Grant Thornton

Financial Statements and Independent Auditor's Report

Foundation for Economic Development "Horizonti", Skopje

31 December 2008

Contents

Grant Thornton

Independent Auditor's Report

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To the Management and Founders of

Foundation for Economic Development "Horizonti", Skopje

We have audited the accompanying financial statements of Foundation for Economic Development "Horizonti", Skopje, (the Foundation) which comprise of the Balance sheet as at 31 December 2008, and the Statement of income for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 15.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions, developed in consultation with microfinance practitioners and the member donors of CGAP (the Consultative Group to Assist the Poor). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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.

Opinion

In our opinion the financial statements of the Foundation present fairly, in all material respects, the financial position as of 31 December 2008, and its financial performance for the year then ended in accordance with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions, developed in consultation with microfinance practitioners and the member donors of CGAP (the Consultative Group to Assist the Poor).

Grant Thornton,

Skopje,
10 July 2009

Balance Sheet

	Notes	2008	2007
			(000 mkd)
			At 31 December
Assets			
Cash and deposits	3	9,980	12,213
Long-term deposits	4	30,706	-
Net loans outstanding	5	146,007	113,287
Property, plant and equipment	6	4,811	4,778
Intangible assets	6	2,220	253
Accrued interest and prepayments		1,334	744
Total assets		**195,058**	**131,275**
Equity and liabilities			
Equity	7		
Founders' fund		307	307
Donated funds		85,594	76,434
Reserves for future investments		2,000	2,000
Accumulated profits		6,182	3,987
Total equity		**94,083**	**82,728**
Liabilities			
Deferred grants	8	3,072	7,868
Liabilities for clients' deposits	9	11,593	12,445
Non – interest bearing borrowings	10	13,100	19,198
Interest bearing borrowings	10	70,182	6,766
Other liabilities		3,028	2,270
Total liabilities		**100,975**	**48,547**
Total equity and liabilities		**195,058**	**131,275**

These financial statements have been approved by the Board of Directors of Foundation on 09 July 2009 and signed on his behalf by:

Mr. Vasil Davaliev
Executive Director

Income Statement

	Notes	(000 mkd) Year ended 31 December 2008	2007
Income			
Interest and fees on loans	**11**	38,002	32,574
Interest on bank deposits		533	570
Other operating income		381	375
Total income		**38,916**	**33,519**
Operating expenses			
Provision for loan losses	**5**	(4,597)	(2,026)
Depreciation	**6**	(233)	(89)
Administrative expenses	**12**	(29,537)	(25,975)
Interest expenses		(2,371)	(208)
Total operating expenses		**(36,738)**	**(28,298)**
Operating profit before taxation		**2,178**	**5,221**
Taxation	**13**	(434)	(804)
Operating profit after tax		**1,744**	**4,417**
Non – operating income and expense			
Grants and donations	**8**	1,875	1,970
Depreciation on assets donated	**6**	(1,347)	(1,403)
Foreign exchange (losses) / gains, net		(77)	(17)
Non – operating profit		**451**	**550**
Total profit for the year		**2,195**	**4,967**

Notes to the Financial Statements

1 General information

The Foundation for Economic Development “Horizonti”, Skopje (hereinafter referred to as “the Foundation”) was established and registered in the Republic of Macedonia in accordance with the Law on Associations of Citizens and Foundations (“Official Gazette of RM” No. 31/98) and the Decision on establishing dated 18 May 2005. Founder of the Foundation is the Subsidiary of the International charity organisation “Catholic Relief Services” - CRS” from the United States headquartered in Skopje, 10 Dane Krapcev Str., represented by the President Sheron Elanie Maggard. The Foundation was registered at the First Instance Court I – under F. br. 89/05 dated 31 May 2005.

The head office of the Foundation is in Skopje, 14 Rampo Levkata Str. As of 31 December 2008, the Foundation has 38 employees (2007: 34 employees).

The objective of the Foundation is to provide financial assistance for economic and social development and their distribution to a specific category of users in the Republic of Macedonia. The Foundation will provide access to financial and non-financial services of entrepreneurs in the Republic of Macedonia as well as to the self-employed people, in order to improve and develop their business, create new jobs as well as to improve the living standard in general. The Foundation, through the financial support provided to businesses, will strive to improve the economic situation of the poorer and marginalized groups in the society that have no other ways of providing beneficial financial services in their businesses.

