowances for loan principal and interest impairment:

- for undue loans impairment allowance was set to 1% of loan receivable outstanding,
- for loans overdue from 1 to 30 days impairment allowances is set to 20% of loan receivable outstanding
- for loans overdue from 31 to 60 days impairment allowance is set to 60% of loan receivable outstanding,
- for loans overdue from 61 to 90 days impairment allowance is set to 80% of loan receivable outstanding,
- for loans overdue for more than 91 days impairment allowance is set to 100% of loan receivable outstanding.

Had the Foundation used the old matrix for impairment of loan receivables for the year ended as of 31 December 2008, the net result for that period would have been decreased for KM 54,262.

For financial assets other than loan receivables carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

#### Financial assets (continued)

##### *Impairment of financial assets (continued)*

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Financial liabilities

Financial liabilities are classified as either 'financial liabilities at fair value through profit or loss' or 'other financial liabilities'.

##### *Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

##### *Derecognition of financial liabilities*

The Foundation derecognises financial liabilities when, and only when, the Foundation's obligations are discharged, cancelled or they expire.

#### Provisions

Provisions are recognized when the Foundation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Foundation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

#### Net assets

The Foundation's net assets represent the surplus of total assets over total liabilities. Surplus arises from excess of income over expenditures and donations. Income over expenditures has to be used for the micro credit operations. If the Foundation ceases to exist, the allocation of Foundation's net assets, after settling liabilities will be distributed in accordance with Foundation's Decision as well as in accordance with Law on associations and foundations of Federation of Bosnia and Herzegovina.

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

In the application of the Foundation's accounting policies, which are described in Note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

##### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### *Useful lives of property, plant and equipment*

As described at Note 3 above, in paragraph Property and equipment, the Foundation reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

##### *Impairment losses on loans and advances*

As described at Note 4 above, in paragraph with heading impairment of financial assets, the Foundation assessed indicators for impairment by applying the established loss percentages to aged loans, grouped by the number of days overdue in accordance with the FBA regulations.

##### *Provisions for employee benefits*

As described at Note 3 above, in paragraph Employee benefits, provisions for employee benefits are calculated using the projected credit unit method.

##### *Provisions for taxes in Brčko District*

As described at Note 17, the Foundation has created a provision for income tax liability in respect of its operations in Brčko District. There is an uncertainty whether the Foundation will be required to pay these liabilities or whether the created provision will be sufficient to pay the income tax liability which Tax Authorities of Brčko District may determine.

## **5. GLOBAL MARKET CRISIS**

The Foundation has been impacted by the recent financial crisis and deteriorating economic conditions. Due to the current global crisis in the market and its effects on the local market in Bosnia and Herzegovina, the Foundation has operated in more difficult and uncertain economic environment in 2009.

The ongoing global economic crises which commenced in the middle of 2007, has resulted among other things in the significant impairment of loan receivables and surplus liquidity related to the Foundation's difficulties in issuing new loan receivables. This is linked to the weaker financial standing and performance of the Foundation's clients and inability to obtain sufficient finance and to repay the amounts owed.

In 2009, the Foundation's Management has taken a number of actions in order to improve the financial position and performance of the Foundation: more conservative credit procedures have been introduced and additional efforts have been made in order to collect the loan amounts outstanding. Furthermore, the Foundation has contacted its lenders and offered early repayment of the funds owed. This has been accepted by a limited number of lenders.

The Foundation continued to monitor closely the credit, liquidity, interest rate and foreign exchange risks on a regular basis. The key priorities of the Management of the Foundation in 2009 and beyond is attention to the management of the financial portfolio adjusting to the changing economic environment and maintaining the Foundation's position on the market. It is expected that the capital adequacy of the Foundation will remain at a current level, sufficient to continue the operations without any additional equity injections. In case of additional financing needs, the Foundation has appropriate arrangements with the creditors companies with regard to the availability of the additional funding. Management believes it is taking all the necessary measures to support the sustainability and development of the Foundation's business in the current circumstances.

