

Halacon/Holland
Sarajevo (Predstavništvo)
Tel/Fax. 033 – 443 868

Revizija Auditing d.o.o.
Mostar
Tel/Fax. 036 – 552 796

MKO EKI / Ekonomska Kreditna Institucija
Bosnia-Herzegovina

AUDIT REPORT

of

ANNUAL ACCOUNTS

Year 2004

Sarajevo/Mostar, 25 April 2005

<u>Content</u>	<u>Page</u>
Independent Auditors Opinion	3
General information	4
Income Statement	7
Balance Sheet	8
Statement of changes in equity	9
Cash Flow Statement	10
General Notes to the Financial Statements	
Ratios	11
1 Summary of significant accounting policies	
Specific Notes to the Income Statement	
2 Net operating income	15
3 Operating expenses	15
4 Staff costs	15
5 Bad and doubtful debts expenses	16
6 Other income	16
7 Grant income	16
8 Taxation	16
Specific Notes to the Balance Sheet	
9 Cash and cash equivalents	17
10 Loans and advances to customers (a until e)	17
11 Other current assets	19
12 Property and Equipment	20
13 Other liabilities	20
14 Funding Capital	21
15 Subsidised Loans	21
16 Donated Capital	22
17 Retained earnings	22
18 Related party transactions	23
19 Short and Long term Commercial Loans	24
20 Directors' remuneration	24
21 Maturity analysis	25
22 Contingencies and commitments	25
23 Financial instruments	26
24 Post Balance Sheet events	26

Report of the Independent Auditors

Referring:

MKO EKI / Ekonomska Kreditna Institucija

Bosnia-Herzegovina

Introduction

We have audited the financial statements of MKO Ekonomska Kreditna Institucija in Sarajevo, for the year 2004 (as set out on pages 7 to 26). These financial statements are the responsibility of EKI's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of MKO Ekonomska Kreditna Institucija as at 31 December 2004 and of the result for the year then ended and they are in accordance with International Accounting Standards/ International Financial Reporting Standards.

Concerning the prerequisites as mentioned in the agreements with the loan-suppliers World Vision, LID, UNDP, SIDA and MinFin FbiH, we state hereby that EKI complied with them in all material respects.

Halacon/Holland

Revizija-Auditing d.o.o.

Harry Louwen, *Registered Auditor*
Sarajevo, 25 April 2005

Zoran Turkovic, *Certified Auditor*
Mostar, 25 April 2005

GENERAL INFORMATION

Micro Credit Operations

MKO EKI- Ekonomska Kreditna Institucija in Sarajevo (hereafter "EKI") is registered on 18 June 2001 by the Federal Ministry of Social Policy, the Displaced and Refugees in Sarajevo, Federation of Bosnia and Herzegovina, under number 05-4-35-M,-31601/01 and is entered into the Register of Micro Credit Organisations in the Federation of BiH under the register No R,M-15/01, the book I, dated 31 March 2001 with offices in Tuzla, Zenica, Bugojno, Mostar and Brcko District.

In the Republika Srpska branch offices of EKI are established in Doboj and Bijeljina. These offices are registered by the RS Ministry of Finance. The Branch offices do not have the status of a legal entity. By a decision of the Ministry of Finance of the Republika Srpska EKI got the permission of opening a branch office in Doboj and Bijeljina.

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 MKO EKI formalised their new relationship with MKO EKI becoming an independent local Micro Credit Organisation in Bosnia-Herzegovina.

With a contract made in May 2001 between WV BiH and EKI with duration to 7 May 2006, the right to usage and management of movable property in the Federation under terms of the contract are agreed between EKI and WV BIH. Later annexes on the contract were made for the Republika Srpska part.

By this loan agreement made in 2001 with duration of 5 years World Vision BiH agreed to lend EKI an amount of € 3,374,775 (KM 6,600,486) under conditions as mentioned in the contract. The amounts are based on the WV/EKI micro credit project balance sheet for the Federation as per 31 March 2001. In later annexes made for the Republika Srpska, the loan amount was increased to KM 11,481,862 as per 31-12-2001(Annex seven).