The Foundation accomplishes its abovementioned objectives through:

- Providing a constant access to short-term and long-term, one-time and continuous micro-entrepreneurial loans (individuals and legal entities) for the needs of their businesses in accordance with the objectives of the Foundation along with assistance of the financial institutions which have been founded, registered and operating in accordance with the prevailing law of the Republic of Macedonia;
- Organisation and implementation of business trainings and advisory services;
- Representation of the needs and businesses of micro-entrepreneurs to third parties;
- Other financial assistance.

2 Accounting policies

Following are the principal accounting policies adopted in the preparation of these financial statements:

2.1 Basis of preparation

These financial statements have been prepared in compliance with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions. These disclosure guidelines are voluntary norms and were developed in consultation with microfinance practitioners and the member donors of CGAP (the Consultative Group to Assist the Poor). In June 2000, CGAP member donors approved the distribution of a preliminary version of the guidelines. In July 2004, final version has been issued and is based on the results of field testing and input from the Financial Services Working Group (FSWG) of the Small Enterprise and Education and Promotion Network (SEEP).

The financial statements are prepared on an accrual basis, with exception related to recognition of interest income explained further within this Note.

These financial statements are prepared as of and for the year ended 31 December 2008. All data are expressed in thousands of Macedonian Denars (000 mkd) unless otherwise stated.

Income and expenses recognition
Interest income on loans is recorded on a cash basis—that is, when it is received in cash. At the end of the year, adjustments are made to accrue interest income on late but performing loans. Other operating income is recognized in the period when realized (collected). Operating expenses are recognised upon utilisation of the service or at the date of the origin.

Foreign currency translation
Transactions denominated in foreign currencies have been translated into Macedonian Denars at the middle exchange rate at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Macedonian Denars (“Denars”) at the National Bank of the Republic of Macedonia middle exchange rate on the last day of the reporting period. All gains and losses resulting from foreign currency translation or exchange are included in the Statement of Income as financial income or expenses in the period in which they arose. The middle exchange rates used for conversion of the balance sheet items denominated in foreign currencies are as follows:

	31 December 2008	31 December 2007
1 USD	43.5610 Denars	41.6564 Denars
1 EUR	61.4123 Denars	61.2016 Denars

Intangible assets
Computer software
Costs associated with development or maintaining computer software programs are recognized as an expense as incurred. Costs directly associated with identifiable and unique software products controlled by the Company that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Computer software development costs recognized as assets are amortized using the straight-line method over a period of four years.

Other intangible assets
Expenditure to acquire rights and licenses is capitalized and amortized using the straight-line method over a period of four years.

Property, plant and equipment
Property, plant and equipment, consisting of computers, office equipment and vehicles, donated by the founder at the moment of foundation are carried at revalued amounts, determined by external Court appraisers, less subsequent depreciation. All other assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Property, plant and equipment are depreciated using the straight-line method, where an equal amount is amortized and charged against profit and loss in each period over the estimated useful life of the assets. Annual depreciation rates applied to the items of fixed assets are as follows:

Office equipment	10-20%
Computers and vehicles	15-25%

Financial assets and liabilities
Financial assets and liabilities include cash, short – term deposits with banks, loans and receivables, non - interest borrowings and other current liabilities. The accounting policies on recognition and measurement of the financial assets and liabilities are disclosed further in this Note.

Cash and deposits
Cash and deposits are carried in the balance sheet at cost. Cash and deposits consist of cash on hand, denar and foreign currency current accounts with local banks, as well as short – term local currency deposits with local banks, maturing within twelve months.

Loans and receivables
Loans and receivables are initially recognized at their cost, when cash is advanced to the borrowers. Subsequently, at each balance sheet date, they are carried at cost less loan loss reserve.

At each balance sheet date, the management provisions for loan losses to maintain an adequate allowance for doubtful loans. The allowance for loan loss is determined by applying predicted loss percentages to aged loans, grouped by lateness of payments. A loan becomes late as soon as a scheduled instalment is missed. The predicted loss percentages are based on management’s analysis of historical outcomes of late loans and are as follows:

Loans in default:	Risk percentage %
- Up to 30 days	0%
- From 31 to 90 days	10%
- From 91 to 180 days	25%
- From 181 to 360 days	50%
- Over 360 days	100%

Borrowings
Borrowings are carried at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred.

