

**MKO EKI / Ekonomska Kreditna Institucija
Bosnia - Herzegovina**

AUDITREPORT

of

FINANCIAL STATEMENTS

over the Period

1 October 2000 until 31 December 2001

Sarajevo, 19 April 2002

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Report of the Independent Auditors

*MKO EKI / Ekonomska Kreditna Institucija
Bosnia-Herzegovina*

We have audited the balance sheet of MKO EKI as of December 31, 2001, and the related statement of income and cash flows for the period October 1, 2000 until December 31, 2001. These financial statements set out on pages 3 to 26 are the responsibility of MKO EKI's management.

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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Since this is the first year of the audit of MKO EKI that INACO was appointed as auditor and that this took place after the reporting year, consequently, we have not been able to perform adequate auditing procedures on the opening balance sheet as per October 1, 2000 and on the following operations. Therefore we are not in a position to, and do not, express an opinion on the results of its operations and its cashflows for the period from 01-10-2000 until 31-12-2001.

In our opinion, the balance sheet gives a true and fair view of the financial position of MKO EKI as of December 31, 2001 in accordance with International Accounting Standards.



INACO BA – The Netherlands

Harry Louwen, *Registered Accountant/Auditor*
Badhoevedorp, 19 April 2002

GENERAL INFORMATION**Agency operations**

MKO EKI- Ekonomska Kreditna Institucija in Sarajevo (hereafter "EKI" or the Agency) 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.

The Agency started its operations in 1996 running a micro credit programme as part of the humanitarian assistant programmes 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 Micro Credit Organisation in Bosnia Herzegovina. With a contract made in May 2001 between WV BiH and EKI with a 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.

The value of the fixed assets in the contract can be summarised as follows:

Value in KM'000 as per 31-3-2001	RS Branches	Federation Part	Consolidated
FA donated	78	374	452
FA purchased by EKI	37	160	197
Total FA at cost	115	534	649
FA donated by WV BiH	54	324	378
FA purchased by EKI	22	53	75
Total FA Acc. Depr.	76	377	453
Net Fixed Assets	39	156	195

By a loan agreement with a duration of 5 years WV 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.

EKI will pay WV BiH for technical support an amount of US\$ 500 per month.

According to the loan agreement 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, displaced persons and vulnerable persons
- G Disburse 2,000 loans worth 10,000,000 KM per year
- H Create or sustain 6,000 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, displaced persons and vulnerable persons
- G Disburse more than 1,500 and less than 2,000 loans worth 10,000,000 KM per year
- H Create or sustain more than 3,000 and less than 6,000 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.

Board of Directors

The Board of Directors of EKI comprises of the following persons:

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

- | | |
|---------------------|-------------------------------|
| 5. Kenan Tahmiscic | Member, Sarajevo, independent |
| 6. Mark Viso | Member, WV BiH representative |
| 7. Christopher Pitt | Member, WV BiH representative |

Management Board of EKI :

The Management Board of EKI comprises of the following persons:

- | | |
|---------------------|----------------------------------|
| 1. Sadina Bina | Director ; Tuzla |
| 2. Amra Subasic | Financial manager ; Sarajevo |
| 3. Danko Nikolic | Operations manager ; Doboj |
| 4. Nizama Pilav | Operations manager ; Sarajevo *) |
| 4. Igor Duspara | MIS manager ; Tuzla |
| 5. Richard Reynolds | Technical adviser ; Sarajevo |

*) left EKI in March 2002

Number of authorised offices and registered addresses.

The activities of the Agency in 2001 are distributed over 8 branches:

1. Tuzla,, Trg. Slobode bb
2. Doboj, Soetog Save 1
3. Sarajevo, Hasana Kikica 13
4. Zenica, Kucukovca 2
5. Mostar, Bul. Narodne Revolucije 27a
6. Bijeljina, Nusiceva 36
7. Bugojno, Kulina Bana 1
8. Brcko, Pere Kikica 27

The head office is located in Sarajevo, Hasana Kikica 13

INCOME STATEMENT

(Amounts are in thousands of KM)