In the year 2002, 2003 and 2004 further annexes were made resulting in a total loan amount of KM 12,954,794 (annex fourteen). On January 7th, 2003 a new Loan Agreement with WV was concluded for another five years.

According to the latest loan agreement with WV BiH, EKI agrees to maintain the following goals:

- A Maintain a portfolio at risk consistently below 5%
- B Maintain a loss ratio of less than 3%
- C Rescheduled portfolio should not exceed 2% of the portfolio
- D 33% of the loans and or jobs created and sustained should be for women
- E Monthly operational self sufficiency should be above 120%
- F 10% of the loans should be for returnees and displaced and vulnerable persons
- G Disburse 7,000 loans worth 20,000,000 KM per year
- H Create or sustain 8,000 jobs per year.

If one of the goals is not achieved but is within the following ranges parties agree to work together to resolve the problem:

- A Portfolio at risk greater than 5% and less than 10%
- B Loan loss ratio greater than 3% and less than 5%
- C Rescheduled portfolio greater than 2% and less than 3% of the portfolio
- D Greater than 20% and less than 33% of the loans should be for women
- E Monthly operational self sufficiency greater than 90% and less than 120%
- F Greater than 5% and less than 10% of the loans should be for returnees and displaced and vulnerable persons
- G Disburse more than 5,000 and less than 7,000 loans worth 20,000,000 KM per year
- H Create or sustain more than 6,000 and less than 8,000 jobs per year.

If performance on one or more of the goals is worse than the aforementioned ranges, WV BiH will request that the loan be repaid. EKI paid to WV BiH for 'technical support' over 2004 an amount of KM 11,902 and a 'management fee' of KM 9,385.

Board of Directors

The Board of Directors of EKI comprises of the following persons at 31-12-2004:

- | | |
|--------------------|-------------------------------|
| 1. Sead Mucic | Chairman, Zenica, independent |
| 2. Stevo Sotonica | Member, Sarajevo, independent |
| 3. Zlata Gafic | Member, Sarajevo, independent |
| 4. Novak Radojicic | Member, Doboj, independent |

- | | |
|-------------------------|-------------------------------|
| 5. Sue Birchmore | Member, WV representative |
| 6. Richard Reynolds | Member, WV representative |
| 7. Meliha Ferhatbegovic | Member, Sarajevo, independent |

Management Team of EKI :

The Management Team of EKI comprises of the following persons at 31-12-2004:

- | | |
|-------------------|-----------------------------------|
| 1. Sadina Bina | Director ; Tuzla |
| 2. Tima Becirovic | Financial manager ; Sarajevo |
| 3. Sadik Fazlovic | Operations manager ; Brcko |
| 4. Igor Duspara | MIS manager ; Tuzla |
| 5. Borko Kikic | Officer for training Staff; Doboj |

Number of authorised offices and addresses.

The activities of EKI in 2004 are distributed over 9 branches (and 22 sub branches):

1. Tuzla, Stupine B14
2. Doboj, Svetog Save 4a
3. Sarajevo, Zvornicka 9
4. Zenica, Kucukovica 2
5. Mostar, Bul. Narodne Revolucije 27a
6. Bijeljina, Nusiceva 36
7. Bugojno, Kulina Bana 1
8. Brcko, Klosterska 31
9. Gradacac, Hadziefendina 2

The head office is located in Sarajevo, Zvornicka 9.

INCOME STATEMENT

<i>(Amounts are in thousands of KM)</i>	Notes	2004	2003
Interest and fees on loans	2	7,690	5,990
Interest expense	2	(551)	(313)
Operating income	2	7,139	5,677
Operating expenses	3	(4,549)	(3,704)
Bad and doubtful debts expense (net)	5	(313)	(246)
Operating costs		(4,862)	(3,950)
Other income	6	96	149
Net operational income		2,373	1,876
Grant income	7	453	1,635
Net Income		2,826	3,511