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**6. INTEREST INCOME**

	<u>2009</u>	<u>2008</u>
Interest income on loans to clients	13,796,276	15,569,347
Interest income on deposits	323,428	34,989
Fees for premature loan repayment	49,070	105,184
	<u>14,168,774</u>	<u>15,709,520</u>

**7. INTEREST EXPENSE**

	<u>2009</u>	<u>2008</u>
Interest expense for borrowings	3,786,593	3,781,976
Interest expense for Investicijska banka FBiH (LIP)	181,444	324,226
Fees for premature loan repayment	295,414	-
	<u>4,263,451</u>	<u>4,106,202</u>

**8. OPERATING EXPENSES**

	<u>2009</u>	<u>2008</u>
Employee expenses	3,416,454	4,035,811
Other employee expenses	454,148	555,370
Depreciation	368,801	341,024
Bank fees	295,659	317,088
Rent	252,150	246,423
Professional services	215,563	575,882
Telecommunications	183,470	207,998
Taxes (Note 17)	110,461	-
Fuel	141,876	186,626
Other taxes which do not depend on the result	125,487	133,363
Utilities	100,900	91,096
Office supplies	80,537	128,828
Maintenance of equipment	58,742	91,034
Board of directors' fees	33,753	64,529
Membership fees	10,578	10,998
Provision for taxes in Brčko District (Note 17)	52,800	-
Loss on sale of property and equipment, net	2,177	-
Other	355,051	298,810
	<u>6,258,607</u>	<u>7,284,880</u>

At 31 December 2009, the Foundation had 148 employees (31 December 2008; 148 employees).

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9. OTHER OPERATING INCOME

	<u>2009</u>	<u>2008</u>
Release of provision for employees benefits, net	92,883	-
Gain on sale of property and equipment, net	-	14,243
Other income	<u>47,132</u>	<u>37,757</u>
	<b><u>140,015</u></b>	<b><u>52,000</u></b>

10. CASH AND CASH EQUIVALENTS

	<u>2009</u>	<u>2008</u>
Current accounts with banks	1,244,380	1,436,156
Cash on hand	<u>555</u>	<u>752</u>
	<b><u>1,244,935</u></b>	<b><u>1,436,908</u></b>

11. BANK DEPOSITS

	<u>Maturity</u>	<u>Interest rate %</u>	<u>2009</u>	<u>2008</u>
Unicredit Bank d.d.	04.08.2010	5.26%	2,000,000	-
Sparkasse Bank d.d. BiH	23.09.2010	5%	2,000,000	-
NLB Tuzlanska Banka d.d. Tuzla	03.03.2010	1.50%	2,000,000	-
NLB Tuzlanska Banka d.d. Tuzla	11.04.2010	6.35%	1,000,000	-
Sparkasse Bank d.d. BiH	09.04.2011	6.00%	1,000,000	-
Unicredit Bank d.d.	28.09.2010	4.98%	1,000,000	-
Unicredit Bank d.d.	13.10.2010	4.80%	1,000,000	-
NLB Tuzlanska Banka d.d. Tuzla	08.10.2010	4.05%	1,000,000	-
Intesa Sanpaolo Bank d.d. BiH	09.03.2010	1.30%	1,000,000	-
NLB Tuzlanska Banka d.d. Tuzla	02.01.2010	1.15%	1,000,000	-
Nova Banka a.d. Banja Luka	20.01.2010	7.10%	528,074	-
Raiffeisen Bank d.d. BiH	14.01.2010	7.05%	528,074	-
Intesa Sanpaolo Bank d.d. Bosna i Hercegovina	08.04.2009	5%	-	1,000,000
Raiffeisen bank d.d. BiH	20.03.2011	1.75%	-	486,993
Raiffeisen bank d.d. BiH	20.03.2011	1.75%	-	360,012
Raiffeisen bank d.d. BiH	20.03.2011	1.75%	-	209,274
UniCredit bank d.d. Mostar	15.07.2009	-	-	<u>79,137</u>
			<b><u>14,056,148</u></b>	<b><u>2,135,416</u></b>

During 2008, deposits with Raiffeisen Bank d.d. BiH were used as collateral for the loans obtained from the mentioned bank. Due date of loans was 20 March 2011. The Foundation repaid total amount of loans as of 30 December 2008 and deposits were withdrawn in January 2009.

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**12. LOANS TO CLIENTS, NET**

Annualised interest rates for the loans outstanding as of 31 December 2009 range between 16% and 29% (2008 - 16% and 29%). Average loan maturity is 16 months (2008 - 17 months).