Notes **Period from** **Period from** **Year ended**

		30-4-2001 to 31-12-2001	1-10-2000 to 30-4-2001	30-9-2000 (PwCaudited)
Interest and fees on loans	2	2,558	1,957	2,554
Interest expense	2	(47)	(45)	(69)
Operating income	2	2,511	1,912	2,485
Operating expenses	3	(1,570)	(1,283)	(1,485)
Bad and doubtful debts expense (net)	5	(79)	(128)	(898)
Operating expenses		(1,649)	(1,411)	(2,383)
Other income		51	23	15
Net operational income		913	524	117
Grant income	6	139	204	190
Net Income		1,052	728	307

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

BALANCE SHEET

(amounts expressed in thousands KM) **Notes**

		31-12-2001	30-4-2001	30-9-2000 (PwCaudited)
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	9	491	578	405
Loans and advances to customers	10	14,088	12,845	10,801
Other current assets	11	174	65	23
<i>Non-current assets</i>				
Property and equipment	12	117	194	216
Total assets		14,870	13,682	11,445
LIABILITIES				
<i>Current liabilities</i>				
Other liabilities	13	98	215	153
<i>Non-current liabilities</i>				
Loan World Vision BiH	14	11,499		0
Subsidised loans	15	1,558	1,686	1,520
Total liabilities		13,154	1,901	1,673
Donated capital	16	240	9.928	8.648
Retained earnings	17	675	1.853	1.124
Funding Capital	18	800	0	0
Total equity		1,715	11,781	9,772
Total equity and liabilities		14,870	13,682	11,445

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

STATEMENT of CHANGES in EQUITY

(all amounts expressed in thousands KM)

	Notes	Donations	Retained earnings	Total Equity
Balance at 30 September 2000 *		8,648	1,124	9,772
Additions until 30-4-2001		1,280		1,280
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		800		800
Balance at 31 December 2001		1,040	675	1,715

* PwC-audited

CASH FLOW STATEMENT

<i>(all amounts expressed in KM)</i>	31-12-2001	30-4-2001
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income	1,052,493	728,434
Depreciation	28,933	74,989
Bad and doubtful debts expenses	79,200	127,967
Write-off of bad debts	- 128,050	- 78,679
Loans and advances to customers	- 1,194,514	- 2,093,302
Other current assets	- 108,915	- 41,978
Other liabilities	- 46,957	124,271
Subsides Loans	- 69,980	- 62,096
Long Term Debts	- 128,202	165,856
Net cash from operating activities	- 515,992	- 1,054,538
CASH FLOW FROM INVESTING ACTIVITIES		
Investing in FA	- 158,892	- 53,165
Movement in Fixed Assets (Reorganisation)	159,754	533,404
Movement in Acc Dep (Reorganisation)	- 101,727	- 384,148
Net cash from investing activities	- 100,865	96,091
CASHFLOW FROM FINANCING ACTIVITIES		
LFC received	237,389	1,277,945
LFC closing with WV BiH Financing	- 2,777,103	- 6,698,618
FAD received	3,093	2,325
FAD closing with Fixed Assets Contract	- 78,140	- 373,724
Retained Earning closing with WV BIH financing	- 1,050,619	- 1,180,543
Initial Investment WV BiH		800000
Financing By WV BiH	4,194,733	7,303,629
Net cash from financing activities	529,353	1,131,014
<i>Net increase in cash and cash equivalents</i>	<i>- 87,504</i>	<i>172,567</i>
Cash and cash equivalents at beginning of year	577,912	405,345
Cash and cash equivalents at end of year	490,408	577,912

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

GENERAL NOTES TO THE FINANCIAL STATEMENTS

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

Concentration 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 periods are 1 October 2000 – 30 April 2001 and 1 May 2001- 31 December 2001.

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

(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 Herzegovina at the balance sheet date. Foreign currency assets and liabilities are principally held in German marks.

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

The exchange rates used for the Financial Statements are the official exchange rates as issued the National Bank of the Federation of Bosnia and Herzegovina. As of December 31, the principal exchange rate is:

<i>(in KM)</i>	2001	2000
1 Deutsche Mark = KM	1.00	1.00

(d) Interest and Fees Income and Expense

Interest and fees income and expense are recognised in the income statement on an accruals 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.