Note: The accompanying notes are an integral part of these financial statements

BALANCE SHEET*(amounts expressed in thousands KM)*

	Notes	2004	2003
ASSETS			
<i>Current assets</i>			
Cash and Cash Equivalents	9	611	1,122
Interest bearing Deposit	9	605	605
Loans and advances to customers	10	36,632	29,156
Other current assets	11	907	1,651
<i>Non-current assets</i>			
Property and equipment	12	1,823	606
Total assets		40,579	33,141
LIABILITIES & EQUITY			
<i>Current liabilities</i>			
Short term debt	19	2,591	1,928
Other liabilities	13	688	540
<i>Non-current liabilities</i>			
Loan World Vision	18	13,669	12,955
Subsidized Loans	15	11,974	10,300
Long term debt	19	1,834	420
Total liabilities		30,756	26,143
Donated capital	16	2,334	1,881
Retained earnings	17	6,690	4,317
Funding Capital	14	800	800
Total equity		9,824	6,998
Total equity and liabilities		40,579	33,141

Note: The accompanying notes are an integral part of these financial statements

STATEMENT of CHANGES in EQUITY

<i>(Amounts expressed in thousands KM)</i>	Notes	Donations	Retained earnings	Total
Balance at 30 September 2000 *		8.648	1.124	9.772
<i>* audited by PwC</i>				
Additions until 30-4-2001		1,280		1280
Net result for the period 30-4-2001			729	729
Balance at 30 April 2001		9.928	1.853	11.781
Additions WV period May-Dec.01		350		350
Additions EKI period May-Dec.01		237		237
Net result Fed. period May-Dec.01			675	675
Net result RS. period May-Dec.01			378	378
Transferred to WV BiH		-10.275	-2.231	-12.506
Funding Capital WV BiH	14	800		800
Balance at 31 December 2001		1,040	675	1.715
Additions EKI period Jan-Dec.02		13		13
Net Result EKI period Jan-Dec.02			1.384	1.384
Adjustment. RS. period May-Dec.01			378	378
Balance at 31 December 2002		1.053	2.437	3,490
UNDP and CRIC donated capital		1,631	0	1,631
Adjustment over 2002		-12	12	0
Adjustment stolen equipment		-3	0	-3
Retained earnings 2003		0	1,880	3,511
Balance at 31 December 2003		2,669	4,329	6,998
Donated Capital		453	-	453
Net Result 2004		-	2,373	2,373
Balance at 31 December 2004		3,122	6,702	9,824
<u>Summary Equity</u> (amounts in KM)				
Funding Capital WV BiH				800
Loan Fund Cap. SIDA -Cow How				237
Donations by UNDP and CRIC				1,631
Donations in 2004				453
subtotal				3,122
Result 2001				1,052
Result 2002				1,397
Result 2003				1,880
Result 2004				2,373
Subtotal				6,702
			Total	9,824

Note: The accompanying notes are an integral part of these financial statements

CASH FLOW STATEMENT

	2004	2003
<i>(all amounts expressed in thousands of KM)</i>		
<u>Cash Flow from operations (donations excluded)</u>		
Net Operating Profit / Loss	2,373	1.876
Net Operating Profit / Loss prior Years (RS)	-	-
Depreciation	162	92
Loan Loss Provision	313	246
Changes in other current liabilities	76	99
Internally generated Cash	2,925	2.313
Changes in Gross portfolio outstanding	(7,646)	(7.734)
Write offs	(143)	(71)
Total Cash Flow from operations	(4,864)	(5.492)
<u>Cash Flow from investing activities</u>		
Changes in investments	-	605
Changes in fixed assets	1,380	313
Changes in other assets	(744)	685
Total cash used in investing activities	636	1.602
<i>Cash balance before financing</i>	(5,500)	(7.096)
<u>Cash Flow from financing activities</u>		
<u>Commercial sources:</u>		
Changes in voluntary savings	-	-
Changes in commercial loans	2,148	1.456
<i>Cash balance before subsidized funds and donations</i>	(3,352)	(5.640)
<u>Subsidized sources:</u>		
Changes in subsidized loans	2,388	4.136
Changes in donated funds	453	1.635
<u>Net Cash Flow</u>	(511)	131
Beginning Cash balance	1,122	991
Ending Cash balance	611	1.122

GENERAL NOTES TO THE FINANCIAL STATEMENTS

Before starting the 'General Notes' hereby an impression is inserted of the volume, productivity and the financial performance of EKI over the years 2004 and 2003.