	<u>2009</u>	<u>2008</u>
<b>Loan product analysis</b>		
Agriculture	7,780,389	16,673,260
Secondary loans	13,883,313	15,841,266
Services	10,578,189	15,123,329
Manufacturing	11,689,432	13,142,680
Trade	7,221,689	12,961,448
Commodity loans	51,939	214,436
<i>Total loans before allowance for impairment</i>	<i>51,204,951</i>	<i>73,956,419</i>
Less: Allowance for loan impairment	<u>(2,538,435)</u>	<u>(861,012)</u>
<b>Net loans</b>	<b><u>48,666,516</u></b>	<b><u>73,095,407</u></b>
Interest receivable for loans to clients	598,055	687,795
Less: Allowance for interest receivables impairment	<u>(196,354)</u>	<u>(70,589)</u>
<b>Net interest receivables</b>	<b><u>401,701</u></b>	<b><u>617,206</u></b>
	<b><u>49,068,217</u></b>	<b><u>73,712,613</u></b>

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12. LOANS TO CLIENTS, NET

	<u>2009</u>	<u>2008</u>
<b>Geographic analysis</b>		
Tuzla	6,056,346	8,428,912
Gradačac	5,297,975	7,232,172
Lukavac	3,675,229	6,630,621
Bijeljina	3,233,397	5,248,599
Brčko	3,219,256	4,566,716
Živinice	2,232,975	3,658,034
Zavidovići	2,578,088	3,434,819
Srebrenik	1,803,204	3,425,342
Kalesija	2,454,127	3,294,221
Gračanica	1,743,009	2,879,585
Zvornik	2,268,883	2,833,102
Prnjavor	1,440,604	2,822,485
Doboj	1,696,453	2,399,469
Odžak	1,383,801	2,085,794
Banovići	1,155,563	1,673,541
Teslić	1,260,531	1,630,625
Srebrenica	1,228,642	1,574,634
Sarajevo	1,238,064	1,308,939
Vlasenica	907,983	1,281,534
Maglaj	878,422	1,082,384
Kladanj	825,227	1,040,422
Banja Luka	1,783,562	926,131
Žepče	729,264	920,221
Ugljevik	559,525	886,744
Čelić	-	794,147
Derвента	985,998	728,317
Ilidža	568,047	632,464
Laktaši	776	536,445
<i>Total loans before allowance for impairment</i>	51,204,951	73,956,419
Less: Allowance for loan impairment	(2,538,435)	(861,012)
<b>Net loans</b>	<b>48,666,516</b>	<b>73,095,407</b>
Interest receivable for loans to clients	598,055	687,795
Less: Allowance for interest receivables impairment	(196,354)	(70,589)
<b>Net interest receivables</b>	<b>401,701</b>	<b>617,206</b>
	<b>49,068,217</b>	<b>73,712,613</b>

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**12. LOANS TO CLIENTS, NET (CONTINUED)**

Loans overdue in arrears may be analysed as follows:

	<u>2009</u>	<u>2008</u>
- 1 to 15 days overdue	640,788	318,277
- 16 to 30 days overdue	1,092,627	510,227
- 31 to 60 days overdue	847,066	420,494
- 61 to 90 days overdue	568,060	212,791
- over 90 days overdue	<u>1,483,744</u>	<u>397,632</u>
	<b><u>4,632,285</u></b>	<b><u>1,859,421</u></b>

Allowance for loan impairment and interest receivable can be presented as follows:

	<u>2009</u>	<u>2008</u>
- interest receivables	196,354	70,589
- 1 to 15 days overdue	12,816	6,366
- 16 to 30 days overdue	163,894	76,534
- 31 to 60 days overdue	423,533	210,247
- 61 to 90 days overdue	454,448	170,233
- over 90 days overdue	<u>1,483,744</u>	<u>397,632</u>
	<b><u>2,734,789</u></b>	<b><u>931,601</u></b>

Movements in allowance for loan impairment are as follows:

	<u>2009</u>	<u>2008</u>
<b>Balance at the beginning of period</b>	<b>861,012</b>	<b>759,647</b>
Additional provisions	5,167,287	1,206,388
Decrease due to collection of receivables and change of provisions	-	(560,972)
Release of allowance due to write-offs	<u>(3,489,864)</u>	<u>(544,051)</u>
<b>Balance at the end of period</b>	<b><u>2,538,435</u></b>	<b><u>861,012</u></b>

