Micro credit organization ‘EKI’ Sarajevo

Financial Statements

For the year ended 31 December 2007

Contents:

PRICEWATERHOUSECOOPERS

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To the Board of Directors of
Micro credit organization EKI Sarajevo

Report of the Independent Auditor

We have audited the accompanying balance sheet of Micro credit organization EKI Sarajevo (‘MCO EKI’) as of 31 December 2007 and the related statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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 MCO EKI’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 entity’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.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of MCO EKI as at 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o. Sarajevo

Sarajevo, 9 May 2008 PricewaterhouseCoopers d.o.o.

INCOME STATEMENT

	Notes	Year ended 31 December 2007	2006
Interest and similar income	5	26,943,944	15,727,931
Interest expense	6	(6,425,380)	(2,256,488)
Net interest income		**20,518,564**	**13,471,443**
Operating costs	7	(10,915,599)	(7,692,321)
Other income	9	113,119	252,293
Impairment losses	10	(644,270)	(277,456)
Operating expenses		**(11,446,750)**	**(7,717,484)**
Grant income	11	207,597	3,326,710
Net profit		**9,279,411**	**9,080,669**

BALANCE SHEET

	Notes	As at 31 December 2007	2006
ASSETS			
Non-current assets			
Property and equipment	13	4,491,881	3,027,209
Intangible assets	14	888	1,332
Total non-current assets		**4,492,769**	**3,028,541**
Current assets			
Cash and cash equivalents	15	954,247	421,654
Restricted deposits	16	552,605	576,413
Loans and advances to customers	17	156,680,480	86,891,368
Other current assets	18	552,780	483,205
Total current assets		**158,740,112**	**88,372,640**
TOTAL ASSETS		**163,232,881**	**91,401,181**
EQUITY AND LIABILITIES			
Equity	19	**31,594,504**	**22,315.093**
Non-current liabilities			
Long-term borrowings	20	104,885,092	55,968,487
Total non-current liabilities		**104,885,092**	**55,968,487**
Current liabilities			
Short-term borrowings	21	25,568,828	12,577,851
Other liabilities	22	1,184,457	539,750
Total current liabilities		**26,753,285**	**13,117,601**
Total liabilities		**131,638,377**	**69,086,088**
TOTAL EQUITY AND LIABILITIES		**163,232,881**	**91,401,181**

On 28 February 2008, the management authorised these financial statements for issue.

Sadina Bina
Generalni direktor

Tima Bećirović
Finansijski menadžer

CASH FLOW STATEMENT

	Year ended 31 December 2007	2006
Operating activities		
Net profit	9,279,411	9,080,669
Depreciation	528,639	363,390
Increase Loans and advances to customers	(69,751,116)	(36,407,507)
(Increase) decrease in accruals	(209,541)	152,440
Increase (decrease) of payables	15,742	(2,856)
Increase of other liabilities	1,753,883	330,645
Other	101,203	608,682
Net cash outflow from operating activities	**(58,281,779)**	**(25,874,537)**
Purchase of property and equipment	(1,992,867)	(1,036,565)
Net cash used in investing activities	(1,992,867)	(1,036,565)
Other financing activities	-	(300,654)
Gross receipt of borowings	70,729,770	34,837,450
Gross payments of borowings	9,922,531	7,514,370
Net cash inflow from financing activities	**60,807,239**	**27,022,426**
Net increase cash	532,593	111,325
Cash and cash equivalents at beginning of year	421,654	310,329
Cash and cash equivalents at the end of the year	**954,247**	**421,654**
Net increase in cash and cash equivalents	**532,593**	**111,325**

STATEMENT OF CHANGES IN EQUITY

	Capital	General provision	Net profit	Total
Balance at 1 January 2006	**12,203,278**	**1,031,146**	**-**	**13,234,424**
Net profit for 2006	-	-	9,080,669	**9,080,669**
Balance at 31 December 2006	**12,203,278**	**1,031,146**	**9,080,669**	**22,315,093**
Allocation of net profit to equity	8,345,768	734,901	(9,080,669)	-
Balance at 1 January 2007	**20,549,046**	**1,766,047**	**-**	**22,315,093**
Net profit for 2007	-	-	9,279,411	**9,279,411**
Release of general provisions	1,766,047	(1,766,047)	-	-
Balance at 31 December 2007	**22,315,093**	**-**	**9,279,411**	**31,594,504**

Micro Credit Organisation is in the process of changing its registration because of new requirements of the Federal Banking Agency. Please see note 12.

1. General information

Organisation operations

EKI started its operations in 1996 running a micro credit program as part of the humanitarian assistant program of World Vision International (WV BiH) in Bosnia-Herzegovina. By a memorandum of understanding dated May 2001, WV BiH and the new MCO EKI formalised their new relationship with MCO EKI becoming an independent local Micro credit organisation in Bosnia-Herzegovina.

MCO EKI - Ekonomska Kreditna Institucija in Sarajevo (hereafter "EKI" or the Organization) was registered on 18 June 2001 by the Federal Ministry of Social Affairs, Displaced persons and Refugees in Sarajevo, Federation of Bosnia and Herzegovina under No. 05-4-35-M,-31601/01 and is entered into the Register of Micro Credit Organisations in the Federation of BiH under No. RM-15/01.

The main activity is placement of micro short and middle term loans.

The Board of Directors comprises of the following persons:

1. Richard Reynolds	Chairman
2. Enes Drljevic	Member
3. Sue Birchmore	Member
4. Neil Cuthbert	Member
5. Maja Ibrahimpasic	Member
6. Stevo Sotonica	Member
7. Meliha Ferhatbegović	Member

As at 31 December 2007 the Management Board of the Organisation comprises of the following persons:

Sadina Bina	General Director - Head office Tuzla
Tima Bećirović	Finance Manager - Head office Sarajevo
Igor Duspara	MIS Manager - Head office Tuzla
Sadik Fazlović	Operational Manager - Head office Brčko
Borko Kikić	Training Officer - Head office Doboj
Maja Nura	Branch manager Sarajevo
Zineta Zaimović	Branch manager Tuzla
Džemal Omeragić	Branch manager Gradačac
Zlata Kovijanić	Branch manager Zenica
Senada Krajinić	Branch manager Bugojno
Jadranka Majdov	Branch manager Doboj
Predrag Mirković	Branch manager Bijeljina
Sanja Bajgorić	Branch manager Mostar
Tamara Lukić	Branch manager Brčko
Aleksandra Jović	Branch manager Banja Luka
Esma Bajric Mesevic	Branch manager Bihać
Dragan Jovicic	Branch manager Visegrad
Borislav Petric	Marketing Manager

1. General information (continued)

As at 31 December 2007 the activities of the Organisation were spread over 47 offices:

1	Branch office Doboj	Stefana Prvovenčanog br. 41
2	Sub-office Prnjavor	Veljka Milankovića 16
3	Sub-office Derventa	Veljka Milankovića bb
4	Sub-office Teslić	Svetog Save 3
5	Branch office Banja Luka	Vase Pelagića 12
6	Sub-office Laktaši	Karađorđeva 63
7	Sub-office Gradiška	Vidovdanska
8	Branch office Bijeljina	Karađorđeva 30
9	Sub-office Zvornik	Trg Kralja Petra I Karađorđevića
10	Sub-office Vlasenica	Trg srpskih boraca bb,
11	Sub-office Bratunac	Gavrila Principa 17
12	Sub-office Trebinje	Herceg Stefana 5a
13	Sub-office Janja	Brace Lazic 18
14	Sub-office Višegrad	Kralja Petra I br. 36
15	Sub-office Foča	Petra Bojovića
16	Branch office Sarajevo	Zvornička 9
17	Sub-office Kiseljak	Josipa Bana Jelacica 57
18	Sub-office Vogosca	Josanicka 95
19	Sub-office Ilidza	Ibrahima Ljubovica
20	Branch office Tuzla	Stupine bb
21	Sub-office Živinice	Alije Izetbegovića bb
22	Sub-office Kalesija	Zanatski centar bb
23	Sub-office Gračanica	ZZ Tehnozad, 22, divizije br. 9
24	Sub-office Srebrenik	21, Srebreničke brigade bb
25	Sub-office Lukavac	Kralja Tvrtka bb
26	Branch office Gradačac	Hadžiefendina bb
27	Sub-office Modrica	Cara Lazara bb
28	Branch office Zenica	Adolfa Goldbergera 9
29	Sub-office Visoko	Sebilj II
30	Sub-office Maglaj	Aleja ljiljana 1
31	Sub-office Jelah	Titova bb
32	Sub-office Vares	Zvijezda K4
33	Branch office Bugojno	Sultan Ahmeda 82
34	Sub-office Jajce	Hrvoje Vukčića Hrvatinića
35	Sub-office Travnik	Bosanska 110
36	Sub-office Livno	Obrtnicka bb
37	Sub-office Bosanski Petrovac	Bosanska br. 78, Novi hotel
38	Branch office Bihać	Bihaćkih branilaca br. 2
39	Branch office Mostar	Kneza Domagoja 12
40	Sub-office Čapljina	Zrinsko-Frankopanska ulica bb
41	Branch office Brčko	Klosterska 31
42	Sub-office Arizona Market	Hala 10, prostor 23, Arizona
43	Sub-office Prijedor	Kralja Petra I oslobodioca bb
44	Sub-office Janja	Braće Lazić 18
45	Sub-office Orašje	Ulica Jug I bb
46	Sub-office Nevesinje	Ulica Obrena Ivkovića bb
47	Sub-office Ugljevik	Kralja Petra I Karađorđevića

1. General information (continued)

Head office is decentralized and placed in the following offices: Sarajevo, Tuzla, Brčko, Doboj and Zenica.