efficiency ratios	2004	2003
active clients / number of staff	158.1	130.6
active clients / number of loan officers	285.1	246.7
net outstanding portfolio/number of loan officers	555,033	539,920
percentage total operating expenses/average net portfolio	13.83%	14.60%
financial ratios		
return on assets : net operating income/total assets	5.85%	5.64%
return on equity:net operating income/total equity	24.16%	26.69%
yield on portfolio:interest income/average net portfolio outstanding	20.54%	20.69%

1. Summary of significant accounting policies

The principal accounting policies adopted for the preparation of the Financial Statements of EKI and principal risks which have to be taken into account when assessing these accounting policies are set out below:

(a) Risks

Concentrations of risks that may have a significant impact on the Company are as follows:

- Credit risk, the loan portfolio of EKI consists only of micro credit to small size enterprises and citizens;
- Dependency upon "World Vision International", the main source of funding.

(b) Basis of Presentation

The reporting period is 1 January 2004 - 31 December 2004. Comparing figures are the period 1 January 2003 – 31 December 2003.

The form and content of the Financial Statements reflects the reporting requirements applicable under International Accounting Standards and CGAP guidelines.

(c) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into convertible marks (KM) at the rate of exchange established by the Central Bank of Bosnia - Herze-

govina at the balance sheet date. Foreign currency assets and liabilities are principally held in Euros.

Results denominated in foreign currencies are translated at the rates prevailing at the transaction date.

(d) Interest and Fees Income and Expense

Interest income and interest expenses are recognised in the income statement on an accruals basis. Late interest, penalties and 'up-front-fees' are accounted for on cash basis.

(e) Loans

Loans are stated in the Financial Statements at the amount of outstanding principal less any provision for bad and doubtful debts. Long-term loans are defined as those falling due after more than one year.

Loans are considered in arrears and are placed on non accrual status when collection of all or a portion of principal or interest, in accordance with contractual terms, is in doubt. Interest on non accrual loans is recognised as income on a cash basis.

(f) Provision for Doubtful Loans

Provision for bad and doubtful loans is made, taking into regard both specific and general risks, and in accordance with internationally recommended guidelines (CGAP).

The specific element of the provisions relates to loans that have been individually reviewed and where it is expected that loss will occur. The general element of the loan provision reflects the uncertainties inherent in the environment in which EKI operates, and relates to those existing losses that, although not yet specifically identified, are known from experience to be present in EKI's portfolio of loans at any Financial Statements date.

In determining the overall level of the provisions required, management considers numerous factors including, but not limited to, the financial condition of the borrower, existence and quality of collateral, domestic economic conditions, the composition of the loan portfolio and prior bad debt experience and repayments after year-end.

The following percentages are applied to the outstanding balances in order to determine the loan loss provision:

	<u>Allowance (in %)</u>
<u>Current loans</u>	2%
1-30 days overdue	10%
31-60 days overdue	25%
61-90 days overdue	50%
91-120 days overdue	75%
Over 120 days overdue	100%

(g) Computer development costs

Generally, costs associated with developing computer software programmes are recognised as an expense as incurred.

(h) Fixed Assets

Property and equipment is stated in principal at historical cost less depreciation. Depreciation is calculated on the straight line method to write off the cost of each asset to their residual values over their estimated useful life as follows:

	<u>Per annum</u>	<u>Per annum</u>
	<u>Since 1-5-2001</u>	<u>Before 30-4-2001</u>
Technical equipment	7 % and 33%	33 %
Vehicles	15.5 % and 33%	33 %
Computer and office equipment	20 % and 33%	33 %

The depreciation rates in the new EKI organisation are brought in line with local standards in Bosnia-Herzegovina.

(i) Cash and cash equivalents

Cash and cash equivalents comprise balances such as cash and amounts due from banks.

(j) Donations

Grant income is recorded according the “income approach”. Donated capital is transferred to “Donated Capital”. Donated fixed assets are recorded as deferred revenue in the Balance Sheet and an amount equal to the period’s depreciation is transferred to income over the useful life of the assets; this is in accordance with IAS 20.

(k) Commitments

Provisions are recognised when EKI 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.