Grants
Grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Foundation will comply with all attached conditions. Grants relating to operating expenses and fixed assets are deferred and recognized in the income statement over the period necessary to match them with the expenses that they are intended to compensate. Grants intended for loan funds are recognized directly in the balance sheet as donated funds.

Founders’ fund
Founders’ fund which, entirely consists of cash contributed by the founder, is determined by Decision for registering of the Foundation with the Register of Associations of Citizens and Foundations.

Income tax
The income tax is calculated and paid in accordance with the Macedonian Tax Law. Final tax on profit at 10% (2007: 12%) is payable based on the annual profit presented in the statutory statement of income as adjusted for certain non – allowable and non - taxable items.

Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3 Cash and deposits

	2008	2007
Short – term deposits with local banks	6,000	7,000
Current accounts with local banks	3,763	4,441
Cash on hand	217	772
	9,980	**12,213**

At 31 December 2008, short – term deposits with local banks, totalling to Denar 6,000 thousand (2007: Denar 7,000 thousand), consist of local currency deposits maturing up to 12 months (2007: 12 months), earning annual interest at rate ranging from 6.25% to 6.5% (2006: from 6.25% to 6.5%).

4 Long-term deposits

	2008	2007
Long – term deposits with local banks	30,706	-
	30,706	**-**

At 31 December 2008, long – term deposits with local banks, totalling to Denar 30,706 thousand (500,000 Euros), consist of currency deposit maturing at 19 September 2011, earning annual interest of 4.10 %. The deposit has been used as collateral for a loan granted from NLB Tutunska Banka AD Skopje.

5 Net loans outstanding

Loan beneficiaries and lending policy

The Foundation grants small short-term and long-term, one-time or continuous loans to local micro-entrepreneurs (individuals and legal entities) for the needs of their businesses, within trade, services and production activities. Financial loans are granted to the loan beneficiaries through Tutunska Banka AD, Skopje and based on the Agreement for Commission Operations dated 28 June 2007, and extended with an Annex in 2008, between the Bank (acting as Commissioner) and the Foundation (acting as Customer). According to the provisions of the Agreement, the Foundation takes over the entire risk for each placement. The Bank charges fee at 2.5% per month on the amount of interest collected.

Loan products and lending terms

The Foundation provides the following loan products for its end-users:

Invest loans – financial loans intended for small business investments
Agro Invest loans – financial loans intended for investments in agriculture
Lending terms:

Amount	From 120,000 - 300,000 denars
Interest rate	16 - 18% annually
Repayment due	12 - 36 months
Terms of repayment	Monthly annuities
Fee	2% of the loan amount

Premium loans – financial loans intended for current assets
Agro Premium loans – financial loans intended for current assets in agriculture
Lending terms:

Amount	From 60,000 - 200,000 denars
Interest rate	18 – 20% annually
Repayment due	12 - 24 months
Terms of repayment	Monthly annuities
Fee	2% of the loan amount

Net loans outstanding (continued)

Housing loans – financial loans for individuals, intended for carrying out sub-standard property renovations and reconstructions.
Lending terms:

Amount	From 50,000 - 150,000 Denars
Interest rate	18% annually
Repayment due	18 - 36 months
Terms of repayment	Monthly annuities
Fee	2.5% of the loan amount

Standard loans – financial loans granted to self-initiatively formed groups of entrepreneurs – women, the members of which secure the loans repayment.
Lending terms:

Amount	From 10,000 - 160,000 Denars
Interest rate	1.5 - 2.5% monthly
Repayment due	6 - 10 months
Repayment period	Monthly
Fee	-

Additional loans – financial loans granted to individuals and groups, users of *Standard loans*.
Lending terms:

Amount	From 10,000 - 30,000 Denars
Interest rate	3% monthly
Repayment due	2 - 3 months
Repayment period	Monthly annuities
Fee	-

Agro loans – financial loans granted to self-initiatively formed groups of entrepreneurs – women, for support of agricultural production.
Lending terms:

Amount	From 30,000 – 90,000 Denars
Interest rate	1.8% for groups on monthly base
Repayment due	12 months
Terms of repayment	Monthly annuities
Fee	-

