

Financial Statements and Independent Auditors' Report

Microcredit Foundation “Horizonti”, Skopje

31 December 2010

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# Independent Auditors' Report

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To the Management and Founders of  
Microcredit Foundation "Horizonti", Skopje

We have audited the accompanying financial statements of Microcredit Foundation "Horizonti", Skopje ("the Foundation") which comprise of the Balance Sheet as at 31 December 2010, and the Income Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 18.

## ***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), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## ***Auditor's responsibility***

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

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

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

#### *Opinion*

In our opinion the financial statements of the Foundation present fairly, in all material respects, the financial position of the Foundation as at 31 December 2010, 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,  
27 June 2011

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## Balance Sheet

			(000 mkd)
	Notes	2010	At 31 December 2009
<b>Assets</b>			
Cash and deposits	3	22,722	15,068
Long-term deposits	4	-	30,587
Net loans outstanding	5	156,648	154,778
Property, plant and equipment	6	3,872	4,491
Intangible assets	6	2,095	1,981
Other assets	7	4,214	2,878
<b>Total assets</b>		<b>189,551</b>	<b>209,783</b>
<b>Equity and liabilities</b>			
<b>Equity</b>	8		
Founders' fund		620	307
Donated funds		97,071	97,071
Accumulated profit		1,240	5,179
<b>Total equity</b>		<b>98,931</b>	<b>102,557</b>
<b>Liabilities</b>			
Deferred grants	9	1,676	1,573
Liabilities for clients' deposits	10	5,701	9,742
Non – interest bearing borrowings	11	12,301	-
Interest bearing borrowings	11	67,374	92,971
Other liabilities	12	3,568	2,940
<b>Total liabilities</b>		<b>90,620</b>	<b>107,226</b>
<b>Total equity and liabilities</b>		<b>189,551</b>	<b>209,783</b>

These financial statements have been approved by the Board of Directors of the Foundation on 24 June 2011 and signed on his behalf by:

**Mr. Vasil Davaliev**  
Executive Director

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## Income Statement

		(000 mkd)	
	Notes	Year ended 31 December 2010	2009
<b>Income</b>			
Interest and fees on loans	13	40,190	37,561
Interest on bank deposits		1,656	1,883
Other operating income		977	1,302
<b>Total income</b>		<b>42,823</b>	<b>40,746</b>
<b>Operating expenses</b>			
Provision for loan losses	5	(10,596)	(10,358)
Depreciation	6	(1,341)	(1,008)
Administrative expenses	14	(29,421)	(29,423)
Interest expenses		(4,978)	(4,562)
<b>Total operating expenses</b>		<b>(46,336)</b>	<b>(45,351)</b>
<b>Operating (loss) before taxation</b>		<b>(3,513)</b>	<b>(4,605)</b>
Taxation	15	(128)	(127)
<b>Operating (loss) after tax</b>		<b>(3,641)</b>	<b>(4,732)</b>
<b>Non – operating income and expense</b>			
Grants and donations	9	1,954	1,665
Depreciation on assets donated	6	(954)	(1,499)
Foreign exchange gains / (losses), net		(375)	1,711
<b>Non – operating profit</b>		<b>625</b>	<b>1,877</b>
<b>Total loss for the year</b>		<b>(3,016)</b>	<b>(2,855)</b>

See accompanying notes to the financial statements

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## Statement of changes in equity

(In 000 mkd)	Founders' fund	Donated funds	Accumulated profit	Total equity
<b>At 01 January 2010</b>	307	97,071	5,179	102,557
Loss for the year	-	-	(3,016)	(3,016)
Increase of the Founders' fund	313	-	(313)	-
Taxes from previous years	-	-	(610)	(610)
<b>At 31 December 2010</b>	<b>620</b>	<b>97,071</b>	<b>1,240</b>	<b>98,931</b>
<b>At 01 January 2009</b>	307	97,071	8,034	105,412
Loss for the year	-	-	(2,855)	(2,855)
<b>At 31 December 2009</b>	<b>307</b>	<b>97,071</b>	<b>5,179</b>	<b>102,557</b>

See accompanying notes to the financial statements

# Notes to the Financial Statements

## **1 General information**

The Microcredit Foundation “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.