Summary of key data

MKO EKI : Monetary values are in 000/BAM	**2007**	**Change**	**2006**	**2005**
Income Statement				
Interest and similar income	26,944	71,3%	15,728	9,329
Net Interest Income	20,519	52,3%	13,471	8,418
Operating Expenses	10,834	40,4%	7,717	5,769
Net Profit Before Grants	9,153	59,1%	5,754	2,649
Balance Sheet				
Loans and advances to customers	156,680	80,3%	86,891	52,483
Equity (incl. grants)	31,595	41,6%	22,315	13,234
Balance sheet total	163,233	73,9%	93,863	67,864
Performance				
Return on Equity	34,4%	2,0 pp	32,4%	22,4%
Return on Assets	7,3%	-0,5 pp	7,8%	5,4%
Equity to Total Assets	19,4%	-5,0 pp	24,4%	23,4%
Debt to Equity	416,6%	107 pp	309,6%	327,9%
Resources				
Number of staff on balance sheet date	281	33,2%	211	153
Number of Branches	12	20,0%	10	9
Number of Sub-Offices	51	75,9%	29	25
Ratings of Microcredit Organization EKI	Short-term		Short-term	Short-term
Planet Rating	A Stable		A Stable	A- Stable

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistentely applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are stated in Konvertible Marks (BAM).

The preparation of these financial statements of the Organisation is required by the local regulators. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Organisation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Organisation from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Organisation's operations and the nature of their impact on the Organisation's accounting policies.

IFRS 4, 'Insurance contracts' amedment (issued in 2005);

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Organisations and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

2. Summary of significant accounting policies (continued)

Other new standards or interpretations.

The Organisation has adopted the following other new standards or interpretations which became effective from 1 January 2007:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of embedded derivative (effective for beriods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

The new IFRIC interpretations did not significantly affect the Organisation's financial statements.

(b) New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Organisation's accounting periods beginning on or after 1 January 2008 or later periods and which the Organisation has not early adopted:

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).

Other new standards or interpretations

The Organisation has not early adopted the following other new standards or interpretations:

- IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009).
- Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009).
- IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).
- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).
- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

2. Summary of significant accounting policies (continued)

The new standards and interpretations are not expected to significantly affect the Organisation's financial statements.

2.2. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Organisation operates ('the functional currency'). The financial statements are presented in BAM, which is the Organisation's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

	2007	**2006**
1 EUR	1,955830	1,955830
1 USD	1,326346	1,485065

2.3. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.4. Interest on loans and similar income and Interest expense

Interest is recognised in the income statement for all other interest bearing instruments on an accrual basis using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Organisation estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2. Summary of significant accounting policies (continued)

2.5. Donations / Grants

Donations / Grants are assistance by joint project with the World Vison Bosnia in the form of transfer of resources to the organisation. These grants are recognised as income, whenever there is reasonable assurance that the organisation will comply with the conditions attaching to them (if any) and the grants will be received. Donations of fixed assets are recorded as long-term accruals and released to the income statement in the same manner depreciation of the related fixed assets is charged to the income statement.

2.6. Loans and advances and impairment losses

Loans provided to customers are categorised as Loans and advances to customers and are carried at amortised cost. Third party expenses are capitalised as part of the cost of the transaction. All loans and advances are recognised when cash is advanced to borrowers.

The Organisation assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Organisation uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristic - past-due status .This characteristic is relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Organisation and historical loss experience for assets with credit risk characteristics similar to those in the Organisation.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

2. Summary of significant accounting policies (continued)

2.7. Computer development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives. Costs associated with the maintenance of existing computer software programmes are expensed as incurred.

	2007	**2006**
Software	5 years	5 years
Patents and licenses	5 years	5 years

2.8. Property and equipment

All property and equipment is stated at historical cost less depreciation.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

	2007	**2006**
Buildings	1.3 %	1.3 %
Furniture and equipment	7 - 20 %	7 - 20 %
Vehicles	15.5 %	15.5 %
Computer equipment	20 %	20 %

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

2.9. Leases

(a) Organisation is the lessee

The leases entered into by the Organisation are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2. Summary of significant accounting policies (continued)

2.10. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash, treasury bills and other eligible bills, amounts due from other Organisations and debt securities held for trading.

2.11. Interest bearing deposits

Interest bearing deposits include deposits held at credit institutions and Organisations. Interest earned on deposits is reported as interest income.

2.12. Provisions

Provisions are recognised when the Organisation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

2.13. Employee benefits

Defined benefit plans - one off payments on retirement

On retirement employees receive a payment equivalent to the average monthly salary for the previous 6 months subject to having worked for at least 2 years under a permanent employment contract.

The Organisation creates a provision for these future payments taking into consideration ages of employees, length of service, expected remaining length of service and average salaries. All changes in the provision are immediately recognised in the income statement

Long term employee benefits

The organisation also makes long service ("Jubilee") payments to employees. A provision for these payments is also calculated using an actuarial method. All changes in the provision are immediately recognised in the income statement

2. Summary of significant accounting policies (continued)

2.14. Borrowings

Borrowings are the Organisation's sources of debt funding.

The Organisation classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Organisation initially recognizes borrowings on the date that they are originated.

Borrowings are initially measured at fair value net of transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Organisation chooses to carry the liabilities at fair value through profit or loss where certain conditions are met. At 31 December 2007 no liabilities were classified at fair value through profit or loss

3. Risk management disclosures

The Organisation's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Organisation's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Organisation's financial performance. The Organisation's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Organisation regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Organisation seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to borrowers with a range of credit standing. Risk managemet function as separet department within the Organisation is established in October 2007 under policy approved by Board of Directors. Risk managemet identifies, avaluates and manages financial risks in close co-operation with the other operating units in Organisation. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and other. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3.1. Credit risk

a) Credit risk measurement

Credit risk is the risk of financial loss occurring as a result of counterpart default regarding its contractual obligations to the Organization.

To manage the level of credit risk, Organization:

- reviews the creditworthiness of costumers applying for loans, guarantees and other credit products,
- establishes credit limits on the basis of the risk assessment,
- deals with counterparties of good credit standing and takes appropriate collateral.

Based on the above mentioned criteria the Organization classifies its clients to not risky, low risky and acceptable grades. To enable systematic reporting on credit risk grades, the organization will start with upgrading the data base, and will produce internal rating reports.

Collectively assessed loans

Impairment is assessed on a collective basis for homogeneous groups of loans that are not considered individually significant, where there is objective evidence of individual impairment. Individually insignificant (small and micro) loans are grouped into categories of homogenous loans and tested for impairment.

3. Risk managements disclosures (continued)

We assume that loans with payments in arrears up to one day are only in “technical” default. Individually insignificant loans that show objective evidence of impairment based on this analysis (having payments in arrears more than one day) are grouped according to their arrears category.

The days in arrears are relevant to the estimation of the present value of expected future cash flows for groups of such assets by being indicative of the debtors’ ability and willingness to service the obligation. The allowance levels for the different arrears categories are defined based on historic loss experiences. They generally reflect the expected losses under the Basel II framework. However deviations from this guideline are possible if there is good cause, especially taking into account management’s judgment of qualitative factors, such as the quality of the underlying portfolio, general economic conditions, etc. Loss rates are calculated from the discounted expected future cash flows. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. The allowance levels are defined to reflect impairments already incurred but not yet identified.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Organisation to reduce any differences between loss estimates and actual loss experience.

b) Risk control and mitigation policy

Organization’s primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Management of the Organization has recorded provisions for all known and estimated risks as of the date of the financial statements. Exposure to credit risk is managed through regular analyses and potential borrowers to meet interest and principal obligations.

The Organization’s exposures are collateralized primarily by administrative charge on salaries for co-signer(s) and/or bill of exchange. If in the event of default of the clients to meet interest and principal repayment obligations, realization of collateral on a timely basis proves to be unsuccessful, additional provision will be made in the future for any possible shortfall.

Collateral

The Organisation implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral type for loans and advances is personal pledge and guarantors.

3. Risk managements disclosures (continued)

Credit Exposure and Collateral

	Net exposure
31 December 2007	
Cash and balances with other Organisations	954,247
Restricted Deposits	552,605
Loans and advances to customers	156,680,480
Other assets	552,780
TOTAL	**158,740,112**
31 December 2006	
Cash and balances with other Organisations	421,654
Restricted Deposits	576,414
Loans and advances to customers	86,891,368
Other assets	483,205
TOTAL	**88,372,641**

It was not practicable to determine the fair value of collateral held – personal pledges and guarantees from third parties.

c) Impairment and provisioning policy

On a monthly basis, the Organisation is reviewing its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Organisation makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans.

The criteria that the Organisation uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;

When calculating impairment, the Organisation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually based on arrears-rates for financial assets that are not individually significant.

When 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 recognized are not included in a collective assessment of impairment.

The impairment provision shown in the balance sheet at year-end is derived from individually impaired financial assets.

3. Risk managements disclosures (continued)

Assets impairment

	2007	2006
Impaired assets	1,833,275	652,017
Impairment allowance	(571,817)	(193,055)
TOTAL	**1,261,458**	**458,962**

d) Maximum exposure to credit risk before collateral held or other credit enhancement

	2007	2006
Cash and cash equivalents	954,247	421,654
Loans and advances to customers	157,252,297	87,084,423
Impairment allowance	(571,817)	(193,055)
Restricted deposits	552,605	576,414
Other assets	552,780	483,205
TOTAL	**158,740,112**	**88,372,641**

The above table represents a worse case scenario of credit risk exposure to the Organization at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached.