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 the Agency'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:

	Allowance (in %)
Current loans	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>Since 1-5-2001</u>	<u>Per annum</u> <u>Until 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. The effect on the depreciation charge for the period ending 31-12-2001 is estimated at KM .

(i) Cash and cash equivalents

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

A specific provision of 100% is taken into account for cash at banks, which have been bank-rupted.

(j) 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)

	Period end- ing 31-12-2001	Period end- ing 30-4-2001	Yeard ending 30-9-2000 (PwCaudited)
Interest and fees on loans			
Interest on loans	2,238	1,684	2,232
Fees on loans	297	265	310
Penalty interest	11	8	12
Interest on investment	12		
Total	2,558	1,957	2,554
Interest expense			
Cost of capital	(47)	(45)	(69)
Total	2,511	1,912	2,485

Substantially all income arises within Bosnia and Herzegovina (both entities).

3. Operating expenses

(all amounts expressed in thousands of KM)

	Period end- ing 31-12-2001	Period end- ing 30-4-2001	Period end- ing 30-9-2000 (PwCaudited)
Staff costs	923	516	814
Stationery	90	145	55
Facilities			18
Transport	73	71	76
Depreciation	29	75	125
Rent	151	120	152
Communication	67	40	49
Bank charges costs	15		30
Charge by WV BiH	9	99	110
Professional services	77	108	33
Software	2		3
Other expenses	131	22	20
Bank loss	3	87	
Total	1,570	1,283	1,485

4. Staff costs

(all amounts expressed in thousands of KM)

	Period end- ing 31-12-2001	Period end- ing 30-4-2001	Period end- ing 30-9-2000 (PwCaudited)
Gross salaries local staff	837	515	643
Salaries – non residents			96
Benefits – non residents			13
Temporary workers	17	1	9
Business trips			16
Education			34
Other	69		3
Total	923	516	814

The average number of persons employed by the Agency during the year was 53.

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

	Period ending 31-12-2001	Period ending 30-4-2001	Period ending 30-9-2000 (PwCaudited)
Written off amounts (bankrupted banks)	0	87	518
Loans to customers	79	128	380
Total	79	215	898

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

	Period ending 31-12-2001	Period ending 30-4-2001	Period ending 30-9-2000 (PwCaudited)
Collected written off loans	51	23	15
Total	51	23	15

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

	Period 31-12-2001	Period 30-4-2001	Period ending 30-9-2000 (PwCaudited)
Grants for operating services	139	204	190
Total	139	204	190

<i>(all amounts expressed in thousands of KM)</i>		
Income by donor	Period 1-5-2001 until 31-12-2001	Period 1-10-2000 un- til 30-4-2001
Know how fund	25	102
US DA	75	102
UNDP (Brcko)	37	0
Other donors	2	0
Total	139	204

The Donors have paid management fees to the Agency for certain expenses incurred or to be incurred in the operation of the Agency. These expenses include staff salaries and benefits, travel expenses, rental costs, utilities, telephone costs, vehicle maintenance and stationery.

8. Taxation

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

SPECIFIC NOTES TO BALANCE SHEET**9. Cash and cash equivalents**

(all amounts expressed in thousands of KM)

	31-12-2001	30-04-2001	30-09-2000 (PwCaudited)
Cash at hand	7	16	30
Raiffeisen (ex Market) Bank	199	211	84
Tuzlanska Bank	83	51	98
Commerce (ex Sahinpasic) Bank	79	46	0
Razvojna Bank	31	0	0
UPI Bank	30	74	0
Nova Bank	26	0	0
Central Profit Bank	27	0	0
Volksbank	7	0	0
Kristal Bank	0	177	181
Tuzlanska Komercijalna Bank	0	2	0
Hercegovacka Bank	0	1	11
Total	489	578	404

10. Loans and advances to customers**(a) Analysis by interest rates**

The monthly interest rates on loans are fixed and vary as follows:

(all amounts expressed in thousands of KM)

Fee per month (flat rate):	31-12-2001	30-9-2000 (PwCaudited)
1 %	3,268	1,317
1.08 %	0	249
1.1 %	4,663	137
1.2 %	3,746	441
1.3 %	2,592	2,723
1.4 %	156	6,136
1.5 %	1	94
1.7 %		41
Total	14,426	11,138
Provision	338	337
Total	14,088	10,801

(b) Analysis by type of borrower

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

(all amounts expressed in thousands of KM)

	31-12-2001	30-9-2000 (PwCaudited)
Individual agricultural companies	4,511	1,793
Individual production companies	1,951	1,841
Individual trade companies	4,819	4,162
Individual service companies	3,145	3,342
Total	14,426	11,138
Provision	338	337
Total	14,088	10,801

Loans are generally due within 1 year.