According the new Law for Foundations (“Official Gazette of RM” No 52/2010) and to the decision passed on by the Founder of the Foundation, at 27 December 2010 the Foundation changed its name from “Foundation for Economic Development Horizonti” in “Microcredit Foundation Horizonti”

The head office of the Foundation is in Skopje, 14 Rampo Levkata Str. As at 31 December 2010, the Foundation has 37 employees (2009: 37 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.



Notes to the Financial Statements (continued)  
Accounting policies (continued)

## 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).

These financial statements are prepared as of and for the years ended 31 December 2010 and 2009. All data are expressed in thousands of Macedonian Denars (000 mkd) unless otherwise stated.

### Income and expenses recognition

Interest income on loans is accounted for on an accrual basis. 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 Income Statement 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 2010	31 December 2009
1 USD	46.3140 Denar	42.6651 Denar
1 EUR	61.5050 Denar	61.1732 Denar

### 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 Foundation 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 five years.

#### Other intangible assets

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

**Notes to the Financial Statements (continued)**  
**Accounting policies (continued)**

**Basis of preparation (continued)**

**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 valuation determined by external Court appraisers, being the deemed cost 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, other assets, non - interest bearing borrowings and other current liabilities. The accounting policies on recognition and measurement of the financial assets and liabilities are disclosed further within 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 determines the reasonableness of provision for loan losses to maintain an adequate allowance for doubtful loans. The allowance for loan loss is determined by applying expected loss percentages to past due loans, grouped by maturity of payments. A loan is classified as past due as soon as a scheduled instalment is not settled. The expected loss percentages are based on management’s analysis of historical outcomes of past due 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.

**Notes to the Financial Statements (continued)**  
**Accounting policies (continued)**

**Basis of preparation (continued)**

**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**

Income tax expense represents the sum of the tax currently payable and deferred tax.

Income tax at 10% rate is paid to non-deductible items for the tax purposes adjusted for tax credits, as well as on the distributed profit for dividends to legal entities – non residents and to individuals. Undistributed profit (retained earnings) is exempted from taxation.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in determination of deferred income tax. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Foundation has not recognized any deferred tax liability or asset at 31 December 2010 and 2009, as there are no temporary differences existing at that date.

**Events after the reporting date**

Events after the reporting date that provide additional information about a Foundation's position at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes when material.

Notes to the Financial Statements (continued)  
As of and for the year ended 31 December 2010  
(All amounts are in Denar thousands, unless otherwise stated)

### 3 Cash and deposits

	2010	2009
Short – term deposits with local banks	19,000	12,000
Current accounts with local banks	2,856	1,831
Cash on hand	866	1,237
	<b>22,722</b>	<b>15,068</b>

At 31 December 2010, short – term deposits with local banks, amounting to Denar 19,000 thousand (2009: Denar 12,000 thousand), consist of local currency deposits maturing up to 12 months (2009: 12 months), earning annual interest at rate ranging from 6.00% to 8.75% (2009: from 7.25% to 8.75%).

### 4 Long-term deposits

	2010	2009
Long – term deposit with local banks	-	30,587
	<b>-</b>	<b>30,587</b>

At 31 December 2009, long – term deposit with local bank, amounting to Denar 30,587 thousand, 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 which in 2010 was repaid.

### 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 NLB Tutunska Banka AD, Skopje and based on the Agreement for Commission Operations dated 28 June 2007, and extended with an Annex in 2010, 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 and AgroInvest loans* – financial loans for individuals, intended for small business investments and non-current assets.

Lending terms:

Amount	From 120,000 - 300,000 Denars
Interest rate	12% annually
Repayment due	12 – 36 months
Terms of repayment	Monthly annuities
Fee	2-3% of the loan amount

*Premium and AgroPremium loans* – financial loans for individuals, intended for current assets.