There are no cash or cash equivalents or other assets that are past due but not impaired or impaired.

For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Organization resulting from its loan and advances to customers portfolio based on the following:

- 0.9% of the loans and advances to customers' portfolio are categorized in the top two allowances levels (2006: 0.5%);
- 98.8% of the loans and advances to customer's portfolio are considered to be not in arrears (2006: 99.3%);
- The Organization has introduced a more stringent selection process upon granting loans and advances.

3. Risk managements disclosures (continued)

e) Assets exposed to credit risk

Loan and advances are summarized as follows:

	Loans and advances to customers 31 December 2007	Loans and advances to customers 31 December 2006
Neither past due nor impaired	158,084,643	88,302,348
Impaired assets	1,833,275	652,017
Accrued Interest	1,217,586	585,424
Origination fee collected in advance	(1,398,687)	(1,272,905)
Loan Installments Collected in Advance	(2,484,520)	(1,182,461)
Gross	**157,252,297**	**87,084,423**
Less: allowance for impairment	(571,817)	(193,055)
Net	**156,680,480**	**86,891,368**

	Total gross carrying amount	Unimpaired assets	Individualy impaired loans	Individualy imapairment allowance	Total net carrying amount
31 December 2007					
Cash and balances with other Organisations	954,247	954,247	-	-	954,247
Restricted Deposits	552,605	552,605	-	-	552,605
Loans and advances to customers	155,419,022	155,419,022	1,833,275	(571,817)	156,680,480
Other assets	552,780	552,780			552,780
TOTAL	**157,478,654**	**157,478,654**	**1,833,275**	**(571,817)**	**158,740,112**
31 December 2006					
Cash and balances with other Organisations	421,654	421,654	-	-	421,654
Restricted Deposits	576,414	576,414	-	-	576,414
Loans and advances to customers	88,954,365	86,432,406	652,017	(193,055)	86,891,368
Other assets	483,205	483,205	-	-	483,205
TOTAL	**90,435,638**	**87,913,679**	**652,017-**	**(193,055)**	**88,372,641**

The total impairment provision for loans and advances to customers is KM 571,817 (2006: KM 193,055) represented the loan based portfolio provision. Further information of the impairment allowance for loans and advances to Organisation and to customers Notes 11, 12, 13 and 17.

3. Risk managements disclosures (continued)

During the year ended 31 December 2007, the Organisation's loan portfolio has increased by 76% as a result of the expansion of the lending business and entering the new markets.

(i) Assets neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Organisation.

31-Dec-07	**Loans and advances to customers Individuals**					**Total loans and advances to customers**
	SMEs	Agro	Micro	Housing	Others	
No arrears	30,780,299	43,563,728	58,112,844	20,940,452	4,687,320	158,084,643
Total	**30,780,299**	**43,563,728**	**58,112,844**	**20,940,452**	**4,687,320**	**158,084,643**

31-Dec-06	**Loans and advances to customers Individuals**					**Total loans and advances to customers**
	SMEs	Agro	Micro	Housing	Others	
No arrears	18,219,830	24,551,105	34,783,082	9,761,111	987,220	88,302,348
Total	**18,219,830**	**24,551,105**	**34,783,082**	**9,761,111**	**987,220**	**88,302,348**

(ii) Assets past due but not impaired

The Organisation has no past due assets which were not impaired.

(iii) Assets impaired

	Loans and advances to customers					
31 December 2007	SME	Agro	Microcredit	Housing	Others	Other assets
No arrears	-	-	-	-	-	-
Arrears 1 – 30 days	240,789	376,640	428,436	94,886	15,123	-
Arrears 31 – 60 days	38,006	112,303	132,603	36,555	1,830	-
Arrears 61 – 90 days	42,796	51,309	82,080	10,437	1,846	-
Arrears 91 – 120 days	5,498	61,867	75,817	14,040	45	-
Arrears above 120 days	385	-	2,874	-	-	-
Total	**327,474**	**602,119**	**721,810**	**155,918**	**18,844**	**-**
Impairment provisions	**102,540**	**188,538**	**226,016**	**48,822**	**5,901**	**-**

3. Risk managements disclosures (continued)

	Loans and advances to customers					
31 December 2006	SME	Agro	Microcredit	Housing	Others	Other assets
No arrears	-	-	-	-	-	-
Arrears 1 – 30 days	72,415	53,342	202,241	20,082	2,311	-
Arrears 31 – 60 days	3,961	24,408	63,433	14,719	1,060	-
Arrears 61 – 90 days	5,317	13,124	54,646	2,540	261	-
Arrears 91 – 120 days	26,586	28,532	39,678	5,121	-	-
Arrears above 120 days	-	-	489	-	-	-
Total	**108,279**	**119,406**	**360,487**	**42,462**	**3,632**	**-**
Impairment provisions	**32,957**	**36,344**	**109,723**	**12,924**	**1,107**	**-**

(iv) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totaled KM 7,110 at 31 December 2007 (2006: KM 17,751).

	2007	**2006**
Loans and advances to customers		
- Loans to individuals:		
- Overdrafts	-	-
- Housing	-	-
- Other	7,110	17,751
Total	**7,110**	**17,751**

f) Concentration of risks of financial assets with credit risk exposure

The Organisation monitors concentrations of credit risk by economic sector and by geographic location. An analysis of such concentrations at the reporting date is shown below:

Economic sector risk concentrations

	Sales-trading	Production	Service	Agriculture	Housing	Solidarity	Other	Total
No arrears	33,939,482	5,015,759	26,291,243	72,355,538	20,222,190	1,999	265,543	158,091,753
1-30 days	262,617	60,308	181,735	561,960	89,254	-	-	1,155,874
31-60 days	37,840	26,041	58,411	162,450	36,555	-	-	321,298
61-90 days	43,795	717	54,455	79,063	10,437	-	-	188,468
91-120 days	22,332	1,374	21,128	98,392	14,040	-	-	157,266
over 120 days	2,835	-	385	40	-	-	-	3,259
Total	**34,308,901**	**5,104,199**	**26,607,357**	**73,257,444**	**20,372,476**	**1,999**	**265,543**	**159,917,918**

3. Risk managements disclosures (continued)

Geographic risk concentrations

Loans and advances to customers are disbursed to entities in Bosnia and Herzegovina.

3.2. Market risk

The Organisation takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.
The Management sets limits and guidelines for monitoring and mitigating of market risks, which is regularly monitored by risk committees of the Organisation.

3.3. Foreign exchange risk

The Organisation takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Since Organisation is not exposured to this risk (see explanation below), there is no policy for managing this risk. However, Organisation is in process of preparing instructions for managing this risk with external consultant for ALCO.

The table below summarizes the Organisation's exposure to foreign currency exchange rate risk at 31 December 2007 and 2006. Included in the table are the Organisation's assets and liabilities at carrying amounts categorized by currency.

	BAM	**EUR**	**USD**	**Total**
ASSETS				
Non-current Assets				
Property, plant and equipment	4,491,881	-	-	4,491,881
Intangible Assets	888	-	-	888
Total *Non-current Assets*	**4,492,769**	**-**	**-**	**4,492,769**
Current Assets				-
Cash and balances with other Organisations	954,247	-	-	954,247
Restricted Deposits	353,653	-	198,952	552,605
Loans and advances to customers	156,680,480	-	-	156,680,480
Other assets	552,780	-	-	552,780
Total Current Assets	**158,541,160**	**-**	**198,952**	**158,740,112**
Total Assets	**163,033,929**	**-**	**198,952**	**163,232,881**
LIABILITIES				
Long - term borrowings	14,433,868	90,451,224	-	104,885,092
Short - term borrowings	4,782,811	20,684,767	101,250	25,568,828
Other liabilities	1,184,457	-	-	1,184,457
Total Liabilities	**20,401,136**	**111,135,991**	**101,250**	**131,638,377**
Total Assets - Total Liabilities	**142,632,793**	**(111,135,991)**	**97,702**	**31,594,504**

3. Risk management disclosures (continued)

31 December 2006	BAM	EUR	USD	Total
ASSETS				
Non-current assets				
Property and equipment	3,027,209	-	-	3,027,209
Intangible assets	1,332	-	-	1,332
Total non-current assets	**3,028,541**	**-**	**-**	**3,028,541**
Current assets				
Cash and cash equivalent	421,654	-	-	421,654
Restricted deposits	353,653	-	222,760	576,413
Loans and advances to customers	86,891,368	-	-	86,891,368
Other current assets	483,205	-	-	483,205
Total current assets	**88,149,880**	**-**	**222,760**	**88,372,640**
Total assets	**91,178,421**	**-**	**222,760**	**91,401,181**
LIABILITIES				
Long-term borrowings	16,969,660	38,887,447	111,380	55,968,487
Short-term borrowings	4,355,258	8,111,213	111,380	12,577,851
Other liabilities	539,750	-	-	539,750
Total liabilities	**21,864,668**	**46,998,660**	**222,760**	**69,086,088**
Total assets – Total liabilities	**69,313,753**	**(46,998,660)**	**-**	**22,315,093**

Eighty-five percent of loans are from foreign lenders in Euro, with the remaining loans from local lenders in BAM. BAM loans contain a provision that they will be repaid at the prevailing EUR/BAM exchange rate at maturity which means they are Euro indexed.