Movements in allowance for interest receivables impairment are as follows:

	<u>2009</u>	<u>2008</u>
<b>Balance at the beginning of period</b>	<b>70,589</b>	<b>5,659</b>
Additional provisions	452,322	137,726
Decrease of provisions due to write-offs	<u>(326,557)</u>	<u>(72,796)</u>
<b>Balance at the end of period</b>	<b><u>196,354</u></b>	<b><u>70,589</u></b>

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**13. OTHER ASSETS**

	<u>2009</u>	<u>2008</u>
Prepaid expenses	129,323	28,316
Receivables for advance payments	325	10,513
Other receivables	<u>55,825</u>	<u>12,494</u>
	<b><u>185,473</u></b>	<b><u>51,323</u></b>

**14. PROPERTY AND EQUIPMENT**

	Buildings	Furniture and equipment	Vehicles	Computers	Investments in progress	Total
<b><u>Cost</u></b>						
<b>31 December 2007</b>	<b>528,166</b>	<b>253,107</b>	<b>1,072,552</b>	<b>313,580</b>	<b>380,383</b>	<b>2,547,788</b>
- Additions	46,489	121,299	555,924	134,150	402,903	1,260,765
- Disposals	-	(2,132)	(107,064)	(15,569)	-	(124,765)
- Transfer from/to	771,090	12,196	-	-	(783,286)	-
<b>31 December 2008</b>	<b>1,345,745</b>	<b>384,470</b>	<b>1,521,412</b>	<b>432,161</b>	-	<b>3,683,788</b>
- Additions	-	10,770	-	15,185	-	25,955
- Disposals	-	(2,411)	-	(6,980)	-	(9,391)
- Transfer from/to	-	-	-	-	-	-
<b>31 December 2009</b>	<b>1,345,745</b>	<b>392,829</b>	<b>1,521,412</b>	<b>440,366</b>	-	<b>3,700,352</b>
<b><u>Accumulated depreciation</u></b>						
<b>31 December 2007</b>	<b>17,175</b>	<b>89,440</b>	<b>423,747</b>	<b>175,387</b>	-	<b>705,749</b>
- Current period depreciation	12,917	39,594	209,844	78,669	-	341,024
- Disposals	-	(1,436)	(105,540)	(12,043)	-	(119,019)
<b>31 December 2008</b>	<b>30,092</b>	<b>127,598</b>	<b>528,051</b>	<b>242,013</b>	-	<b>927,754</b>
- Current period depreciation	17,495	44,243	234,510	72,553	-	368,801
- Disposals	-	(1,574)	-	(5,640)	-	(7,214)
<b>31 December 2009</b>	<b>47,587</b>	<b>170,267</b>	<b>762,561</b>	<b>308,926</b>	-	<b>1,289,341</b>
<b><u>Net book value</u></b>						
<b>31 December 2009</b>	<b>1,298,158</b>	<b>222,562</b>	<b>758,851</b>	<b>131,440</b>	-	<b>2,411,011</b>
<b>31 December 2008</b>	<b>1,315,653</b>	<b>256,872</b>	<b>993,361</b>	<b>190,148</b>	-	<b>2,756,034</b>