Lending terms:

Amount	From 60,000 - 200,000 Denars
Interest rate	12% annually
Repayment due	12 - 24 months
Terms of repayment	Monthly annuities
Fee	2.5-3% of the loan amount

Notes to the Financial Statements (continued)  
 As of and for the year ended 31 December 2010  
 (All amounts are in Denar thousands, unless otherwise stated)

**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	12% 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 - 90,000 Denars
Interest rate	1% monthly
Repayment due	6 - 12 months
Repayment period	Monthly annuities
Fee	0.5-1.5% of the loan amount

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

Lending terms:

Amount	From 30,000 - 90,000 Denars
Interest rate	1% monthly
Repayment due	12 months
Terms of repayment	Monthly annuities
Fee	0.8% of the loan amount

Following is the movement of net loan portfolio for the years ended 31 December 2010 and 2009:

	2010	2009
<b>Opening balance</b>	<b>154,778</b>	<b>146,007</b>
Total loans placed during the year	163,185	163,105
Loans collected	(142,649)	(140,008)
Loan loss provision for the year	(10,596)	(10,358)
Loan and interest write offs	(8,070)	(3,968)
<b>Balance of loan portfolio as of 31 December</b>	<b>156,648</b>	<b>154,778</b>

Notes to the Financial Statements (continued)  
 As of and for the year ended 31 December 2010  
 (All amounts are in Denar thousands, unless otherwise stated)

### Net loans outstanding (continued)

#### Loan portfolio analysis

Following is the analysis of the loan portfolio as of 31 December 2010 and 2009:

	Principal Structure %	Amount	Loan loss reserve Risk percentage	Amount
<b>At 31 December 2010</b>				
Current	67.96%	115,524	0%	-
Due, uncollected				
Up to 30 days	17.94%	30,498	0%	-
From 31 to 90 days	2.60%	4,419	10%	442
From 91 to 180 days	2.30%	3,901	25%	975
From 181 to 360 days	4.38%	7,447	50%	3,724
Over 360 days	4.82%	8,185	100%	8,185
<b>Total</b>	<b>100.0%</b>	<b>169,974</b>		<b>13,326</b>

	Principal Structure %	Amount	Loan loss reserve Risk percentage	Amount
<b>At 31 December 2009</b>				
Current	69.43%	114,971	0%	-
Due, uncollected				
Up to 30 days	15.39%	25,478	0%	-
From 31 to 90 days	2.35%	3,890	10%	389
From 91 to 180 days	4.59%	7,608	25%	1,902
From 181 to 360 days	6.19%	10,243	50%	5,121
Over 360 days	2.05%	3,388	100%	3,388
<b>Total</b>	<b>100.0%</b>	<b>165,578</b>		<b>10,800</b>

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

Opening balance at 01 January 2009	4,410
Loan loss expense for 2009	10,358
Write offs	(3,968)
<b>At 31 December 2009 / 01 January 2010</b>	<b>10,800</b>
Loan loss expense for 2010	10,596
Write offs	(8,070)
<b>At 31 December 2010</b>	<b>13,326</b>

Notes to the Financial Statements (continued)  
 As of and for the year ended 31 December 2010  
 (All amounts are in Denar thousands, unless otherwise stated)

## 6 Property, plant and equipment and intangible assets

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

	Computers and Equipment	Vehicles	Total PPE	Intangible Assets
<b>Cost</b>				
At 01 January 2009	3,470	5,585	9,055	2,418
Additions during the year	161	1,510	1,671	277
Disposals during the year	(129)	(431)	(560)	-
<b>At 31 December 2009/ 01 January 2010</b>	<b>3,502</b>	<b>6,664</b>	<b>10,166</b>	<b>2,695</b>
Additions during the year	265	767	1,032	758
Disposals during the year	(41)	-	(41)	-
<b>At 31 December 2010</b>	<b>3,726</b>	<b>7,431</b>	<b>11,157</b>	<b>3,453</b>
<b>Accumulated depreciation</b>				
At 01 January 2009	1,531	2,713	4,244	198
Depreciation for the year	614	1,377	1,991	516
Disposals during the year	(129)	(431)	(560)	-
<b>At 31 December 2009/ 01 January 2010</b>	<b>2,016</b>	<b>3,659</b>	<b>5,675</b>	<b>714</b>
Depreciation for the year	554	1,097	1,651	644
Disposals during the year	(41)	-	(41)	-
<b>At 31 December 2010</b>	<b>2,529</b>	<b>4,756</b>	<b>7,285</b>	<b>1,358</b>
<b>Net carrying amount</b>				
At 01 January 2010	1,486	3,005	4,491	1,981
<b>At 31 December 2010</b>	<b>1,197</b>	<b>2,675</b>	<b>3,872</b>	<b>2,095</b>