The currency rate EUR-BAM is fixed, and there are no indicators that this would be changed in the near future, so there is no implication of currency rate risk.

3.4. Interest rate risk

The Organization takes on exposure to the effects of fluctuation prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes or may reduce creating losses in the event that unexpected movements by reprising periods arise. ALCO sets limits for interest rate risk exposures and it is measured on daily basis by Risk Management Department.

Interest sensitivity of assets and liabilities

3. Risk management disclosures (continued)

The table below summarizes the Organisation's exposure to interest rate risks. Included in the table are the Organisation's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Non-interest sensitive	Provision	Total net carrying amount
31 December 2007								
Assets								
Cash and balances with other Organisations	954,247	-	-	-	-	-	-	954,247
Restricted Deposits	-	-	-	552,605	-	-	-	552,605
Loans and advances to customers	5,315,342	13,303,610	54,612,710	84,020,635	-	-	(571,817)	156,680,480
Other assets	552,780	-	-	-	-	-	-	552,780
Property, plant and equipment	-	-	-	-	-	4,492,769	-	4,492,769
TOTAL ASSETS	**6,822,369**	**13,303,610**	**54,612,710**	**84,573,240**	**-**	**4,492,769**	**(571,817)**	**163,232,881**
Liabilities								-
Borrowings	179,277	41,240,917	35,200,470	24,450,862	4,246,734	23,709,050	-	129,027,310
Accrued interest	-	1,426,610	-	-	-	-	-	1,426,610
Other Liabilities	1,184,457	-	-	-	-	-	-	1,184,457
TOTAL LIABILITIES	**1,363,734**	**42,667,527**	**35,200,470**	**24,450,862**	**4,246,734**	**23,709,050**	**-**	**131,638,377**
TOTAL EQUITY						**31,594,504**		**31,594,504**
Interest Sensitivity Gap	**5,458,635**	**(29,363,917)**	**19,412,240**	**60,122,378**	**(4,246,734)**	**(19,216,281)**	**(571,817)**	**31,594,504**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Non-interest sensitive	Provision	Total net carrying amount
31 December 2006								
Assets								
Cash and balances with other banks	421,654							421,654
Restricted Deposits				576,413				576,413
Loans and advances to customers	2,867,725	9,278,661	34,686,022	40,252,015	-	-	(193,055)	86,891,368
Other assets	483,205							483,205
Property, plant and equipment						3,028,541		3,028,541
TOTAL ASSETS	**3,772,584**	**9,278,661**	**34,686,022**	**40,828,428**	**-**	**3,028,541**	**(193,055)**	**91,401,181**
Liabilities								-
Borrowings	1,290,739	18,944,619	6,490,221	21,355,129	5,849,311	14,616,320	-	68,546,338
Accrued interest								-
Other Liabilities	539,750							539,750
TOTAL LIABILITIES	**1,830,489**	**18,944,619**	**6,490,221**	**21,355,129**	**5,849,311**	**14,616,320**	**-**	**69,086,088**
TOTAL EQUITY						**22,315,093**		**22,315,093**
Interest Sensitivity Gap	**1,942,095**	**(9,665,958)**	**28,195,801**	**19,473,299**	**(5,849,311)**	**(11,587,779)**	**(193,055)**	**22,315,093**

At 31st December 2007, if interest rate at the date has been 10 basis points lower with all other variables held constant, the profit for the year would have been BAM 42,700 higher, arising mainly as a result of lower interest expense on variable borrowings, and other components of equity would have been higher for BAM 47,400 as a result of an increase in the fair value of the fix rate financial assets as available to portfolio increase.

3. Risk management disclosures (continued)

If interest rates had been 10 basis point higher, with all other variables held constant included, profit would have been BAM 42,900 lower, arising mainly as a result of higher interest rate expense on variable borrowings and other components of equity would have been BAM 22,000 lower. Profit is sensitive to interest rate decreases because of borrowings with variable interest rates. The sensitivity is higher in Y2007 than in Y2006 because of reduction in outstanding borrowings that has occurred as the Organizations debt has matured and/or replaced with variable interest rates financing.

3.5. Liquidity risk

Liquidity risk arises in the general funding of the Organizations activities and in the management of its liquidity position. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Organization has access to a diverse funding base. Funds are raised using:

- long term borrowings and
- revolving credit lines at local Organisations

The Organization continually assesses liquidity risk by indentifying and monitoring changes in funding required meeting business goals and targets in terms of the overall organizational strategy.

Sources of liquidity are regularly reviewed by Financial department on daily basis and ALCO committee of the Organisation on monthly basis.

The Organisation’s liquidity management process, as carried out within the Organisation and monitored by a Financial department includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal requirements;
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Financial department has also monitors unmatched medium-term assets.

3. Risk management disclosures (continued)

3.6. Maturities of assets and liabilities

31 December 2007	Up to 1 month	1 month to 3 months	3 months to 1 year	Over 1 year	Over 5 years	Total net carrying amount
Assets						
Cash and balances with other banks	954,247					954,247
Restricted Deposits				552,605		552,605
Loans and advances to customers	6,730,578	13,551,238	55,129,066	81,269,597		156,680,480
Other assets	552,780					552,780
Property, plant and equipment					4,492,769	4,492,769
TOTAL ASSETS	**8,237,605**	**13,551,238**	**55,129,066**	**81,822,202**	**4,492,769**	**163,232,881**
Liabilities						-
Borrowings	273,975	7,080,539	14,568,048	91,032,879	16,071,869	129,027,310
Interest Payable	86,175	2,736,648	5,003,137	8,890,202		16,716,162
Other Liabilities	1,184,457	-	-	-	-	1,184,457
TOTAL LIABILITIES	**1,544,607**	**9,817,187**	**19,571,185**	**99,923,081**	**16,071,869**	**146,927,929**
TOTAL EQUITY						**31,594,504**
Net Liquidity Gap	**6,692,998**	**3,734,051**	**35,557,881**	**(18,100,879)**	**(11,579,100)**	**16,304,952**

31 December 2006	Up to 1 month	1 month to 3 months	3 months to 1 year	Over 1 year	Over 5 years	Total net carrying amount
Assets						
Cash and balances with other banks	421,654					421,654
Restricted Deposits	576,413					576,413
Loans and advances to customers	2,861,416	9,258,248	35,836,207	38,935,497	-	86,891,368
Other assets	483,205					483,205
Property, plant and equipment					3,028,541	3,028,541
TOTAL ASSETS	**4,342,688**	**9,258,248**	**35,836,207**	**38,935,497**	**3,028,541**	**91,401,181**
Liabilities						-
Borrowings	80,824	3,307,403	6,866,346	43,702,450	14,589,315	68,546,338
Interest Payable	57,672	763,217	1,892,968	3,864,763		6,578,619
Other Liabilities	539,750					539,750
TOTAL LIABILITIES	**678,246**	**4,070,620**	**8,759,314**	**47,567,213**	**14,589,315**	**75,664,707**
TOTAL EQUITY						**22,315,093**
Net Liquidity Gap	**3,664,443**	**5,187,628**	**27,076,893**	**(8,631,716)**	**(11,560,774)**	**15,736,474**

3. Risk management disclosures (continued)

Organization manages it liquidity risk using:

- loan commitments negotiated and contracted to be withdrawn in tranches,
- loan replacements for the loans maturing during the period,
- revolving credit lines to cover liquidity shortfalls, and
- diversification of loan fund sources.

3.7. Off-balance sheet items maturity

(a) Operating lease commitments

Where a Organisation is the lessee, the future minimum lease payments under non-cancellable operating leases are summarized in the table below.

	No later than 1 year	1-5 year	Over 5 years	Total
As at 31 December 2007				
Operating lease commitments	422,172	-	-	**422,172**
Total	**422,172**	-	-	**422,172**
As at 31 December 2006				
Operating lease commitments	285,582	-	-	**285,582**
Total	**285,582**	-	-	**285,582**

3.8. Fair values of financial assets and liabilities

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Organisation's balance sheet at their fair value.

	Carrying value 2007	Fair value 2007
Assets		
Loans and advances to customers	159,917,918	159,746,793
Borrowings	129,252,573	129,475,837

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Borrowings

The estimated fair value of fixed borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

4. Critical accounting estimates and judgments

The Organisation makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

The Organisation reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Organisation makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Organisation, or national or local economic conditions that correlate with defaults on assets in the Organisation.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Borrowings

The Organisation obtains long term financing from its founder, a non governmental aid organisation, at interest rates at which this institution ordinarily lends in Bosnia-Herzegovina and other emerging markets and which may be lower than rates at which the Organisation could source the funds from other local lenders. As a result of such financing, the Organisation advances funds to specific customers at advantageous rates. Management have considered whether gains or losses should arise on initial recognition of such instruments. Taking into consideration the aims of the founder, management's judgment is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise.

5. Interest and similar income

	2007	2006
Interest income	24,066,916	13,781,866
Interest income from impaired loans	408,717	165,122
Loan fees	2,094,850	1,751,970
Other fees	337,011	-
Interest from Organisations	26,222	13,103
Penalties	10,228	15,870
TOTAL	**26,943,944**	**15,727,931**

Substantially all income arises within Bosnia and Herzegovina.