(c) Geographical analysis

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

	31-12-2001	30-9-2000 (PwCaudited)
Zenica	2,673	2,091
Tuzla	4,097	3,694
Sarajevo	1,026	1,145
Mostar	1,158	624
Doboj	3,411	2,629
Bijeljina	1,009	706
Bugojno	736	249
Brcko	316	0
Total	14,426	11,138
Provision	(338)	(337)
Total	14,088	10,801

(d) Arrears

The amounts of loans in arrears are analysed as follows:

(all amounts expressed in thousands of KM)

	31-12-2001	30-9-2000 (PwCaudited)
	Principal in	Principal in
	Arrears	Arrear
On time payments	14,129	10,401
Up to 30 days	213	604
31 - 60 days	47	62
61 - 90 days	24	27
91 - 120 days	12	17
Over 120 days	1	27
Total	14,426	11,138

Arrears include all amounts of loan principal due but not collected.

(e) Provisions

The movements in provisions for losses are as follows:

<i>(amounts are in thousands of KM)</i>	Period ended 31-12-2001	Period ended 30-4-2001	Year ended 30-9-2000 (PwCaudited)
Opening Balance	387	337	99
Doubtful debts expense	79	128	380
Bad debts written off	(128)	(78)	(142)
Closing Balance	338	387	337

11. Other current assets

(all amounts expressed in thousands of KM)

	31-12-2001	30-9-2000 (PwCaudited)
Interest receivable	12	23
Receivable from WV BiH	135	0
Prepaid expenses	21	0
Other receivables	6	0
Total	174	23

12. Property and equipment

(all amounts expressed in thousands of KM)

	Furniture &	Vehicles	Computer	Total
--	------------------------	-----------------	-----------------	--------------

<i>in thousands of KM)</i>	equipment		equipment	
<u>As at 30-9-2000</u>				
Cost	45	462	97	604
Accum. depreciation	(27)	(296)	(65)	(388)
Net book value	18	166	32	216
Additions	4	16	33	53
Depreciation	(5)	(55)	(15)	(75)
<u>As at 30-4-2001</u>				
Cost	49	478	130	657
Accum. depreciation	(32)	(351)	(80)	(463)
Net book value	17	127	50	194
Transfers in Federation:				
Disposals at cost	(32)	(402)	(99)	(533)
Depreciation disposal	23	297	64	384
Transfer to WV BiH Net Book Value	(9)	(105)	(35)	(149)
<u>As at 1-5-2001</u>				
Cost	17	76	31	124
Accum. depreciation	(9)	(54)	(16)	(79)
Net book value	8	22	15	45
Additions	15	81	63	159
Depreciation	(3)	(17)	(9)	(29)
<u>As at 31-12-2001</u>				
Cost	32	157	94	283
Accum. depreciation	(12)	(71)	(25)	(108)
Net book value	20	86	69	175
Transfers in RS :				
Disposals at cost	(18)	(103)	(39)	(160)
Depreciation disposal	11	69	22	102
Transfer to WV BiH Net Book Value	(7)	(34)	(17)	(58)
Cost	14	54	55	123
Accum. depreciation	(1)	(2)	(3)	(6)
Net book value	13	52	52	117

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

	31-12-2001	30-9-2000 (PwCaudited)
Interest payable on subsidised loans	25	17
Bank overdrafts	0	131
Owed to WV BiH	69	3
Accrued expenses	5	1
Total	99	152

14. Funding Capital

WV BiH agreed with EKI to donate the funding capital amounting to DEM 800,000.