Following is the movement of net loan portfolio for the years ended 31 December:

	2008	**2007**
Opening balance	**113,287**	**86,539**
Total loans placed during the year	191,645	185,707
Loans collected	(151,428)	(155,064)
Loan loss provision expense for the year	(4,597)	(2,026)
Loan write offs	(2,900)	(1,869)
Balance of loan portfolio as of 31 December	**146,007**	**113,287**

Loan portfolio analysis

Following is the analysis of loan portfolio as of 31 December 2008 and 2007:

	Principal		Loan loss reserve	
	Structure %	Amount	Risk percentage	Amount
At 31 December 2008				
Current	81.2%	122,145	0%	-
Due, uncollected				
Up to 30 days	11.1%	16,616	0%	-
From 31 to 90 days	2.7%	4,074	10%	407
From 91 to 180 days	2.1%	3,138	25%	785
From 181 to 360 days	1.6%	2,452	50%	1,226
Over 360 days	1.3%	1,992	100%	1,992
Total	**100.0%**	**150,417**		**4,410**

Net loans outstanding (continued)

	Principal		Loan loss reserve	
	Structure %	Amount	Risk percentage	Amount
At 31 December 2007				
Current	88.8%	103,048	0%	-
Due, uncollected				
Up to 30 days	6.5%	7,485	0%	-
From 31 to 90 days	1.2%	1,399	10%	140
From 91 to 180 days	1.1%	1,265	25%	317
From 181 to 360 days	0.9%	1,094	50%	547
Over 360 days	1.5%	1,709	100%	1,709
Total	**100.0%**	**116,000**		**2,713**

The movement of the loan loss reserve account is as follows:

Opening balance at 01 January 2007	2,556
Loan loss expense for 2007	2,026
Write offs	(1,869)
At 31 December 2007 / 01 January 2008	**2,713**
Loan loss expense for 2008	4,597
Write offs	(2,900)
At 31 December 2008	**4,410**

At 31 December 2008 and due to their entire non-recoverability, the Foundation management has decided to write off fully provided for loans in the amount of Denar 2,900 thousand (2007: Denar 1,869 thousand).

6 Property, plant and equipment and intangible assets

Components of property, plant and equipment and intangible assets are as follows:

	Computers	Equipment	Vehicles	Total PPE	Intangible Assets
Cost					
At 01 January 2007	1,125	1,202	4,615	6,942	376
Additions during the year	412	164	-	576	-
At 31 December 2007/ 01 January 2008	**1,537**	**1,366**	**4,615**	**7,518**	**376**
Additions during the year	395	172	970	1,537	2,042
At 31 December 2008	**1,932**	**1,538**	**5,585**	**9,055**	**2,418**
Accumulated depreciation					
At 01 January 2007	206	291	826	1,323	48
Depreciation for the year	304	218	895	1,417	75
At 31 December 2007/ 01 January 2008	**510**	**509**	**1,721**	**2,740**	**123**
Depreciation for the year	298	214	992	1,504	75
At 31 December 2008	**808**	**723**	**2,713**	**4,244**	**198**
Net carrying amount					
At 01 January 2008	1,027	857	2,894	4,778	253
At 31 December 2008	**1,124**	**815**	**2,872**	**4,811**	**2,220**

Total additions of property, plant and equipment and intangible assets during 2008 in the amount of Denar 3,579 thousands are financed by own funds.

Property, plant and equipment and intangible assets (continued)

At 31 December 2008, included into total net carrying amount of property, plant and equipment and intangible assets, Denar 3,072 thousands (2007: Denar 4,419 thousands) represents net carrying amount of assets donated or purchased by donated funds as follows:

	Catholic Relief Services	Caritas Norway	FOSIM	CEB Agro	Total
At 31 December 2007					
Cost or valuation	4,331	998	1,729	116	7,174
Accumulated (depreciation)	(1,802)	(332)	(612)	(9)	(2,755)
Net carrying amount	**2,529**	**666**	**1,117**	**107**	**4,419**
At 31 December 2008					
Cost or valuation	4,331	998	1,729	116	7,174
Accumulated (depreciation)	(2,503)	(524)	(1,045)	(30)	(4,102)
Net carrying amount	**1,828**	**474**	**684**	**86**	**3,072**

All assets are Foundation's property and at 31 December 2008 and 2007 the Foundation has no assets pledged to secure long-term liabilities committed.