6. Interest expense

	2007	2006
EFSE	1,757,438	423,101
Blue Orchard	1,107,022	489,993
EBRD	906,369	-
Raiffeisen Bank	569,058	397,337
International Finance Corporation	517,407	93,164
VisionFund International	284,683	130,837
FSD	275,831	230,047
SIMBIOTICS	261,541	101,332
Oikocredit	231,814	49,211
HVB Central Profit Banka	170,792	87,592
Spanish Microfinace Programme	154,252	110,518
KfW	47,858	54,262
RS DEF	39,471	30,300
Federal Ministry of Finance	45,380	13,923
Unicredit Bank	34,154	-
UPI Banka	14,185	19,864
MicroVest	-	14,033
World Vision	8,125	9,234
USAID	-	1,740
	6,425,380	**2,256,488**

7. Operating costs

	2007	2006
Staff costs	7,239,266	4,928,204
Depreciation	521,957	363,390
Non-production services	492,653	135,578
Cost of Organisation charges	430,780	434,796
Rent	420,759	318,051
Fuel and other costs for vehicles	403,313	281,999
Advertising and entertainment	401,797	180,341
Other costs	133,419	159,920
Utilities	147,714	98,921
Office supplies	130,440	128,077
Computer applications	125,862	96,221
Education costs	122,582	45,255
Maintenance of fixed assets	78,454	74,585
Insurance costs	76,247	48,782
Institutional costs	58,640	63,343
Taxes	54,549	26,344
Fees for Board of Directors	21,228	13,742
Communication costs	20,778	286,495
Management fees for World Vision	8,884	15,277
	10,915,599	**7,692,321**

8. Staff costs

	2007	2006
Wages and salaries (net)	2,856,977	2,128,346
Taxes and contributions	2,447,355	1,692,040
Incentive payments (net)	835,038	412,373
Meal allowances	526,144	398,769
Allowance for vacation	168,174	116,869
Temporary contracts (gross)	130,092	69,467
Travel costs	110,200	84,491
Other costs	24,737	25,849
Defined benefit expenses	118,013	-
Jubilee awards	22,536	-
	7,239,266	**4,928,204**

9. Other income

	2006	2006
Other	86,592	685
Refunded loan recovery costs from clients	36,123	32,997
Net FX loss	(9,596)	105,850
World Vision (refunded costs)	-	83,589
Refunded costs from Health fund	-	22,504
Refunded costs from Insurance company	-	4,093
Refunded Court litigation costs	-	2,575
	113,119	**252,293**

10. Impairment losses

	2007	2006
Loans written-off	390,483	313,879
Additions to impairment on Loans and advances to customers	223,995	65,964
Other impairment charge for fraud cases	154,766	-
Collection of loans previously written-off	(124,974)	(102,387)
	644,270	**277,456**

11. Grant income

	2007	2006
USAID LAMP	-	3,046,226
World Vision	205,602	173,938
International Finance Corporation (IFC)	-	103,659
Depreciation of granted assets	1,995	2,887
	207,597	**3,326,710**

11. Grant income (continued)

World Vision

Every month World Vision is granting the particular amount to EKI for operating expenses for new Housing project in Gradačac.

12. Taxation

The Organisation is tax exempted according to article 2 of old "Law on Micro credit organisations", which determines that micro credit organisations should be regarded as non-profit organisations. On 4 October 2006, new law on Micro credit organizations of Federation BH has been issued in Official Gazette No. 59, According to new law, up to 4 October 2007, every MCO in Federation BH has to re-register itself into micro credit foundation (tax exempted) and then to chose either to operate as micro credit foundation or to found a micro credit company (no tax exemption).

The final goal is to have a Company. Since the Fondation is tax exempt and the Company will be new founded, there was no reason to recognize deffered tax assets or liabilities.

13. Property and Equipment

	Buildings	Furniture & equipment	Vehicles	Computer equipment	Total
Cost					
Balance at 1 January 2007	1,477,859	405,535	1,484,198	545,285	3,912,877
Additions in the year	639,547	179,640	942,909	230,772	1,992,868
Disposals in the year	0	7,859	1,043	33,868	42,770
Balance as at 31 December 2007	**2,117,406**	**577,316**	**2,426,064**	**742,189**	**5,862,975**
Accumulated depreciation					
Balance at 1 January 2007	28,734	121,697	475,940	259,297	885,668
Depreciation for the period	19,212	76,939	318,413	107,442	522,006
Disposals in the year	0	1,182	12,925	22,474	36,581
Balance as at 31 December 2007	**47,946**	**197,454**	**781,428**	**344,265**	**1,371,093**
Net book value as at 31 December 2007	**2,069,460**	**379,862**	**1,644,634**	**397,924**	**4,491,882**
Cost					
Balance at 1 January 2006	1,075,649	254,853	1,145,638	431,533	2,907,673
Additions in the year	402,210	153,823	390,748	116,095	1,062,876
Disposals in the year	-	3,141	52,188	2,343	57,672
Balance as at 31 December 2006	**1,477,859**	**405,535**	**1,484,198**	**545,285**	**3,912,877**
Accumulated depreciation					
Balance at 1 January 2006	14,310	69,551	301,724	168,499	554,084
Depreciation for the period	14,424	53,381	202,528	92,613	362,946
Disposals in the year	-	1,235	28,312	1,815	31,362
Balance as at 31 December 2006	**28,734**	**121,697**	**475,940**	**259,297**	**885,668**
Net book value as at 31 December 2006	**1,449,125**	**283,838**	**1,008,258**	**285,988**	**3,027,209**

14. Intangible assets

	2007	2006
Cost		
Balance as at 01 January	2,220	2,220
Additions in the year	-	-
Disposal in the year	-	-
Balance as at 31 December	**2,220**	**2,220**
Accumulated depreciation		
Balance as at 01 January	(888)	(444)
Charge for the year	(444)	(444)
Disposal in the year	-	-
Balance as at 31 December	**(1,332)**	**(888)**
Net book value as at 31 December	**888**	**1,332**

15. Cash and cash equivalents

	2007	2006
Cash in hand	2,932	2,880
Cash at Banks:		
Raiffeisen Bank	506,200	194,989
UPI banka	105,068	150,014
HVB Central Profit Banka	85,320	16,287
UniCredit Zagrebačka Banka	84,864	3,809
Hypo Alpe-Adria-Bank	56,405	16,429
NLB Tuzlanska Banka	31,551	20,588
PBS Banka	27,442	7,177
Nova Banka	22,548	5,162
ABS Banka	22,426	4,123
VolksBank	9,491	196
	954,247	**421,654**

16. Restricted deposits

	Amount of deposits	*Annual Interest rate*	*Maturity?*	**2007**	**2006**
Raiffeisen Bank	BAM 353,653	2%	30 September 2008.	353,653	353,653
Raiffeisen Bank	USD 150,000	1.5%	30. September 2008.	198,952	222,760
				552,605	**576,413**

According to the General agreement for lending and business cooperation with Raiffeisen Bank d.d. Sarajevo, the Organisation has given restricted deposit that is structured by 150,000 USD and 353,653 BAM in order to ensure the return of principal, interest and other expenses in respect of loans.

17. Loans and advances to customers

(a) Analysis by interest rates

The Organization is charging annual interest rates as follows:

Loan product	**2007**	**2006**
Loan product I – Mikro Amount from 500 BAM to 5,000 BAM - from 3 to 36 months	20% - 28%	20% - 28%
Loan product II – MikroAgro Amount from 1,000 BAM to 5,000 BAM - from 3 to 36 months	20% - 28%	20% - 28%
Loan product III – Agro Amount from 5,000 BAM to 30,000 BAM - from 6 to 36 months	16.5% - 18%	16.5% - 18%
Loan product IV – SME Amount from 5,000 BAM to 30,000 BAM - from 6 to 36 months	17% - 20.5%	17% - 20.5%
Loan product V – short term borrowing Amounts from 300 BAM to 3,000 BAM - up to 6 months	26%	26%
Loan product VI – Solidarity group Amount for 300 BAM to 3,000 BAM - from 6 to 18 months	24% - 26%	24% - 26%
Loan product VII – Housing Amounts from 1,000 BAM to 30,000 BAM - up to 36 months	18%	18%
Loan product VIII – Household Amounts from 100 BAM to 5,000 BAM - up to 36 months	23%	23%

17. Loans and advances to customers (continued)

(b) Analysis by type of borrower

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2007	**2006**
Individual agricultural companies	73,500,972	43,197,367
Individual trade companies	33,810,486	17,632,476
Individual service companies	26,384,680	14,645,526
Housing	21,096,370	10,057,306
Individual production companies	5,125,410	3,421,690
Gross portfolio	**159,917,918**	**88,954,365**
Impairment losses	(571,817)	(193,055)
Net portfolio	**159,346,101**	**88,761,310**
plus Accrued interest as at 31 December	1,217,586	585,424
minus Origination fees collected in advance	(1,398,687)	(1,272,905)
minus Loan instalments collected in advance	(2,484,520)	(1,182,461)
	156,680,480	**86,891,368**

(c) Analysis by remaining maturity

	2007	**2006**
Up to 30 days	6,730,578	4,786,813
31 - 60 days	6,824,687	4,710,275
61 - 90 days	6,726,552	4,633,225
91 - 180 days	19,506,793	13,081,831
181 - 360 days	36,108,673	21,490,206
over 360 days	84,020,635	40,252,015
Gross portfolio	**159,917,918**	**88,954,365**
Impairment losses	(571,817)	(193,055)
Net portfolio	**159,346,101**	**88,761,310**
plus Accrued interest as at 31 December	1,217,586	585,424
minus Origination fees collected in advance	(1,398,687)	(1,272,905)
minus Loan instalments collected in advance	(2,484,520)	(1,182,461)
	156,680,480	**86,891,368**

(d) Geographical analysis (per branch office)

As at 31 December 2007, all loans were granted to citizens or companies incorporated in Bosnia and Herzegovina.