SPECIFIC NOTES TO THE INCOME STATEMENT**2. Net operating income***(all amounts expressed in thousands of KM)*

	2004	2003
Interest and fees on loans		
Interest on loans	6,756	5,249
Fees on loans	897	731
Penalty interest	18	10
Interest on investment	19	0
Total	7,690	5,990

Interest expense

Cost of capital	551	(313)
Total	7,139	5,677

3. Operating expenses*(amounts expressed in thousands of KM)*

	2004	2003
Staff costs (<i>See for details note 4</i>)	3,079	2,565
Administrative expenses	143	95
Travel	221	161
Depreciation	163	92
Occupancy expenses	299	275
Communication	235	208
Bank charges costs	58	42
Fees to World Vision	9	11
Professional services	71	43
Marketing activities	31	16
Education	133	45
Other expenses	107	151
Total	4,549	3,704

4. Staff costs*(all amounts expressed in thousands of KM)*

	2004	2003
Gross salaries local staff	2,741	2,323
Temporary workers	48	29
Other	290	213
Total	3,079	2,565

Note: The number of employees end 2004 was 119 (end 2003: 102)

5. Bad and doubtful debts expenses*(amounts expressed in thousands of KM)*

	2004	2003
Loans to customers	313	246
Total	313	246

6. Other income*(all amounts are in thousands of KM)*

	2004	2003
Recovery written off loans	87	83
Other	9	66
Total	96	149

7. Grant Income*(all amounts are in thousands of KM)*

	2004	2003
UNDP (Brcko)	331	1,600
CRIC	0	31
Total grants 'donated capital'	331	1,631
SIDA	73	0
Other donors ^{*)}	48	4
Total grants 'operational expenses'	121	4
Total	453	1,635

8. Taxation

EKI is tax exempted from 'profit tax', because according to the law of the Federation of Bosnia-Herzegovina EKI is regarded as a non-profit organisation.

SPECIFIC NOTES TO BALANCE SHEET**9. Cash and cash equivalents***(amounts are in thousands of KM)*

	2004	2003
Total Cash	1	1
Raiffeisen Bank	230	781
Tuzlanska Bank	19	5
Commerce (ex Sahinpasic) Bank	66	45
Razvojna Bank	-	2
UPI Bank	138	145
Nova Bank	0	0
HVB CPB Bank	68	13
Volksbank	1	1
Zagrebacka Banka	35	57
Hypo Alpe Adria	6	24
ABS Banka	25	45
PBS Bank Sarajevo	22	0
Cash and Banks (current accounts)	611	1,120
Cash Deposit Raiffeisen Bank	605	605
Total Cash and Banks	1,216	1,725

10. Loans and advances to customers**(a) Analysis by interest rates***(amounts in thousands of KM)*

	2004	2003
Fee per month (flat rate):		
1% (flat)	8,055	6,761
1% (declining)	4,569	4,540
0.66%	609	-
0.83%	2,515	-
1.06%	391	-
1.08 %	246	21
1.1 %	14,981	1,252
1.16%	51	-
1.18%	17	-
1.2 %	3,351	3,860
1.3 %	1,827	2,477
1.4 %	617	794
1.5 %	208	98
1.60%	14	-

<i>(amounts in thousands of KM)</i>	2004	2003
1.7%	-	-
Total gross	37,449	9,803
Provision (note 10 e)	- 817	- 648
Total net	36,632	29,155

(b) Analysis by type of borrower

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

(all amounts in thousands of KM)

	2004	2003
Individual agricultural companies	23,725	17,220
Individual production companies	1,587	1,783
Individual commerce /trade companies	6,419	6,412
Individual service companies	5,110	4,388
Individual housing loans	608	-
Total	37,449	29,803
Provision <i>(note 10e)</i>	-817	- 648
Total	36,632	29,155

(c) Geographical analysis

As of 31 December 2001 all loans were issued to citizens or companies incorporated in Bosnia-Herzegovina.