7 Equity

Founders' funds

According to the Reg.no. 1985 from 2005, total founders' funds amount to Denar 307 thousands and were fully contributed by the Subsidiary of the international charity organization Catholic Relief Services CRS from USA, headquartered in Skopje, Republic of Macedonia.

Donated funds

Following are the components of donated funds as of 31 December:

	Catholic Relief Services	Caritas Norway	FOSIM	Total
At 01 January 2007	55,325	8,525	10,291	74,141
Donated funds for:				
- loan portfolio	-	-	2,293	2,293
At 31 December 2007	**55,325**	**8,525**	**12,584**	**76,434**
At 01 January 2008	55,325	8,525	12,584	76,434
Donated funds for:				
- loan portfolio	6,098	-	3,062	9,160
At 31 December 2008	**61,423**	**8,525**	**15,646**	**85,594**

Catholic Relief Services donation. At 30 June 2005, Foundation "Horizonti", Skopje and Catholic Relief Services-United States Conference of Catholic Bishops Inv (Not – For - Profit Organization headquartered in Baltimore, Maryland, USA and represented by Mr. Mark Schnellbacher) entered into Agreement for donation of loan portfolio in the total amount of USD 1,139,650 equivalent to Denar 57,746 thousands. Related loan loss reserve, accounted for in the Foundation accounts, at the date of loan portfolio transfer, amount Denar 2,421 thousand.

During the year ended 31 December 2008 and with regard to certain conditions met under the terms of the loan agreement No.00278 signed with Catholic Relief Services, dated 19 September 2006, part of the loan received in the amount of Denar 6,098 thousand has been converted into a non-refundable grant and recognized in donated funds within equity account (Note 10).

Equity (continued)
Donated funds (continued)

Caritas Norway donation. During 2005, the Foundation entered into Agreement with Caritas Norway for the total of 214,355 USD, equivalent to Denar 10,759 thousand. According to the Contract provisions, during 2005, 2006 and 2007 and up to the balance sheet date as of 31 December 2008, these funds were used as follows: Denar 8,525 thousand for increase of loan portfolio, Denar 1,067 thousand – for recovering of operating expenses and Denar 1,166 thousands – for purchase of equipment.

FOSIM donation. The amount of Denar 15,646 thousand (2007: Denar 12,584 thousand) represents funds used for the purpose of increasing the Foundation’ loan portfolio from the FOSIM donation. During 2007, Foundation Open Society Institute –Macedonia (FOSIM) and Foundation “Horizonti” signed three agreements (no. 8388 dated 25 December 2007, no. 7915 dated 09 July 2007 and no.8343 dated 07 December 2007) in the total amount of Denar 4,078 thousands (Note 8) for the purpose of supporting the Foundation’s business operations. During the year ending 31 December 2008, total amount of Denar 3,062 thousands were used for increase of the loan portfolio.

8 Deferred grants

At 31 December 2008, the balance of deferred grants, amounting to Denar 3,072 thousands (2007: Denar 7,868 thousands), consists of as follows:

	2008	2007
Non – spent cash donated	-	3,449
In – kind donations in fixed assets	3,072	4,419
	3,072	**7,868**

The movement of deferred grant account is as follows:

	2008	2007
At 01 January	7,868	8,053
Additions:		
Funds granted	141	4,078
Released to:		
Donated funds (increase of loan portfolio)	(3,062)	(2,293)
Release through P&L (see table below)	(1,875)	(1,970)
At 31 December	**3,072**	**7,868**

Following is the analysis of released grant amount, accounted for as income in the 2008 and 2007 profit and loss:

	2008	2007
Recovering part of operating expenses	528	567
Depreciation for the year of donated property, plant and equipment and intangible assets	1,347	1,403
	1,875	**1,970**

The balance of deferred grants as of 31 December 2008 and 2007 relates to following donors:

	2008	2007
Catholic Relief Services	1,828	2,529
Caritas Norway	474	666
FOSIM	770	4,673
	3,072	**7,868**

9 Liabilities for clients' deposits

At 31 December 2008, liabilities for clients' deposits, amounting to Denar 11,593 thousands (2007: Denar 12,445 thousands), consists of short – term funds, deposited by the loan beneficiaries, as guarantees for the loans borrowed from the Foundation. As of 31 December 2008, part of these funds amounting to Denar 6,000 thousand, each of them representing 10 - 15% of the loan principal, are deposited with NLB Tutunska Banka AD, Skopje – a local commercial Bank.