	2007	**2006**
Tuzla	22,874,581	15,365,563
Doboj	17,049,056	11,808,789
Gradačac	16,864,437	9,855,034
Bijeljina	16,699,135	9,746,529
Zenica	14,925,677	8,894,895
Banja Luka	14,501,575	4,905,684

17. Loans and advances to customers (continued)

	2007	2006
Brčko	13,977,214	7,055,619
Sarajevo	12,063,913	6,850,870
Mostar	12,031,144	6,775,268
Bugojno	9,715,217	7,696,114
Bihać	5,325,407	-
Višegrad	3,890,562	-
Gross portfolio	**159,917,918**	**88,954,365**
Impairment losses	(571,817)	(193,055)
Net portfolio	**159,346,101**	**88,761,310**
plus Accrued interest as at 31 December	1,217,586	585,424
minus Origination fees collected in advance	(1,398,687)	(1,272,905)
minus Loan instalments collected in advance	(2,484,520)	(1,182,461)
	156,680,480	**86,891,368**

(e) Impaired Loans

Impaired loans were as follows:

	2007	2006
Up to 30 days	1,155,874	350,392
31 to 60 days	321,298	107,581
61 to 90 days	188,468	75,888
91 to 120 days	157,266	99,916
121 to 150 days	3,259	489
Restructured loans	7,110	17,751
	1,833,275	**652,017**

(f) Impairment provision

The movements in impairment provision for loan losses are as follows

	2007	2006
Bad debt written-off	390,483	313,879
Increase in impairment provision for loans	223,995	65,964
Repayment of written-off	(124,974)	(102,387)
Other impairment charge for fraud cases	154,766	-
Balance at 31, decembar	**644,270**	**277,456**

18. Other current assets

	2007	2006
Receivables from old Housing Project	311,841	472,218
Payments in advance	209,543	3,414
Receivables from World Vision	25,050	6,188
Prepaid tax	5,766	98
Receivables from employees	580	1,287
	552,780	**483,205**

18 Other current assets (continued)

Payments in advance

During 2007, EKI paid BAM 209,541 as advance for purchase of business premise for office Gradacac and equipment for Sarajevo Office and Head office. Most purchases are completed during the year 2007, except the Gradacac office which is to be finished within the first six months of the year 2008.

19. Equity

	2007	**2006**
Start up capital	800,000	800,000
Grant income allocated from net profit	5,808,797	2,482,087
Other retained earnings	24,985,707	19,033,006
General provision	-	1,766,047
Equity	**31,594,504**	**22,315,093**

Since the Organisation is a legal entity as a non-profit organisation, there is no share capital issued. In case of liquidation, after the settlement of debts with the creditors, rest of equity will be handled by the municipality where the Organization is registered.

The net result for the year will be allocated by a decision of the Board of Directors.

At 31.12.2006 a General provision was maintained at an amount of 2% of the healthy portfolio. In 2007 this general provision was transferred to retained earnings.

20. Long-term borrowings

(a) Analysis by type of borrowing

	Interest rate	**2007**	**2006**
Blue Orchard	Euribor + 2.8%; 7.75%; 7.25%	30,942,263	6,845,405
KfW – EFSE	Euribor; Euribor + 3.75%; Euribor + 4.8%	27,932,512	12,429,300
World Vision	interest free	14,824,315	15,449,653
EBRD	Euribor + 4.75%	11,734,980	3,911,660
Raiffeisen Bank	6.45%; 6.75%, Euribor + 3%	9,412,596	2,154,998
SIMBIOTICS	7.25%; Euribor + 3%	5,867,490	733,436
FSD	5%	5,483,800	5,772,419
HVB Central Profit Bank	Euribor + 2.8%; Euribor + 5.8%	4,673,333	1,000,000
IFC	8.65%	4,400,618	5,867,490
VisionFund	7.25%; 7.50%	3,911,660	3,911,660
Oikocredit	7.75%	2,933,745	2,933,745

20. Long - term borrowings (continued)

	Interest rate	2007	2006
Spanish Microfinance programme	5%	2,933,745	2,933,745
Unikredit revolving	6.50%	2,000,000	-
Federalno ministarstvo finansija	Euribor	1,153,940	586,749
RS DEF	4%	712,501	750,000
		128,917,498	**65,280,260**
Less Short-term part of long-term borrowings		(24,032,407)	9,311,773
Total		**104,885,091**	**55,968,487**

* Note: This interest rate is related to one borrowing only

World Vision

Up to 31 March 2001, micro credit activities were performed under the World Vision International as one of its projects. On March 31, 2001 (while establishing a new micro credit organization in Federation of B&H in accordance to Law on Microcredit Organizations), there was signed a loan agreement between EKI and World Vision. In regard to the agreement, EKI was agreed to accept the total amount of EUR 3,374,775 (BAM 6,600,486) as a loan. Duration of this contract was five years.

On 8 January 2003, this agreement was renewed with the term for the next five years, while the other agreement conditiones remain the same.

During the year 2001, 8 annexes were signed and they included the following:

Description	**Amount (BAM)**
Balance on 31-Mar-01	***6,600,486***
Additional funds after registration of branch offices in Republika Srpska (funds related to the projects in RS under World Vision)	3,470,210
Fixed assets paid by World Vision for branch offices in Federation	103,345
Additional fund from World Vision (SIDA fund)	800,000
Additional fund from World Vision (Episcopal Diocese fund)	22,534
Transfer to Association of blind person, Sarajevo – treated as partial repayment	(23,500)
Balance as at 31-Dec-01	**10,973,075**

During the year 2002, 2 annexes were signed and they included the additional funds from World Vision (SIDA fund) in amount of BAM 300,000,

On 9 October 2003, EKI received the loan from World Vision Canada in amount of USD 150,000, The loan bears a fixed interest of 1% on outstanding amount. Grace period is three years. The expiry date of the loan agreement is set at 15 October, 2008, The Organisation will repay the total loan amount in eight equal quarter instalments starting on 15 January 2007.

20. Long - term borrowings (continued)

During 2004, 9 annexes were signed and they included the following:

Description	Amount (BAM)
Balance on 31-Dec-01	***10,973,075***
Additions in 2002	***300,000***
Additions in 2003	***215,653***
Additional fund from World Vision (SIDA fund)	300,000
Additional fund from World Vision (USDA fund)	656,245
Additional fund from World Vision (CIDA fund)	441,825
New Housing project (SIDA)	674,000
Transferred from old Housing project (see note 20)	71,405
Balance as at 31-Dec-04	**13,632,203**

On 1 August 2004, EKI signed the loan agreement with World Vision (SIDA fund) for Economic support project. In regard to the agreement, EKI get funding to finance its portfolio activities in amount of BAM 1,000,000 with interest free. Repayment of principal was be scheduled on quarterly basis and first payment was due three months after last transfer of loan received by EKI. The loan will mature on May 5, 2008. Transfers have begun in 2005. During the year 2005, 8 annexes related to basic loan agreement and 12 annexes related to Economic support were signed and they included the following:

Description	Amount (BAM)
Balance on 31-Dec-04	**13,632,203**
New Housing project (SIDA)	685,000
Transferred from old Housing project (see note 20)	163,727
Economic support project (SIDA)	820,000
Transfer to Village Association, Sarajevo – treated as partial repayment	(38,138)
FX loss on loan from World Vision Canada	33,033
Balance as at 31-Dec-05	**15,295,825**

During the year 2006, 6 annexes related to basic loan agreement and 6 annexes related to Economic support were signed and they included the following:

Description	Amount (BAM)
Balance on 31-Dec-05	**15,295,825**
New Housing project (SIDA)	23,000
Transferred from old Housing project (see note 20)	168,421
Economic support project (SIDA)	180,000
Economic support project (SIDA) – repayments	(166,666)
Repayment of SIDA Guarantee fund	(25,000)
FX gain on loan from World Vision Canada	(25,927)
Balance as at 31-Dec-06	**15,449,653**

20. Long - term borrowings (continued)

During the year 2007, 2 annexes were signed in regard to the SIDA housing project and World Vision Canada funding and 1 ennex was signed in regard to SIDA economic support project. They includeded following changes:

Balance as at 31-Dec-06	**15,449,653**
New Housing project (SIDA)	23,000
Transferred from old Housing project (see note 20)	163,279
Economic support project (SIDA)	(109,072)
Economic support project (SIDA) – repayments	(598,333)
Repayment of SIDA Guarantee fund	(90,000)
FX gain on loan from World Vision Canada	(14,212)
Balance as at 31-Dec-07	**14,824,315**

The framework agreement with the KfW was signed on August 13, 2002.

EKI signed 6 individual loan agreements within the framework during Y2002 and Y2003 in total amount of 2,450,000 EUR. As of December 31, 2007 five of those agreements were active, and one was matured in September 2007.

Individual Loan agreements that were active are:

On 13 November 2002, the Organization received a loan from KfW amounting to EUR 750,000, The loan bears an annual interest based on EURIBOR. The Organization must repay the loan in equal consecutive semi-annuals instalments and the maturity of the loan shall in no event exceed 31 March 2008,

On 08 March 2003, the Organization signed three loan agreements with KfW:

- RLP/EU/EKI-003 – EUR 200,000;
- SME/EU2/EKI-001 – EUR 250,000;
- SME/SCH/EKI-001 – EUR 250,000,

The loans bear an annual interest based on EURIBOR. The Organization must repay the loans in equal consecutive semi-annuals instalments and the maturities of the loans will in no event exceed 30 September 2008,

On 2 December 2003, the Organization received a loan from KfW amounting to EUR 500,000, The loan bears an annual interest based on EURIBOR. The Organization must repay the loan in equal consecutive semi-annuals instalments and the maturity of the loan shall in no event exceed 31 March 2009,

From March 2006, the KfW Framework Agreement and Individual loan agreements financed by the KfW were in competence of the European Fund for Soth Eastern Europe - EFSE. During the Y2006 and Y2007 EKI signed 6 more agreements with EFSE in total amount of 15,500,000 EUR.