(amounts in thousands of KM)

	2004	2003
Zenica	4,892	4,176
Tuzla	8,737	7,397
Sarajevo	3,144	2,143
Mostar	2,684	2,179
Doboj	7,759	6,461
Bijeljina	4,135	2,879
Bugojno	2,545	2,000
Brcko	2,944	2,568
Gradacac	609	-
Total	37,449	29,803
Provision <i>(see note 10e)</i>	- 817	- 648
Total	36,632	29,155

(d) Arrears

The amounts of loans in arrears are analysed as follows:

(all amounts in thousands of KM)

	2004	2003
Current Loans	37,129	29,576
Principal in Arrears:		
Up to 30 days past due	180	137
31 - 60 days past due	75	42
61 - 90 days past due	44	22
91 - 120 days past due	21	26
Over 120 days past due	-	-
Total	37,449	29,803
Provision (note 10 e)	- 817	- 648
Total	36,632	29,155

Note: Arrears include all amounts of loan principals due but not collected.

(e) Provisions

The movements in provisions for losses are as follows:

(amounts are in thousands of KM)

	2004	2003
Opening Balance	648	473
Doubtful debts expense (see note 5)	313	246
Bad debts written off	-143	- 71
Closing Balance	817	648

11. Other current assets

(amounts are in thousands of KM)

	2004	2003
Interest receivable	11	8
Receivable from WV BiH	75	76
Prepaid expenses	2	659
prepaid cost techn adv WV BiH	-	12
prepaid double paid tax for car	-	2
double paid invoice	-	-
travel advances	-	-
Employees	10	4
Loan Portfolio Housing	809	890
Total	907	1,651

12. Property and Equipment*(all amounts are in thousands of KM)*

	Office Space and Buildings	Furniture & Equipment	Vehicles	Computer equipment	Total
<u>As at 31-12-2001</u>					
Cost	-	14	54	55	123
Accum. Depreciation	-	-1	-2	-3	-6
Net book value 2001	-	13	52	52	117
Additions 2002 at cost	-	47	258	85	390
Adjustments at cost	-	-20	-38	-18	-76
<u>As at 31-12-2002</u>					
At Cost	-	41	274	122	438
Depreciation 2002	-	-4	-25	-18	-47
Accum. Depreciation	-	-5	-27	-21	-53
Net book value 2002	-	36	247	101	385
Additions 2003 at cost	-	77	181	56	313
Adjustments Depr 2003	-	-	-	-2	-2
Depreciation 2003	-	-10	-56	-27	-92
<u>As at 31-12-2003</u>					
At cost	-	118	455	178	750
Accum Depreciation	-	-15	-83	-48	-145
Net book value 2003	-	103	372	130	605
Additions 2004 at cost	747	90	398	145	1,380
Adjustment Depr. 2004	-	-	-	-	-
Depreciation 2004	-4	-23	-89	-47	-163
<u>As at 31-12-2004</u>					
At cost	747	208	853	323	2,130
Accum. Depreciation	-4	-38	-172	-95	-308
Net Book Value 2004	743	170	681	228	1,822

13. Other liabilities*(amounts in thousands of KM)*

	2004	2003
Interest Housing	6	1
Deferred revenues	8	11
Creditors	9	12
Pension premium payable	5	-
Sundry	0	-

<i>(amounts in thousands of KM)</i>	2004	2003
Owed to WV BiH	4	13
WVI acc. Housing Tuzla	599	450
Accrued expenses/other liabilities	57	53
Total	688	540

14. Funding Capital

WV BiH agreed with EKI to donate funding capital of KM 800,000 (year 2001)

<i>(amounts in thousands of KM)</i>	2004	2003
Funding Cap. Supplied by WV BiH	800	800
Total	800	800

15. Subsidised loans

a) Analysis by type of subsidised loan

<i>(all amounts are in thousands of KM)</i>		2004	2003
	<u>Interest %</u>		
LID Fed BiH	5%	3,912	2,934
LID – RS	5%	750	750
USAID Loan	2.5%	167	500
USAID 2 Loan	2.5%	1,000	1,666
KfW- EU Loan	2.25%	1,614	3,080
KfW-EU Loan SMELP	2.25%	313	391
KfW- EU Loan SMELP-Sch	2.25%	391	489
KfW- EU Loan SMELP-EU	2.25%	391	489
EU KfW SME Srebrenica	2.25%	880	-
USAID LAMP	Interest free	2,557	-
Total (excl. WV loans)		11,974	10,299
World Vision Loan (<i>see note 18</i>)	Interest free	13,669	12,955
Total (incl. WV loans)		25,643	23,254

b) Analysis of subsidised loans by duration (incl. WV loan and mortgages)