10 Borrowings

			2008			**2007**
	Up to 1 year	Over 1 year	**Total**	Up to 1 year	Over 1 year	**Total**
Non-interest bearing borrowings						
Catholic Relief Services	13,100	-	**13,100**	19,198	-	**19,198**
	13,100	**-**	**13,100**	**19,198**	**-**	**19,198**
Interest bearing borrowings						
NLB Tutunska Banka (8% and 6.6%)	18,000	17,500	**35,500**	-	4,931	**4,931**
SEDF Soros Economic Development Fondation (4% interest rate)	-	30,706	**30,706**	-	-	**-**
Habibat Macedonia (4% and 5% interest rate)	-	3,976	**3,976**	-	1,835	**1,835**
	18,000	**52,182**	**70,182**	**-**	**6,766**	**6,766**
	31,100	**52,182**	**83,282**	**19,198**	**6,766**	**25,964**

Following is the loan repayable schedule according to contractual maturity:

	Forex	**Denars**	**Total**
Within 12 months	13,100	18,000	31,100
2010	-	-	-
2011	48,206	-	48,206
2012	-	-	-
Thereafter	3,976	-	3,976
	65,282	**18,000**	**83,282**

Non-interest bearing borrowings

At 31 December 2008, total non - interest bearing borrowings amounting to Denar 13,100 thousands, represents funds borrowed by the Catholic Relief Services, one of the Foundation donors for the purpose of supporting the lending activities. No interest has been charged on the loan payable. During the year ended 31 December 2008 and with regard to certain conditions met under the terms of the loan agreement, part of the loan received in the amount of Denar 6,098 thousand has been converted into a non-refundable grant and recognized in donated funds within equity account (Note 7).

Interest bearing borrowings

The Foundation and NLB Tutunska Banka AD, Skopje signed an agreement No.004100309201, dated 22 September 2008 for a long term loan in amount of EUR 500,000 thousand, with annual interest rate of 6.6% and maturity date as at 22 September 2011.

The Foundation and NLB Tutunska Banka AD, Skopje signed an agreement No.0041003003882, dated 17 November 2007 for a long term loan in amount of Denar 18,000 thousand, with annual interest rate of 8% and maturity date as at 17 November 2009.

Borrowings (continued)
Interest bearing borrowings (continued)

The Foundation and Soros Economic Development Fund signed an agreement No.00688, dated 11 August 2008 for a long term loan in amount of EUR 500,000 thousand, with annual interest rate of 4% and maturity date at 15 December 2011.

The Foundation and Habitat Macedonia signed an agreement No.00640, dated 30 June 2008 for a long term loan in amount of EUR 35,000, with annual interest rate of 5% and maturity date as at 31 December 2013.

11 Interest and fees on loans

	2008	2007
Interest collected	35,668	31,277
Accrued interest income	380	341
Fees collected	1,954	956
	38,002	**32,574**

12 Administrative expenses

	2008	2007
Staff costs	17,290	15,159
Services rendered	3,426	1,503
Rent expenses	2,813	2,783
Supplies and maintenance	2,363	3,230
Intellectual services	1,987	657
Communications	682	1,820
Representation	492	351
Honoraria	484	472
	29,537	**25,975**

Total staff costs for the years ended 31 December, consist of as follows:

	2008	2007
Net salaries	8,998	7,727
Personal tax and mandatory contribution on salaries	5,526	5,005
Food and travel allowances	1,716	1,500
Business trips and travel charges	1,050	927
	17,290	**15,159**

13 Taxation

The charge for the year can be reconciled to the profit per 2008 and 2007 income statement as follows:

	2008	2007
Operating profit before tax	2,178	5,221
Adjusted for permanent differences due to local provisions	3,527	1,987
Profit tax base	5,705	7,208
Tax on profit at 10% (2007: 12%)	570	865
Adjusted for:		
Non – allowed expenses for income tax purposes	68	49
Non-taxable income	(4)	(110)
Re – invested profit	(200)	-
Income tax expense	**434**	**804**

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