<i>(all amounts expressed in thousands of KM)</i>	31-12-2001	30-4-2001	30-9-2000 (PwCaudited)
Funding capital supplied by WV BiH	800	0	0
Total	800	0	0

15. Subsidised loans**a) Analysis by type of subsidised loan***(all amounts expressed in thousands of KM)*

		31-12-2001	30-9-2000 (PwCaudited)
	Interest % Per year		
WV –Canada Global EF	5	467	555
COSPE- Italy	0	320	110
WV Meero- Austria *)	5	(3)	105
LID –RS	5	750	750
SIDA –Blind association	0	24	0
Total		1,558	1,520

*) exchange difference

b) Analysis of subsidised loans by duration*(all amounts expressed in thousands of KM)*

	31-12-2001	30-9-2000 (PwCaudited)
up 6 months	85	40
6 to 12 months	1,246	790
Over 12 months	230	690
No specified maturity *)	(3)	0
Total	1,558	1,520
*) exchange difference		

16. Donated Capital*(all amounts expressed in thousands of KM)*

	Loan Capital	Donated Fixed Assets	Total
Balance 30-9-2000 (PwC-audited)	8,198	450	8,648
Additions 1-10-2000 until 30-4-2001	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 1-5-2001	2,777	78	2,855
Transferred RS part to WV BiH	(2,777)	(78)	(2,855)
Additions 1-5-2001 until 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

Loan Fund Capital Details

<i>All amounts expressed in thousands of KM)</i>	<u>31-12-01</u> <u>Loan fund</u>	<u>31-12-01</u> <u>Assets</u>	<u>31-12-01</u> <u>Total</u>	<u>30-04-01</u> <u>Total</u>	<u>30-09-00</u> <u>total</u> PwCaudited
WB	325	11	336	336	336
SIDA	4,907	122	5,029	5,036	4,112
UNHCR	148	-	148	148	148
Finland WV	94	-	94	94	94
New Z WV	61	-	61	61	60
Australia WV	33	41	74	74	74
BWI	320	-	320	320	320
NSU	388	-	388	388	388
Japan WV	200	-	200	200	200
(Women of WV)	192	-	192	192	192
WV other	97	34	131	131	131
USDA	2,558	70	2,628	2,625	2,269
PRM	61	-	61	61	61
Echo	36	-	36	36	36
Help Germany	50	-	50	50	50
LID	0	63	63	63	63
WV Germany	0	13	13	13	13
WV UK	0	1	1	1	1
UNDP	331	0	331	0	0
New Hampshire	23	0	23	0	0
SIDA –Cow How	237	0	237	0	0
Other donors	0	100	100	100	100
Total	10,061	455	10,516	9,929	8,648
Transfer Fed WV	(6,699)	(377)	(7,076)		
Transfer RS WV	(2,777)	(78)	(2,855)		
Transfer WV BiH	(348)	0	(348)		
Balance	237	3	240		

17. Retained Earnings

Movement schedule*(all amounts expressed in thousands of KM)*

Balance as at 1-10-2000 (PwC-audited)	1,124
Net result for the period until 30-4-2001	729
Balance 30-4-2001	<u>1,853</u>
Transferred to WV BiH on 30 April 2001	(1,180)
Balance as 1-5-2001	<u>673</u>
Net result for the period 1-5-2001 / 31-12-2001 Fed	675
Net result for the period 1-5-2001 / 31-12-2001 RS	378
Transferred to WV BiH on 31 December	(1,051)
Balance as 31-12-2001	<u>675</u>

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.

(all amounts expressed in thousands of KM)

	Reference Note	Amount
Funding Capital	14	800
Loans provided by WV BiH		
Loan Funding Capital Fed Contracted by WV BiH	17	6,699
Loan Funding Capital RS Contracted by WV BiH	17	2,777
Loan Funding Capital May-Dec 2001 Contr. by WV BiH	17	347
Donated Fixed Assets RS Contracted by WV BiH	17	78
Donated Fixed Assets Fed Contracted by WV BiH	17	374
Retained earnings transferred to WV BiH, May 2001	18	1,180
Retained earnings transferred to WV BiH, December	18	1,051
Funding Capital	14	(800)
Net Book Value of Fixed Assets transferred		<u>(208)</u>
Total financed according loan agreement WV BiH		11,498

WV BiH provides EKI with technical assistance for an agreed amount of US \$ 500 per month , starting May 2001. Expenditures made by WV BiH relating to EKI are charged to EKI.