<i>(all amounts are in thousands of KM)</i>	2004	2003
Up 6 months	979	-
6 to 12 months	813	-
Over 12 months	21,294	23,775
No specified maturity	2,557	-
Total	25,643	23,775

<i>(all amounts are in thousands of KM)</i>	2004	2003
Subsidised Loans (<i>note 15</i>)	25,643	23,254
Mortgage Raiffeisen long (<i>note 19</i>)	310	420
Mortgage Raiffeisen short (<i>note 19</i>)	109	100
rounding off	-	1
Total	26,062	23,775

16. Donated Capital

(all amounts in thousands KM)

	Loan Capital	Donated Fixed Assets	Total
Balance 30-9-2000	8,198	450	8,648
Additions 1-10-00 / 30-4-01	1,278	2	1,280
Balance 30-4-2001	9,476	452	9,928
Transferred Fed part to WV BiH	-6,699	-374	-7,073
Balance 01-05-2001	2,777	78	2,855
Transferred RS part to WV BiH	-2,777	-78	-2,855
Additions 1-05-01 / 31-12-2001	347	3	350
Transferred to WV BiH	-347	0	-347
Addition EKI/ SIDA-Cow How	237	0	237
Balance 31-12-2001	237	3	240
Additions 2002 Grant	13	0	13
Balance 31-12-2002	250	3	253
Disposal of stolen donated assets	0	-3	-3
UNDP and CRIC donations	1,631	0	1,631
Balance 31-12-2003	1,881	0	1,881
Loan capital donated by UNDP (a)	453	-	453
Balance 31-12-2004	2,334	-	2,334

17. Retained Earnings

(all amounts are in thousands of KM)

Balance 1-10-2000	1,124
Net result for the period until 30-4-2001	729
Balance 30-4-2001	1,853
Transferred to WV BiH on 30 April 2001	-1,180
Balance 1-5-2001	673
Net result 1-5-2001 / 31-12-2001 FBiH	675
Net result 1-5-2001 / 31-12-2001 RS	378

(all amounts are in thousands of KM)

Transferred to WV BiH on 31 December	-1,051
Balance 31-12-2001	675
Net Result RS May-Dec 2001 transferred to EKI	378
Net result EKI for the year 2002	1,384
Balance 31-12-2002	2,437
Result 2003	1,880
Balance 31-12-2003	4,317
Result 2004	2,373
Balance 31-12-2004	6,690

18. Related party transactions

WV BiH supplied EKI with the funding capital of 800,000 KM. WV BiH further lent to EKI the donated capital contracted by WV BiH with the donors (*see note 16*). Fixed Assets that were donated to or purchased by WV BiH were made available to EKI by a fixed assets' contract.

<i>(amount in thousands of KM)</i>	Reference Note	Amount
Funding Capital	14	800

WV BiH provides EKI with technical assistance. The fee in 2004 was KM 11.902 (2003: KM 2.530) EKI paid in 2004 a management fee to WVI amounting to KM 9385 (2003: KM 10.850).

Financed by WV BiH loan agreement

<i>(amounts are in thousands KM)</i>	2004	2003
Loan capital supplied by WV BiH to EKI annex 1	6,601	6.601
Loan capital supplied by WV BiH to EKI annex 2	300	300
Loan capital supplied by WV BiH to EKI annex 3	20	20
Loan capital supplied by WV BiH to EKI annex 4	600	600
Loan capital supplied by WV BiH to EKI annex 5	137	137
Loan capital supplied by WV BiH to EKI annex 6	- 24	-24
Loan capital supplied by WV BiH to EKI annex 7	2,777	2.777
Retained Earnings transferred to WV BiH 31-12-2001	1,051	1.051
Loan capital supplied by WV BiH to EKI annex 8	184	184
Loan capital supplied by WV BiH to EKI annex 9	300	300
Loan capital supplied by WV BiH to EKI annex 10	- 378	-378