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15. BORROWINGS

	<u>Maturity</u>	<u>Interest rate %</u>	<u>2009</u>	<u>2008</u>
<b>Short-term loans</b>				
EFSE II	22.03.2013	8.10%	9,952,934	-
GMF	15.01.2013	7.50%	6,094,478	-
		6m EURIBOR + 1%		
Investicijska banka FBiH (LIP)	15.03.2017	(max 5%)	5,425,929	-
EBRD II	03.09.2012	8.24%	5,037,051	-
EBRD	17.12.2011	8.08%	4,205,387	-
OIKO III	14.03.2010	7.25%	3,608,359	-
DWM Securitization	28.06.2011	7.75%	2,943,818	-
		6 months EURIBOR +		
Dexia Micro-Credit Fund (Sub Fund Blueorchard Debt)	06.08.2010	3.85%	1,995,082	-
Oikocredit II	20.04.2011	8.00%	795,024	-
IFC	15.06.2009	8,55%	40,856	980,625
Oicocredit (updated)	17.07.2009	7.50%	-	2,006,069
NLB Tuzlanska banka d.d. Tuzla	21.03.2009	6.75%	-	1,407,767
ABS Banka d.d. Sarajevo	26.06.2009	7.50%	-	1,407,192
UniCredit bank d.d. Mostar	16.5.2009	6.90%	-	1,009,246
UniCredit bank d.d. Mostar	19.06.2009	6.90%	-	1,005,667
MicroVest I, LP, SAD	30.06.2009	8.00%	-	977,200
Komercijalna Banka a.d. Banja Luka	09.06.2009	7.00%	-	747,105
Credit Suisse Microfinance Fund Management Company, Švajcarska	20.01.2009	8.00%	-	506,451
NLB Tuzlanska banka d.d. Tuzla	16.05.2009	6.50%	-	452,407
Nova Banka a.d. Banja Luka	16.05.2009	7.00%	-	423,016
UniCredit bank d.d. Mostar	14.07.2009	6.90%	-	402,267
		6 months EURIBOR		
EFSE (formerly KfW)	31.03.2009		-	29,694
<b>Total short-term loans</b>			<b>40,098,918</b>	<b>11,354,706</b>

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15. BORROWINGS (CONTINUED)

			2009	2008
<b>Long-term loans</b>				
Instituto de Credito Oficial, Kingdom of Spain	22.03.2017	5.00%	5,874,723	5,874,723
SNS Institutional Microfinance Fund	15.11.2013	8.25%	3,932,473	2,902,393
EFSE II	22.03.2013	8.10%	-	4,771,493
GMF	15.01.2013	7.50%	-	7,910,898
		6m EURIBOR + 1%		
Investicijska banka FBiH (LIP)	15.03.2017	(max 5%)	-	6,163,408
EBRD II	03.09.2012	8.24%	-	5,849,967
EBRD	17.12.2011	8.08%	-	5,865,302
DWM Securitization	28.06.2011	7.75%	-	2,940,093
Oikocredit II	20.04.2011	8.00%	-	1,405,770
OIKO III	14.03.2010	7.25%	-	3,989,733
Dexia Micro-Credit Fund (Sub Fund Blueorchard Debt)	06.08.2010	6m EURIBOR + 3.85%	-	2,027,218
<b>Total long-term loans</b>			<b>9,807,196</b>	<b>49,700,998</b>
<b>TOTAL BORROWINGS</b>			<b>49,906,114</b>	<b>61,055,704</b>

**Noncompliance with covenants included in the agreements with lenders**

According to the loan agreement between the Foundation and its lenders, the Foundation is obliged to maintain stable financial position and to meet certain financial performance indicators. These indicators among others include solvency, liquidity and profitability ratios and limits on the portfolio at risk (being defined as the amount of loan principal overdue for longer than thirty 30).

The Foundation failed to comply with the bellow presented terms, covenants, provisions or conditions of loan agreements. The Management has communicated these matters to the Lenders and is not aware of any circumstances or information which would lead it to believe that these non-compliances will cause neither early repayment of the borrowings nor any other consequences.

Loan agreement signed with Investicijska banka FBiH on 15 September 2007 includes following covenants which the Foundation failed to comply with as of 31 December 2009:

Financial indicator	Foundation
Portfolio at risk (30 days overdue) < 5% of total portfolio	5.66%
Written off loans < 3% of average portfolio	5.58%
Positive return on total assets	-2.47%

Loan agreement signed with EFSE on 15 September 2008 includes following covenants which the Foundation failed to comply with as of 31 December 2009:

Financial indicator	Foundation
Portfolio at risk (30 days overdue) < 3% of total portfolio	5.66%
Written off loans < 3% of average portfolio	5.58%

The Foundation received the waiver of loan covenants from EFSE valid until 31 December 2009.

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**15. BORROWINGS (CONTINUED)**

Loan agreement signed with GMF on 31 August 2007 includes following covenants which the Foundation failed to comply with as of 31 December 2009:

<b>Financial indicator</b>	<b>Foundation</b>
Portfolio at risk (30 days overdue) < 5% of gross portfolio	12.77%
Positive return on equity	-9.85%
Provisions for portfolio at risk (30 days overdue) maintained at 100%	81%

Loan agreement signed with SNS Institutional Microfinance Fund on 7 November 2008 includes the following covenants which the Foundation failed to comply with as of 31 December 2009:

<b>Financial indicator</b>	<b>Foundation</b>
Portfolio at risk (30 days overdue) < 5% of total portfolio	8.30%
Written off loans < 3% of average portfolio	5.58%

The Foundation received the waiver of loan covenants valid until 31 December 2009.