Financing by WV BiH loan agreement*(all amounts expressed in KM)***31-12-2001**

Loan capital supplied by WV BiH to EKI annex 1	6,600,486
Loan capital supplied by WV BiH to EKI annex 2	300,000
Loan capital supplied by WV BiH to EKI annex 3	20,000
Loan capital supplied by WV BiH to EKI annex 4	600,000
Loan capital supplied by WV BiH to EKI annex 5	137,041
Loan capital supplied by WV BiH to EKI annex 6	-23,500
Loan capital supplied by WV BiH to EKI annex 7	2,777,103
Retained Earnings	1,050,619
Difference fixed assets donation-net book value	20,113
SIDA LFC	16,500
Total	11,498,362

19. Directors' remuneration

A listing of the members of the Management Board is shown on page 5 of this report. In the period 1-10-2000 to 31-12-2001 the total remuneration of the Management Board amounts KM 333,000.

The Board of Directors as shown on page 4 of the Financial Statements.

In the period 1-05-2001 to 31-12-2001 the total remuneration of the Board of Directors amounts KM 910.

20. Maturity analysis

The amount of total assets and total liabilities analysed over the remaining period to the contractual maturity date at 31 December 2001 is as follows:

<i>(all amounts expressed in thousands of KM)</i>	Demand (including arrears)	Up to 6 months	From 6 months to 1 year	Over 1 year	No speci- fied ma- turity	Total 31-12-'01
Assets						
Cash an cash equivalents	491	0	0	0	0	491
Loans and advances to customers	1,371	7,432	4,304	981	0	14,088
Other current assets	39	0	135	0	0	174
Tangible fixed assets	0	0	0	117	0	117
Total Assets	1,901	7432	4,439	1,098	0	14,870
Liabilities						
Other liabilities	30	68	0	0	0	98
Subsidised loans	(3)	85	1,246	230	0	1,558
Total Liabilities	27	153	1,246	230	0	1,656
Total Assets -/ Total Liabilities	1,874	7,279	3,193	86	0	13,214

21. Contingencies and commitments

The Agency has rental commitments for buildings with the following maturities:

<i>(all amounts expressed in thousands of KM)</i>	< 1 year	Unlimited period	Total 31-12-2001	Total 30-9-2000 (PwCaudited)
Office Tuzla	3	0	3	2
Office Dobož	3	0	3	3
Office Sarajevo	0	1	1	2
Head Office Sarajevo	0	4	4	2

<i>(all amounts expressed in thousands of KM)</i>	< 1 year	Unlimited period	Total	
			31-12-2001	30-9-2000 (PwCaudited)
Office Zenica	0	3	3	2
Office Mostar	0	1	1	1
Office Bijeljina	2	0	2	2
Office Bugojno	0	1	1	0
Office Brcko	0	1	1	0
Total	8	11	19	14

22. Financial instruments

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

- Credit risk

In conducting business activities, the Agency is exposed to the possibility that borrowers may default on their obligations to the Agency. To minimise this risk the Agency evaluates each customers' credit worthiness on a case by case basis. The amount of collateral obtained, if it is deemed necessary by the Agency 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. The Agency 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, the Agency is exposed to market risks which include both price and liquidity risks. Price risk arises from fluctuation in interest rates, liquidity risks arise from the possibility that the Agency may be unable to satisfy current and future financial commitments.

23. Post Balance Sheet events

EKI signed on 18 April 2002 a Loan Agreement with USAID Business Finance providing a line of credit amounting to KM 1,000,000. Interest is 12 month Euro Libor on the outstanding amount. The final repayment date is 3 years from the date of drawing of the loan funds.

EKI is obliged to use the Line of Credit funds exclusively for the purpose of granting loans to micro entrepreneurs in Bosnia Herzegovina.

EKI must follow up with the following obligations:

Rate of loans that are delinquent by more than 30 days must not exceed 5% of the total amount of the loans disbursed. Debt to equity ratio may not to exceed 6:1.