<i>(amounts are in thousands KM)</i>	2004	2003
UMCOR funds supplied by WV BiH to EKI annex 11	493	493
CIDA funds supplied by WV BiH to EKI annex 12	442	442
UMCOR funds supplied by WV BiH to EKI annex 13	164	164
Guaranty Fund supplied by WV BiH to EKI annex 14	252	252
Difference fixed assets donation-net book value	20	20
SIDA LFC	16	16
Annex 15 Loan Capital and interest donated UNDP (Part A)	- 331	0
Annex 16 SIDA Economic Support Component	300	0
Annex 17 SIDA Housing Component	595	0
Annex 18 SIDA Housing for Fixed Assets	79	0
Annex 19 SIDA Loan Fund (from previous project)	71	0
Total	13,669	12,955

19. Short and Long term Commercial Loans

<i>(amounts are in thousands KM)</i>	2004	2003
Short term debt (WVI housing first project)	821	892
Raiffeisen short term Credit line	1,297	936
Short term Mortgage Tuzla building (Raiffeisen)	109	100
Current Part of Long-term Debt (Raiffeisen bank)	364	-
Total short term debt	2,591	1,928
Long term Mortgage Tuzla building (Raiffeisen)	310	420
Long Term Loan Raiffeisen Bank	909	-
Current Part of Long-term Debt (Raiffeisen bank)	- 364	-
Loan from Blue Orchard Finance	978	-
Total long term debt	1,834	420
Total commercial loans	4,424	2,348

20. Directors' remuneration

A listing of the members of the Management Team is shown on page 6 of this report. The total remuneration for the Management Team was KM 260,979. In 2003 this was KM 200,973.

The Board of Directors as shown on page 5 of this report earned in total KM 12,415 for the year 2004. In 2003 this was KM 6,988.

21. Maturity analysis

The amount of total assets and total liabilities analysed over the remaining period to the contractual maturity date at 31 December 2004 is as follows:

<i>(amounts are in thousands of KM)</i>	Demand (incl. arrears)	Up to 6 months	From 6 months to 1 year	Over 1 year	No specified maturity	Total 31/12/2004
Assets						
Cash an cash equivalents	610	-	-	606	-	1,216
Loans and advances to customers	75	17,554	11,700	7,303	-	36,632
Other current assets	22	-	885	-	-	907
Tangible fixed assets	-	-	-	1,823	-	1,823
Total Assets	707	17,554	12,585	9,732	-	40,578
Liabilities						
Other liabilities	-	688	-	-	821	1,509
Subsidised loans	-	979	813	21,294	2,557	25,643
Commercial Loans	-	237	1,534	1,834	-	3,604
Total Liabilities	-	1,904	2,346	23,128	3,377	30,755
Total Assets -/ Total Liabilities	707	15,650	10,238	- 13,396	- 3,377	9,823

22. Contingencies and commitments

<i>(amounts in thousands KM)</i>	< 1 year	Unlimited period	Total 2004	Total 2003
Office Tuzla	4	3	7	3
Office Dobož	4	2	6	6
Office Sarajevo		1	1	2
Head Office Sarajevo	1	3	4	3
Office Zenica		3	3	3
Office Mostar	1	1	2	2
Office Bijeljina	2	4	6	3
Office Bugojno	5	1	6	4
Office Brčko		2	2	1
Office Gradačac (HCB)	1	-	1	-
Total	18	20	38	27

23. Financial instruments

In the normal course of business, EKI provides for its customers a variety of financial instruments. These financial instruments involve various degrees of risk as follows:

- Credit risk

In conducting business activities, EKI is exposed to the possibility that borrowers may default on their obligations to EKI. To minimise this risk EKI evaluates each customers' credit worthiness on a case by case basis. The amount of collateral obtained, if it is deemed necessary by EKI upon the extension of credit, is based on management's credit evaluation of the client. Collateral held varies but may include guarantees, inventory and acceptance letters. EKI strives to maintain a credit risk profile that is diverse in terms of industry and borrower concentration.

- Market risk

In the normal course of business, EKI is exposed to market risks which include both price and liquidity risks. Price risk arises from fluctuation in interest rates and liquidity risks arise from the possibility that EKI may be unable to satisfy current and future financial commitments.

24. Post Balance Sheet events

In February 2005 EKI signed an agreement with World Bank for a 'grant'/'loan' of KM 602,087.