Loan agreements signed with Oikocredit on 24 June 2006 and 20 March 2008 includes the following covenant which the Foundation failed to comply with as of 31 December 2009:

<b>Financial indicator</b>	<b>Foundation</b>
Portfolio at risk (30 days overdue) < 5% of total portfolio	5.66%

Loan agreements signed with EBRD on 17 December 2007 and 3 September 2008 includes the following covenants which the Foundation failed to comply with as of 31 December 2009:

<b>Financial indicator</b>	<b>Foundation</b>
Portfolio at risk (30 days overdue) < 5% of total portfolio	8.30%
Operating expenses / (Financial income less financial expenses less provisions) < 65%	140.61%

Computation of financial indicators is defined by loan agreements and may differ for different agreements.

**16. OTHER LIABILITIES**

	<u>2009</u>	<u>2008</u>
Liabilities towards employees	303,007	348,354
Trade payables	37,845	51,494
Withholding tax liabilities	141	133,363
Other liabilities	32,753	59,991
	<u>373,746</u>	<u>593,202</u>

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**17. PROVISIONS**

	Current		Non-current	
	2009	2008	2009	2008
Income taxes for operations in Brčko District	52,800	-	-	-
Retirement severance payments	-	-	36,972	24,101
Unused vacation days	18,885	124,639	-	-
	<b>71,685</b>	<b>124,639</b>	<b>36,972</b>	<b>24,101</b>

Changes in provisions are as follows:

	2009	2008
<b>Balance at the beginning of period</b>	<b>148,740</b>	<b>128,205</b>
Additional provisions	65,671	26,181
Reductions resulting from re-measurement or settlement without cost	(105,754)	(5,646)
<b>Balance at the end of period</b>	<b>108,657</b>	<b>148,740</b>

***Tax liabilities for operations in Brčko District***

In the period from 5 February until 17 March 2009, the Tax Authorities of Brčko District performed the inspection of the Foundations operations in 2005, 2006 and 2007. Following the inspection as of 6 April 2009, the Tax Authorities have issued the Decision by which the Foundation is liable to pay the income tax liability and related penalty interest in the total amount of KM 110,461. The Foundation has issued appeal disputing the determined liability since the Foundation is registered as not to profit organisation by Ministry of Justice of Federation of Bosnia and Herzegovina. The appeal has been rejected and the Foundation has submitted the court claim at Principal Court of Brčko District requesting that the Decision of the Tax Authorities of Brčko District to be revoked.

Currently there is no court practice in respect of this matter. Therefore there is an uncertainty whether the Foundation will be required to pay income taxes for its operations in Brčko District in 2008 and 2009. Accordingly the Management has estimated that the potential liability for the income tax for the years 2008 and 2009 to KM 52,800 and as of 31 December 2009 the provision in the same amount has been created.

**18. SUPPLEMENTARY FUNDS**

	2009	2008
WWB	1,034,213	1,034,213
Investicijska banka FBiH (LIP)	947,361	947,361
UNHCR	479,036	479,036
CWS	145,600	145,600
UMCOR	79,145	79,145
	<b>2,685,355</b>	<b>2,685,355</b>

MI-BOSPO is registered as a microcredit foundation whose supplementary funds result from cash collections within net assets and in relation to contracts with the above-mentioned organisations.

## 19. FINANCIAL INSTRUMENTS

### **Capital risk management**

The Foundation manages its capital to ensure it will be able to continue as a going concern through the optimisation of the debt and equity balance. General strategy of the Foundation has not been changed compared to 2008.

The capital structure of the Foundation consists of debt, which includes borrowings (Note 15), cash and cash equivalents (Note 10) and net assets of the Foundation.