On 28 March 2006, the Organization signed the loan agreement with EFSE for loan facility in amount of EUR 3,000,000 (for placement of rural loans). This loan is bearing an interest of semi-annual EURIBOR+4,80% p.a. and will be repaid in 6 equal semi-annual instalments. Maturity date is 30 September 2009.

20. Long - term borrowings (continued)

On 28 March 2006, the Organization signed the loan agreement with EFSE for loan facility in amount of EUR 1,000,000 (for placement of housing loans). This loan is bearing an interest of semi-annual EURIBOR+4,80% p.a. and will be repaid in 6 equal semi-annual instalments. Maturity date is 30 September 2009.

On 15 September 2006, the Organization signed the loan agreement with EFSE for loan facility in amount of EUR 1,500,000 (for placement of housing loans). This loan is bearing an interest of semi-annual EURIBOR+4,80% p.a. and will be repaid in 6 equal semi-annual instalments. Maturity date is 22 March 2010.

On 26 March, 2007, the Organisation signed the loan agreement with EFSE for the loan facility in amount of EUR 2,000,000 (for placement of housing loans). The loan is bearing an interest of 6-months EURIBOR+3.75% p.a. and will be rapeid in 6 equal semi-annual repayments. Maturity date is 22 Septemebr 2010.

On 26 March 2007, the Organization signed the loan agreement with EFSE for the loan facility in amount of EUR 6,500,000 (for placement of rural loans). The loan is bearing an interest of 6-months EURIBOR+3.75% p.a. and will be repaid in 6 semiannual repayments. Maturity date is 22 September 2011.

On 26 March 2007, the Organisation signed the agreement with EFSE for the loan in amount of EUR 1,500,000 (for placement of SME loans). The loan is bearing an interest of 6-months EURIBOR+3.75% p.a. and will be rapaid in 6 semiannual repayments. Maturity date is 22 March, 2011.

All funds above are under management of CitiOrganisation N.A., London, UK.

Blue Orchard

On 7 November 2005, the Organization received a loan from DEXIA (Blue Orchards fund) in amount of EUR 1,000,000, Loan bears an interest of semi-annual EURIBOR+5,5% p.a. The loan matured and was repaid on 7 November 2007.

On 7 April 2006, the Organization received a loan from DEXIA (Blue Orchards fund) in amount of EUR 3,000,000. Loan bears an interest of 7,75% p.a. The maturity of loan is 15 March 2011,

On May 31 2007, the Organisation signed the Agreement with Blue Orchard finance as a servicer and Blue orchard Loans for Development S.A. as Lender in amount of EUR 4,820,528. Loan bears an interest 7.25% p.a. and will be raepaid in four equal quartery instalments ending on scheduled maturity date 1 June, 2012.

On 26 October 2007, the Organisation signed the Agreement with DEXIA Micro-credit Fund, Sub Fund Blue Orchard Debt in amount of EUR 5,000,000. Loan bears an interest of 6-months EURIBOR +2.8% p.a. The loan will be rapaid in three repayments. The maturity is 26 October 2010.

On 10 December 2007, the Organisation signed the Agreement with DEXIA Micro-credit Fund, Sub Fund Blue Orchard Debt in amount of EUR 3,000,000. Loan bears an interest of 6-months EURIBOR +2.8% p.a. The loan will be rapaid in three repayments. The maturity is 10 December 2010.

20. Long - term borrowings (continued)

International Finance Corporation (IFC)

On 27 July 2006, long-term loan agreement was signed with IFC. Loan amounts to EUR 3,000,000, bearing an interest of 8,65% p.a. Maturity date is 15 June 2009,

Foundation for Sustainable Development (FSD)

On 4 October 2002, the Organization concluded a restricted purpose loan contract No. 006/02, By this contract the Organization was awarded with EUR 1,000,000,

On 11 October 2003, the Organization concluded a consolidated contract on special purpose loan No. 006/03, The aforementioned contract replaced the previous contract on restricted purpose loan. Claims and obligations of the contractual parties are regulated under this contract. With the date of the conclusion of the consolidated contract, the total amount of loan amounted to EUR 1,000,000 and an additional loan of EUR 1,000,000 has been awarded (first instalment of EUR 250,000 was transferred to the Organization).

During 2003 and 2004, the following annexes to the consolidated contract were signed:

Consolidated contract	dated 11 October 2003	EUR 1,250,000
- Annex 1	dated 20 November 2003	+ EUR 250,000
- Annex 2	dated 3 June 2004	+ EUR 250,000
- Annex 3	dated 26 October 2004	+ EUR 250,000
Total		**EUR 2,000,000**

On 1 December 2004, FSD informed EKI about approval of third loan from LIP II project. Up to 31 December 2006, the following annexes were signed:

Consolidated contract with annexes		EUR 2,000,000
- Annex 006-04/III-1	dated 2 December 2004	+ EUR 307,842
- Annex 006-04/III-2	dated 29 March 2005	+ EUR 307,842
- Annex 006-04/III-3	dated 9 May 2005	+ EUR 307,842
- Annex 006-04/III-4	dated 29 June 2005	+ EUR 27,865
Total		**EUR 2,951,391**

The total loan amount bears an annual interest of the lower of 5% p.a. or EURIBOR + 1% p.a. The expiry date of the loan agreement is set at 15 March 2017, The Organisation will repay the total loan amount in twenty equal semi-annual instalments starting on 15 September 2007,

VisionFund International

On 5 June 2006, the Organization received a loan from VisionFund in amount of EUR 1,000,000, Loan bears an interest of 7,25% p.a. Loan will be repaid through the two instalments due on 30 March 2009 and 30 June 2009.

On 31 August 2006, the Organization received a loan from VisionFund in amount of EUR 1,000,000, Loan bears an interest of 7,50% p.a. Loan will be repaid through the two instalments due on 30 March 2009 and 30 June 2009.

20. Long term borrowings (continued)

European Bank for Reconstruction and Development (EBRD)

On 18 September 2006, long-term loan agreement was signed with EBRD. Loan amounts to EUR 6,000,000, bearing an interest of semi-annual EURIBOR+4,75% p.a. Maturity date is 18 June 2010.

Oikocredit, Ecumenical Development Cooperative Society U.A.

On 26 September 2006, long-term loan agreement was signed with Oikocredit. Loan amounts to EUR 1,500,000, bearing an interest of 7,75% p.a. Maturity date is 30 June 2009, Loan will be repaid through the three equal instalments (EUR 500,000 each) 24, 30 and 36 months after the first disbursement.

Spanish government

On 2 December 2006, long-term loan agreement was signed with Instituto de Credito Oficial of the Kingdom of Spain. Loan amounts to EUR 1,500,000, bearing an interest of 5% p.a. Maturity date is 10 years starting on date of loan drawdown. Loan will be repaid through the five annual instalments starting in 6 years after date of loan drawdown.

Raiffeisen Bank d.d. Sarajevo

The Framework agreement for lending and business cooperation with Raiffeisen Bankd.d. Sarajevo, signed on 9 October 2003, provided the Organisation with a credit facility up to BAM 10,507,675.32 with maturity date on 23 december 2010. During 2003, 2004, 2005, 2006, 2007, the Organization signed the following annexes on this agreement:

General agreement	9 October 2003	BAM 2,520,000	
- Annex 1	22 Novmber 2003	-	Restricted deposit provided as a collateral has to amount BAM 600,000 always independently on deposit’s currency
- Annex 2	21 June 2004	+ BAM 972,632	Increase of loan limit + change of interest rates
- Annex 3	29 September 2004	- BAM 45,614	Decrease of loan limit
- Annex 4	9 November 2004	-	Currency clause excluded
- Annex 5	12 May 2005	+ BAM 745,184	Increase of loan limit + change of interest rates
- Annex 6	5 August 2005	+ BAM 132,446	Increase of loan limit + change of interest rates + collateral is extended + loan maturity is prolonged to 05-Aug-10
- Annex 7	12 August 2005	+ BAM 1,000,000	Increase of loan limit
- Annex 8	1 September 2005	- BAM 9,123	Decrease of loan limit
- Annex 9	22 September 2005	+ BAM 990,877	Increase of loan limit
- Annex 10	26 October 2005	+ BAM 219,968	Increase of loan limit + collateral is extended
- Annex 11	20 December 2005	+ BAM 578,797	Increase of loan limit + loan maturity is prolonged to 23-Dec-10
- Annex 12	17 February 2006	- BAM 121,220	Decrease of loan limit
- Annex 13	10 May 2006	+ BAM 801,722	Increase of loan limit + change of interest rates

20. Long term borrowings (continued)

General agreement	9 October 2003	BAM 2,520,000	
- Annex 14	21 September 2006	- BAM 1,285,812	Decrease of loan limit
- Annex 15	30 January 2007	+ BAM 4,629,073	Increse of loan limit
- Annex 16	18 July 2007	+ BAM 311,443	Increse of loan limit
- Annex 17	8 May 2007	-BAM 237,992	Decrease of loan limit
- Annex 18	28 December 2007	-BAM 693,706	Decrease of loan limit
Total loan limit up to		**BAM 10,507,675**	