Total additions of property, plant and equipment and intangible assets during 2010 in the amount of Denar 1,790 thousands are financed by own funds.

As of 31 December 2010, included into total net carrying amount of property, plant and equipment and intangible assets, Denar 618 thousands (2009: Denar 1,573 thousands) is the net carrying amount of assets donated or purchased by donated funds as follows:

	Catholic Relief Services	Caritas Norway	FOSIM	CEB Agro	Total
<b>At 31 December 2009</b>					
Cost or valuation	3,801	998	1,729	116	6,644
Accumulated (depreciation)	(2,825)	(716)	(1,477)	(53)	(5,071)
<b>Net carrying amount</b>	<b>976</b>	<b>282</b>	<b>252</b>	<b>63</b>	<b>1,573</b>
<b>At 31 December 2010</b>					
Cost or valuation	3,761	998	1,729	105	6,593
Accumulated (depreciation)	(3,265)	(908)	(1,729)	(72)	(5,974)
<b>Net carrying amount</b>	<b>496</b>	<b>90</b>	<b>-</b>	<b>33</b>	<b>619</b>

During the year ended 31 December 2010, the Foundation sold a photocopy machine with cost value of Denar 41 thousands donated from Catholic Relief Services.

All assets are Foundation's property. At 31 December 2010 and 2009 the Foundation has no assets pledged to secure long-term liabilities.

Notes to the Financial Statements (continued)  
As of and for the year ended 31 December 2010  
(All amounts are in Denar thousands, unless otherwise stated)

## 7 Other assets

	2010	2009
Interest receivables	1,647	1,968
Prepaid expenses	1,167	286
Accrued interest	914	-
Accrued loan maintenance fee	292	-
Loan maintenance fee	120	-
Income tax receivables	-	610
Other receivables	74	14
	<b>4,214</b>	<b>2,878</b>

## 8 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.

At 27 December 2010 a decision is made for increase of the founders fund for additional Denar 313 thousands which are transferred from the accumulated profit based on the new Law on Associations and Foundations (Official Gazette 52/10) dated 16 April 2010. The Law requires minimum initial funds of EUR 10,000 in Denar equivalent – value according the middle exchange rate of the National Bank of the Republic of Macedonia.

### Donated funds

Following are the components of donated funds as of 31 December 2009 and 2010:

	Catholic Relief Services	Caritas Norway	FOSIM	Total
At 01 January 2009	61,423	8,525	15,646	85,594
Donated funds for:				
- loan portfolio	11,477	-	-	11,477
<b>At 31 December 2009</b>	<b>72,900</b>	<b>8,525</b>	<b>15,646</b>	<b>97,071</b>
At 01 January 2010	72,900	8,525	15,646	97,071
<b>At 31 December 2010</b>	<b>72,900</b>	<b>8,525</b>	<b>15,646</b>	<b>97,071</b>

**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, amounted to Denar 2,421 thousand.

During the year ended 31 December 2009 and with regard to certain conditions met under the terms of the loan agreement No.00278 signed with Catholic Relief Services, dated 14 September 2006, the last part of the loan received in the amount of Denar 11,477 thousand has been converted into a non-refundable grant and recognized in donated funds within equity account.

**Caritas Norway donation.** During 2005, the Foundation entered into Agreement with Caritas Norway for the total of USD 214,355, equivalent to Denar 10,758 thousand, out of which Denar 8,525 thousand for increase of loan portfolio, Denar 1,067 thousand – for recovering of operating expenses and Denar 1,166 thousands – for purchasing of equipment.