*Gearing ratio:*

	<b>31.12.2009</b>	<b>31.12.2008</b>
Debt (borrowings)	49,707,023	61,055,704
Equity (Net assets)	<u>16,577,267</u>	<u>18,294,648</u>
<b>Debt to equity ratio</b>	<b><u>3.00</u></b>	<b><u>3.34</u></b>

*Categories of financial instruments*

	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents, deposits)	<u>64,369,300</u>	<u>77,284,937</u>
	<b>64,369,300</b>	<b>77,284,937</b>
<b>Financial liabilities</b>		
At amortised cost	<u>50,279,860</u>	<u>61,648,906</u>
	<b>50,279,860</b>	<b>61,648,906</b>

### **Financial risk management objectives**

The Foundation monitors and manages the financial risks relating to its operations through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. In 2008, Foundation has improved risk management system and formed two new boards as follows: Assets and liabilities Board and Board for risks management.

Assets and liabilities Board is responsible for supervising and managing of liquidity and interest rate risks as well as currency rate risk. Further, activities of the Board are directed to evaluation and reviewing of new funding as source of financing and managing of assets.

Board for risks management is responsible for supervising and managing of credit, operational and other risks that Foundation has exposed.

### **Market risk**

The Foundation's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below). Market risk exposures are supplemented by sensitivity analysis and possible consequences analysis, and risk limitation acceptance. Foundation has determined internal limitations related to market risks, and such evaluation is performed at least semi annually. There has been no change to the Foundation's exposure to market risks or the manner in which it manages and measures the risk.

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**20. FOREIGN CURRENCY RISK**

The Foundation undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Foundation's foreign currency denominated financial assets and financial liabilities at the reporting date are as follows:

	<b>Assets</b>		<b>Liabilities</b>	
	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
	<b>KM</b>	<b>KM</b>	<b>KM</b>	<b>KM</b>
Denominated in EUR	50,127,490	74,896,458	49,707,023	54,201,037

Management believes that the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the KM is pegged to the Euro, in accordance with the Law on the Central Bank of Bosnia and Herzegovina.

**21. INTEREST RATE RISK**

The Foundation is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Foundation by maintaining an appropriate mix between fixed and floating rate borrowings.

The Foundation's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management Note 23.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the financial position date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents Management's assessment of the reasonably possible change in interest rates.

If interest rates had been higher / lower by 50 basis points and all other variables were held constant, the Foundation's:

- profit for the year ended at 31 December 2009 would decrease / increase by KM 73,311 (31 December 2008: KM 81,146) based on interest rate exposure. This is mainly attributable to the Foundation's exposure to interest rates on its variable borrowings rates.

Foundation has internal limitations related to risk exposure by variable interest rates.

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**22. CREDIT RISK**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Foundation. The Foundation has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Loan receivables, net, consist of a large number of customers, spread across diverse industries, which decreases the Foundation's exposure to individual clients and industries. The Foundation's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Foundation's maximum exposure to credit risk without taking into account of the value of any collateral obtained.

	<b>Total gross carrying amount</b>	<b>Unimpaired assets</b>	<b>Impaired assets</b>	<b>Loan impairment allowance</b>	<b>Total net carrying amount</b>
<b>31.12.2009</b>					
Cash and cash equivalents	1,244,935	-	-	-	1,244,935
Bank deposits	14,056,148	-	-	-	14,056,148
Loans to clients, net	51,803,006	47,170,721	4,632,285	(2,734,789)	49,068,217
<b>Total</b>	<b>67,104,089</b>	<b>47,170,721</b>	<b>4,632,285</b>	<b>(2,734,789)</b>	<b>64,369,300</b>

	<b>Total gross carrying amount</b>	<b>Unimpaired assets</b>	<b>Impaired assets</b>	<b>Loan impairment allowance</b>	<b>Total net carrying amount</b>
<b>31.12.2008</b>					
Cash and cash equivalents	1,436,908	-	-	-	1,436,908
Bank deposits	2,135,416	-	-	-	2,135,416
Loans to clients, net	74,644,214	72,784,793	1,859,421	(931,601)	73,712,613
<b>Total</b>	<b>78,216,538</b>	<b>72,784,793</b>	<b>1,859,421</b>	<b>(931,601)</b>	<b>77,284,937</b>

*Collateral obtained*

<b>Financial assets</b>	<b>2009</b>	<b>2008</b>
Bills of exchange	47,184,874	33,443,867

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**23. LIQUIDITY RISK**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Foundation's short, medium and long-term funding and liquidity management requirements. The Foundation manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

*Liquidity and interest risk tables*

The following table details the Foundation's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Foundation can be required to pay. The table includes both interest and principal cash flows.