Under the General agreement, Raiffeisen Organisation approved the following long-term loans:

- On 9 October 2003 – BAM 520,000 (monthly repayment with maturity date on 30 September 2008 and interest rate of 7.75% p.a.).
- On 5 August 2005 – BAM 241,600 (quarterly repayment, maturity date on 5 August 2010 and interest rate of semi-annual EURIBOR+3% p.a.).
- On 26 October 2005 – BAM 320,000 (monthly repayment, maturity date on 30 October 2009 and interest rate of semi-annual EURIBOR+3% p.a.).
- On 21 December 2005 – BAM 1,600,000 (quarterly repayment, maturity date on 23 December 2010 and interest rate of semi-annual EURIBOR+3% p.a).
- On 30 January 2007 – BAM 1,000,000 (quarterly repayment, maturity date on 28 February 2010 and interest rate of 6-months EURIBOR+3% p.a.),
- On 31 January 2007 – BAM 2,000,000 (quarterly repayment, maturity date on 31 January 2010 and interest rate of 6-months EURIBOR+3% p.a.),
- On 5 February 2007 – BAM 2,000,000 (revolving credit line, maturity date on 5 February 2009 and interest rate of 6.75%),
- On 15 February 2007 – BAM 2,000,000 (revilving credit line, maturity date on 15 February 2009 and interest rate of 6.75%),
- On 19 July 2007 – BAM 530,000 (quarterly repayment, maturity date on 19 July 2010 and interest rate 6-months EURIBOR+3%).

HVB Central Profit Banka d.d. Sarajevo

HVB Central Profit Bank approved the following long-term loans:

- On 23 March 2005 – BAM 1,000,000 (bullet repayment, matuity date on 15 March 2008 and interest rate 6-months EURIBOR+5.8%)
- On 2 October 2007 – BAM 3,800,000 (monthly repayments, maturity date on 15 October 2012 and interest rate 6-months EURIBOR+2.8%).

Development and Employment Foundation of Republika Srpska (RS DEF)

On 11 February 2003, the Organization concluded a specialized restricted purpose loan contract No. LIP II-04/02 with Development and Employment Foundation fo Republika Srpska (RS DEF). By this contract the Organization was awarded with EUR 383,469.

The total loan amount bears an annual interest of the lower of 5% p.a. or EURIBOR + 1% p.a. The expiry date of the loan agreement is set at 15 March 2017, The Organisation will repay the total loan amount in twenty equal semi-annual instalments starting on 15 September 2007,

20. Long term borrowings (continued)

SYMBIOTICS

EKI got financing through the Symbiotisc by following funds:

- On 1 June 2005, the Organization received a loan from Credit Suisse Microfinance Fund Management Company in amount of EUR 750,000, Loan beared an interest of semi-annual EURIBOR+5,5% p.a. The loan matured and was repaid on 24 November 2007,

- On April 25 the Organisation received a loan from Dual Returned Fund SICAV in amount of EUR 1,000,000. Loan bears an interest of 7.25% p.a. and matures on April 25, 2010.

- On 15 May 2007 the Organization received a loan from the responAbility Fund SICAV (Lux) in amount of EUR 1,000,000. Loan bears an interest of 7.25% p.a and matures on 15 May 2010.

- On 18 December 2007 the Oranization received a loan from Credit Suisse Microfinance Fund Management Company in amount of EUR 1,000,000. Loan beras an interest of 6-months EURIBOR+3% p.a. and matures on 18 December 2010.

Federal Ministry of Finance

Subsidiary Loan agreement No. MKO 5/04 was signed on 15 October 2004, between the Federal Ministry of Finance and MCO EKI, regarding development of small commercial agriculture. Principal will be provided in Euros and it will not exceed SDR 650,000, The Organization will withdraw the cash in the period of two years from the agreement signing date. Maturity of the subsidiary loan is ten years for each of instalments from the date of approval, with grace period of two years. Principal will be repaid in five equal instalments (at the end of second, fourth, sixth, eighth and tenth year). Interest rate will be calculated on the basis of average EURIBOR for previous six-month period (but neither lower than 2% p.a. nor higher than 4% p.a.).

On 23 March 2005, the Organization received first instalment of EUR 300,000. The loan bears an interest of 5% p.a.and matures on 23 March 2015.

On 4 April 2007 the organisation received a second instalment of EUR 350,000. The loan bears an interest of 6-months EURIBOR and matures on 4 April 2017.

(b) Analysis of long-term borrowings by duration

	2007	**2006**
From 1 to 2 years	66,252,944	25,097,955
From 2 to 5 years	22,870,573	11,445,685
Over 5 years	15,761,575	19,424,847
	104,885,092	**55,968,487**

21. Short- term borrowings:

	2007	2006
Unicredit Banka	2,000,000	-
Raiffeisen Bank	1,003,000	1,830,000
UPI Banka	-	1,000,000
	3,003,000	**2,830,000**
plus Short-term part of long-term borrowings	21,029,407	9,311,773
	24,032,407	**12,141,773**
Plus accrued interest	1,536,421	436,078
	25,568,828	**12,577,851**

Raiffeisen Bank d.d. Sarajevo

Based on the General agreement for lending and business cooperation and 18 annexes (Note 16) signed with Raiffeisen Bank d.d. Sarajevo, the Organization received the following short-term borrowings:

- On 12 May 2006 – revolving loan in amount of BAM 1,000,000 (maturity date on 12 May 2008, interest rate of 6.45% p.a.)
- On 15 May 2006 – revolving loan in amount of BAM 1,000,000 (maturity date on 15 May 2008, interest rate of 6.45% p.a.)

Uni Credit Zagrebačka banka

On 10 September 2007, the Organization signed the Loan agreement in amount of BAM 3,500,000, and it is revolving credit line maturing on 10 September 2008. Loan bears an interest of 6.5% p.a..

The maturity of the short-term borrowings is:

	2007	2006
Less than 6 months	11,532,703	6,028,539
6 to 12 months	12,499,704	6,113,234
	24,032,407	12,141,773
plus interest payable	1,536,421	436,078
Total	**25,568,828**	**12,577,851**

22. Other liabilities

	2007	2006
Liabilities for salary	562,953	33,319
Liabilities DDA	-	
Liabilities for old Housing Project	335,074	488,347
Old Housing Project - Interest	-	8,195
Liabilities toward suppliers	18,059	2,316
Liabilities toward World Vision	-	2,266
Accrued expense	159,498	1,500
Liabilities for Organisation charge		674
Other	106,683	1,138
Deferred income - depreciation for granted assets	2,190	1,995
Total	**1,184,457**	**539,750**

22. Other liabilities (continued)

Liabilities for old Housing project

In August 2002, World Vision's Housing project was started. EKI has got the roll of project's implementator (as commission agent). Up to 31 December 2003, the amount of BAM 891,900 was awarded to the beneficiaries. EKI has recorded this amount as liability and as receivable as well. On 03 August 2004, Memorandum of understanding was signed. According to this memorandum, new Housing project was started and it was anticipated that all cash funds collected from old Housing project will be added to amount of loans received from World Vision and will be available for new Housing project.
As of 31 December 2007 the Organization records liability in regard to the old project in amount of BAM 335,074.

23. Commitments and contingencies

(a) *Commitments*

The Organisation has rental commitments with the following maturities:

	2007	**2006**
0 - 30 days	35,181	23,799
31 - 90 days	70,362	47,597
91 - 180 days	105,543	71,396
180 - 360 days	211,086	142,791
	422,172	**285,582**

24. Related party transactions

The Company is founded by World Vision International, Bosnia and Herzegovina. The following transactions were carried out with related party:

(a) Income from World Vision

	2007	**2006**
Grant income	207,597	173,938
Refunded costs	-	83,589
FX gain on borrowing from World Vision Canada	14,212	25,927
	221,809	**283,454**

(b) Expenses toward World Vision

	2007	**2006**
Management fees	8,883	15,277
Interest expense	8,125	8,376
Computer applications	-	84,920
FX loss on borrowing from World Vision Canada	-	-
Write offs	18,883	73,146
	35,891	**181,719**

24. Related party transactions (continued)

(c) Borrowings received during the year from World Vision

	2007	2006
New borrowings received during the year	186,279	371,421
Repayments during the year	(199,072)	(191,666)
Decrease/(increase) for FX (gain)/loss	(14,212)	(25,927)
	27,005	**153,828**

(d) Year end balances

	2007	2006
Receivables from World Vision		
- Other current assets	25,049	6,188
	25,049	6,188
Payables to World Vision		
- Long-term borrowings	14,824,315	15,449,653
- Other liabilities	2,190	2,266
	14,826,505	**15,451,919**
	(14,801,456)	**(15,445,731)**

25. Management's remuneration

A listing of the members of the Management Board is shown on page 4 of the Financial Statements. In 2007 the total remuneration of the management consisting of 18 persons (2006: 15 members) was:

	2007	2006
Salary- gross	1,053,261	723,765
Defined benefit expense	30,489	-
Vacation allowance	27,629	19,290
Jubilee awards	2,517	-
Total	**1,113,895**	**743,055**

26. Post Balance Sheet events

Micro Credit Organisation is in process of changing registration in accordance to new introduced Law on Micro Credit Organisations and Decisions of Federal Banking Agency. The date set in mentioned documents was 4th November 2007, but since the application documents have not been issued, the whole process in delay. Management of EKI belives that this process will be finished by the mid 2008. All assets and liabilities will be transferred to Foundation.