**FOSIM donation.** The amount of Denar 15,646 thousand represents funds used for the purpose of increasing the Foundation' loan portfolio from the FOSIM donation.



Notes to the Financial Statements (continued)  
As of and for the year ended 31 December 2010  
(All amounts are in Denar thousands, unless otherwise stated)

## 9 *Deferred grants*

At 31 December 2010 and 2009 the balance of deferred grants consists of the following:

	2010	2009
Non – spent cash donated	1,057	-
In – kind donations in fixed assets	619	1,573
	<b>1,676</b>	<b>1,573</b>

The movement of deferred grant account is as follows:

	2010	2009
At 01 January	1,573	3,072
<i>Additions:</i>		
Funds granted	2,057	166
<i>Released to:</i>		
Release through P&L (see table below)	(1,954)	(1,665)
<b>At 31 December</b>	<b>1,676</b>	<b>1,573</b>

Following is the analysis of released grant amount, accounted for as income in the 2010 and 2009 income statement:

	2010	2009
Recovering part of operating expenses	1,000	166
Depreciation for the year of donated property, plant and equipment and intangible assets	954	1,499
	<b>1,954</b>	<b>1,665</b>

The balance of deferred grants as of 31 December 2010 and 2009 relates to following donors:

	2010	2009
Catholic Relief Services	965	976
MEDF	612	-
Caritas Norway	90	282
FOSIM and CEB Agro	9	315
	<b>1,676</b>	<b>1,573</b>

The balance of FOSIM and CEB Agro includes the amount of Denar 24 thousand related to expenditures occurred during the year ended 31 December 2010 and received by the donor during 2011.

## 10 *Liabilities for clients' deposits*

At 31 December 2010, liabilities for clients' deposits, amounting to Denar 5,701 thousands (2009: Denar 9,742 thousands), consists of short – term funds, each of them representing 10 - 15% of the loan principal, deposited by the loan beneficiaries, as guarantees for the loans borrowed from the Foundation. As at 31 December 2010, these funds are deposited with NLB Tutunska Banka AD, Skopje – a local commercial Bank.

Notes to the Financial Statements (continued)  
As of and for the year ended 31 December 2010  
(All amounts are in Denar thousands, unless otherwise stated)

## 11 Borrowings

	Up to 1 year	Over 1 year	2010 Total	Up to 1 year	Over 1 year	2009 Total
<b><u>Non-interest bearing borrowings</u></b>						
SEDF- Soros Economic Development Foundation	-	12,301	<b>12,301</b>	-	-	-
	-	<b>12,301</b>	<b>12,301</b>	-	-	-
<b><u>Interest bearing borrowings</u></b>						
NLB Tutunska Banka	-	-	-	8,001	29,915	<b>37,916</b>
SEDF Soros Economic Development Foundation	30,753	-	<b>30,753</b>	-	30,586	<b>30,586</b>
Habitat Macedonia	743	5,126	<b>5,869</b>	367	5,750	<b>6,117</b>
MEDF	769	29,983	<b>30,752</b>	-	18,352	<b>18,352</b>
	<b>32,265</b>	<b>35,109</b>	<b>67,374</b>	<b>8,368</b>	<b>84,603</b>	<b>92,971</b>
	<b>32,265</b>	<b>47,410</b>	<b>79,675</b>	<b>8,368</b>	<b>84,603</b>	<b>92,971</b>

Following is the loan repayable schedule according to contractual maturity:

	<b>Total</b>
Within 12 months	32,265
2012	15,540
2013	29,256
2014	2,399
Thereafter	215
	<b>79,675</b>

### Non-interest bearing borrowings

The Foundation and Soros Economic Development Fund signed an agreement No.00969, dated 06 April 2010 for a non-interest bearing long term loan in the amount of EUR 200,000 with maturity date 31 December 2013.

### Interest bearing borrowings

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

The Foundation and Habitat Macedonia signed an agreement No.00414, dated 15 June 2007 for a long term loan in the amount of EUR 30,000, with annual interest rate of 4.5%, grace period of 36 months and maturity date 31 December 2013. At 18 February 2010 annex no 01088 is signed for write off the loan liabilities toward Habitat Macedonia in the amount of Denar 281 thousands.