Financial liabilities	Weighted average effective interest rate %	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
		KM	KM	KM	KM	KM	KM
<b>31.12.2009</b>							
Non-interest bearing	-	573,057	-	-	-	-	573,057
Variable interest rate instruments	4.98	1,995,082	-	-	-	-	1,995,082
Fixed interest rate instruments	6.64	41,132,415	85,344	397,788	6,436,534	3,743,296	51,795,376
		<b>43,700,554</b>	<b>85,344</b>	<b>397,788</b>	<b>6,436,534</b>	<b>3,743,296</b>	<b>54,363,515</b>
<b>31.12.2008</b>							
Non-interest bearing	-	593,202	-	-	-	-	593,202
Variable interest rate instruments	8.9	15,278	58,414	134,463	2,048,732	-	2,256,887
Fixed interest rate instruments	7.2	1,003,135	3,232,072	14,808,035	44,358,765	8,057,090	71,459,097
		<b>1,611,615</b>	<b>3,290,486</b>	<b>14,942,498</b>	<b>46,407,497</b>	<b>8,057,090</b>	<b>74,309,186</b>

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**23. LIQUIDITY RISK (CONTINUED)**

The following table details the Foundation's expected maturity for its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Foundation anticipates that the cash flow will occur in a different period.

Financial assets	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	KM	KM	KM	KM	KM	KM
<b>31.12.2009</b>							
Non-interest bearing	-	-	-	-	-	-	-
Variable interest rate – cash and cash equivalents	0.30	1,244,935	-	-	-	-	1,244,935
Fixed interest rate – bank deposits	4.20	2,059,743	3,124,492	8,201,869	1,016,500	-	14,402,604
Fixed interest rate – Loans to clients	23.41	4,270,474	8,577,436	27,300,864	21,197,999	-	61,346,773
		<b>7,575,152</b>	<b>11,701,928</b>	<b>35,502,733</b>	<b>22,214,499</b>	-	<b>76,994,313</b>
<b>31.12.2008</b>							
Non-interest bearing	-	-	-	79,137	-	-	79,137
Variable interest rate – cash and cash equivalents	0.30	1,436,908	-	-	-	-	1,436,908
Fixed interest rate – bank deposits	2.56	-	-	1,031,910	1,079,385	-	2,111,295
Fixed interest rate – Loans to clients	22.38	5,682,629	10,470,631	37,378,242	36,924,100	-	90,455,602
		<b>7,119,537</b>	<b>10,470,631</b>	<b>38,489,289</b>	<b>38,003,485</b>	-	<b>94,082,942</b>

Foundation forms liquidity reserves and sets internal limitations in relation with maturity of assets and liabilities, as well as limitations in relation with financing and maturity of liabilities and equity.

#### 24. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The Management believes that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements is approximate to their fair values.

#### 25. RELATED PARTY TRANSACTIONS

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

	<u>2009</u>	<u>2008</u>
Gross salaries	379,440	424,169
Board of Directors' remuneration	27,534	71,451
Audit Board fees	14,043	10,009
Benefits in kind	8,853	13,184
Other benefits	20,616	26,050
	<u>450,486</u>	<u>544,863</u>

#### 26. REGULATORY REQUIREMENTS

Federal Banking Agency (FBA) is entitled to monitor business operations and to carry out the regulatory inspections of the Foundation. As at 31 December 2009, the Foundation failed to comply with following operating covenants prescribed by FBA:

<b>Financial indicator</b>	<b>Foundation</b>
Write offs < 3%	5.58%
Return on assets adjusted to inflation market price of capital and donations >0	-2.47%

The Management has communicated these matters to FBA and is not aware of any circumstances or information which would lead it to believe that these non-compliances will cause any negative consequences.

#### 27. COMMITMENTS

##### Rental commitments

The Foundation has entered into certain commitments for the rent of business premises. In 2010 these commitments will result in liabilities amounting to KM 232,094 (31.12.2008; KM 247,236).


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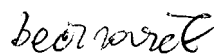
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**28. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Management of Mikrokreditna fondacija Mi-BOSPO Tuzla on 19 February 2010.

**Signed on behalf of the Management:**

  
\_\_\_\_\_  
Director  
Nejira Nalić

  
\_\_\_\_\_  
Finance Manager  
Elmedina Bećirović