The Foundation and Habitat Macedonia signed an agreement No.00640, dated 30 June 2008 for a long term loan in the amount of EUR 35,000, with annual interest rate of 5%, grace period of 36 months and maturity date 31 December 2013.

The Foundation and Habitat Macedonia signed an agreement No.00881, dated 30 September 2009 for a long term loan in the amount of EUR 35,000, with annual interest rate of 6%, grace period of 36 months and maturity date 31 March 2015.

The Foundation and MEDF (Macedonian Enterprise Development Foundation) signed an agreement No.08-093/2-2009, dated 9 October 2009 for a long term loan in the amount of EUR 100,000, with annual interest rate of 5.85%, grace period of 24 months and maturity date 31 August 2013.

Notes to the Financial Statements (continued)  
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#### Borrowing (continued)

The Foundation and MEDF (Macedonian Enterprise Development Foundation) signed an agreement No.08-104/2-2009, dated 1 December 2009 for a long term loan in the amount of EUR 200,000, with annual interest rate of 5.85%, grace period of 24 months and maturity date 30 November 2013.

The Foundation and MEDF (Macedonian Enterprise Development Foundation) signed an agreement No.08-042/2-2010, dated 31 March 2010 for a long term loan in the amount of EUR 200,000, with annual interest rate of 5.85%, grace period of 24 months and maturity date 28 February 2014.

#### 12 Other liabilities

	2010	2009
Employee liabilities	2,236	2,158
Liabilities to customers	1,316	770
Income Tax liabilities	15	11
Personal Income Tax liabilities	1	1
	<b>3,568</b>	<b>2,940</b>

#### 13 Interest and fees on loans

	2010	2009
Interest collected	33,874	35,780
Fees collected	6,316	1,781
	<b>40,190</b>	<b>37,561</b>

#### 14 Administrative expenses

	2010	2009
Staff costs	17,362	17,660
Services rendered	4,422	4,112
Rent expenses	2,746	2,780
Supplies and maintenance	1,986	1,735
Communications	1,273	1,584
Intellectual services	706	582
Representation	488	506
Honoraria	438	464
	<b>29,421</b>	<b>29,423</b>

Total staff costs for the years ended 31 December 2010 and 2009, consist of the following:

	2010	2009
Net salaries	11,098	11,186
Personal tax and mandatory contribution on salaries	5,312	5,696
Business trips and travel charges	952	778
	<b>17,362</b>	<b>17,660</b>

Notes to the Financial Statements (continued)  
As of and for the year ended 31 December 2010  
(All amounts are in Denar thousands, unless otherwise stated)

## 15 Taxation

The charge for the year can be reconciled to the profit per 2010 and 2009 income statement as follows:

	2010	2009
Current tax	128	127
Deferred tax	-	-
	128	127

The reconciliation of the income tax charge is as follows:

	2010	2009
Non – deductible expenses for tax purposes	1,284	1,269
Tax at rate of 10% (2009: 10%)	128	127
	128	127

## 16 Contingencies and commitments

### Tax liabilities

The Foundation’s tax books and records for the year ended 31 December 2010 have not been inspected by the local tax authorities. Consequentially, the Foundation’s tax liabilities may not be considered finalized. Additional taxes that may arise in the event of tax audit cannot be determined with any reasonable accuracy.

### Litigations

At 31 December 2010, there are no legal proceedings raised against the Foundation. No provision has been made as of the balance sheet date, as professional advice indicates that it is unlikely that any significant loss will arise. In addition, various legal actions and claims may be asserted in the future against the Foundation from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, the management of the Foundation believes that no material liabilities are likely to result.

### Capital commitments

There are no significant capital expenditures contracted at the balance sheet date that is not recognized in the financial statements.

## 17 Events after the reporting date

At 09 June 2011 the Foundation received a grant in the amount of EUR 50,000 from “Fondazione Giordano Dell’Amore” in collaboration with the “European Microfinance Network” for the third edition of the Giordano Dell’Amore Microfinance Good Practices Europe Award 2011.

