

**Association Habitat for Humanity  
Macedonia**

**Consolidated Financial  
Statements  
For the year ended  
31 December 2009  
With Independent Auditors'  
Report**

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Independent auditor's report

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## **Independent auditor's report to the Managing Board of Association Habitat for Humanity Macedonia**

We have audited the accompanying consolidated financial statements of Association Habitat for Humanity Macedonia and its subsidiary Habitat for Humanity Macedonia Ltd Skopje ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider 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 principles 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 opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

*KPMG Macedonia Ltd*

KPMG Macedonia Ltd.

30 April 2010

Skopje

## Consolidated statement of financial position

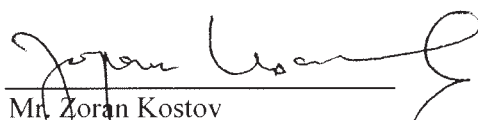
As at 31 December

*In thousands of denars*

	Note	2009	2008
<b>Assets</b>			
Property, plant and equipment	11	1,283	1,108
Loans receivable	12	84,556	82,848
<b>Total non-current assets</b>		<u>85,839</u>	<u>83,956</u>
Inventories	13	21,927	4,148
Prepayments for current assets		504	242
Trade receivables		68	-
Loans receivable	12	7,598	5,882
Deposits with banks	14	9,764	-
Cash and cash equivalents	15	4,248	2,352
<b>Total current assets</b>		<u>44,109</u>	<u>12,624</u>
<b>Total assets</b>		<u>129,948</u>	<u>96,580</u>
<b>Equity</b>			
Fund balance		37,436	31,424
Special reserve		4,920	-
<b>Total fund and reserve balance</b>	18	<u>42,356</u>	<u>31,424</u>
<b>Liabilities</b>			
Loans and borrowings	16	61,450	61,450
<b>Total non-current liabilities</b>		<u>61,450</u>	<u>61,450</u>
Loans and borrowings	16	23,225	2,278
Trade and other payables	17	2,917	1,397
Income tax payable		-	31
<b>Total current liabilities</b>		<u>26,142</u>	<u>3,706</u>
<b>Total liabilities</b>		<u>87,592</u>	<u>65,156</u>
<b>Total fund balance and liabilities</b>		<u>129,948</u>	<u>96,580</u>

*The notes set out on pages 5 – 34 form an integral part of these consolidated financial statements.*

The consolidated financial statements set out on pages 1 to 34 were authorised for issue by the Managing Board of the Association Habitat for Humanity on 30 April 2010 and signed on their behalf by:

  
Mr. Zoran Kostov  
Executive Director

  
Ms. Biljana Stavrevska  
Financial Manager

## Consolidated statement of comprehensive income

For the year ended 31 December

*In thousands of denars*

	<b>Note</b>	<b>2009</b>	<b>2008</b>
<b>Income</b>			
Donations	6	27,350	22,031
Other income		68	-
		<u>27,418</u>	<u>22,031</u>
<b>Expenses</b>			
Personnel expenses	7	(9,802)	(6,600)
Depreciation	11	(388)	(268)
Other operating expenses	8	(6,455)	(5,440)
		<u>(16,645)</u>	<u>(12,308)</u>
Finance income		5,974	3,689
Finance costs		(5,815)	(2,277)
<b>Net finance income</b>	9	<u>159</u>	<u>1,412</u>
<b>Profit before income tax</b>		10,932	11,135
Income tax expense	10	-	(58)
<b>Profit for the period</b>		<u>10,932</u>	<u>11,077</u>
<b>Other comprehensive income for the period, net of income tax</b>			
		-	-
<b>Total comprehensive income for the period</b>		<u>10,932</u>	<u>11,077</u>

*The notes set out on pages 5 – 34 form an integral part of these consolidated financial statements.*

## Consolidated statement of changes in equity

For the year ended 31 December

<i>In thousands of denars</i>	<b>Fund balances</b>	<b>Special reserve</b>	<b>Total</b>
Balance at 1 January 2008	20,347	-	20,347
<b>Total comprehensive income for the period</b>			
Profit for the period	11,077	-	11,077
<b>Other comprehensive income, net of income tax</b>	-	-	-
Total comprehensive income for the period	<u>11,077</u>	<u>-</u>	<u>11,077</u>
Balance at 31 December 2008	<u>31,424</u>	<u>-</u>	<u>31,424</u>
Balance at 1 January 2009	31,424	-	31,424
<b>Total comprehensive income for the period</b>			
Profit for the period	10,932	-	10,932
<b>Other comprehensive income, net of income tax</b>	-	-	-
Total comprehensive income for the period	<u>10,932</u>	<u>-</u>	<u>10,932</u>
<b>Transactions with founders, recorded directly in fund balance</b>			
<b>Contributions by and distributions to founders</b>			
Appropriation to special reserve	<u>(4,920)</u>	<u>4,920</u>	<u>-</u>
Total contributions by and distributions to founders	<u>(4,920)</u>	<u>4,920</u>	<u>-</u>
Balance at 31 December 2009	<u>37,436</u>	<u>4,920</u>	<u>42,356</u>

*The notes set out on pages 5 – 34 form an integral part of these consolidated financial statements.*

## Consolidated statement of cash flows

For the year ended 31 December

<i>In thousands of denars</i>	<b>Note</b>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>			
Profit for the period		10,932	11,077
<i>Adjustment for:</i>			
Depreciation	11	388	268
Impairment loss on loan receivables	9	318	-
Finance income	9	(5,974)	(3,617)
Finance expense	9	5,238	2,277
Income tax expense	10	-	58
		<u>10,902</u>	<u>10,063</u>
Change in inventories		(17,779)	(3,857)
Change in prepayments for current assets		(262)	(19)
Change in trade and other receivables		(68)	11
Change in deposits with banks	14	(9,764)	-
Change in trade and other payables		<u>1,489</u>	<u>710</u>
		(15,482)	6,908
Interest paid		(5,292)	-
Income tax paid		-	(27)
<b>Net cash (used in)/from operating activities</b>		<u>(20,774)</u>	<u>6,881</u>
<b>Cash flows from investing activities</b>			
Interest received		5,741	623
Loans given		(3,509)	(69,210)
Acquisition of property, plant and equipment	11	<u>(563)</u>	<u>(511)</u>
<b>Net cash from/(used in) investing activities</b>		<u>1,669</u>	<u>(69,098)</u>
<b>Cash flows from financing activities</b>			
Proceeds from loans and borrowings		<u>21,001</u>	<u>61,450</u>
<b>Net cash from financing activities</b>		<u>21,001</u>	<u>61,450</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		1,896	(767)
Cash and cash equivalents at 1 January		<u>2,352</u>	<u>3,119</u>
<b>Cash and cash equivalents at 31 December</b>	15	<u>4,248</u>	<u>2,352</u>

*The notes set out on pages 5 – 34 form an integral part of these consolidated financial statements.*

## **Notes to the consolidated financial statements**

### **1. Reporting entity**

Association Habitat for Humanity Macedonia (“the Association”) was established as a not for profit organization on 11 August 2004. The Association is incorporated and domiciled in Skopje, Republic of Macedonia. The address of the Association’s registered office is Nikola Parapunov bb/Makoteks, 1000 Skopje.

The consolidated financial statements of the Association as at and for the year ended 31 December 2009 comprise the Association and its fully owned subsidiary Habitat for Humanity Macedonia Ltd Skopje (together referred to as the “Group”). The subsidiary was founded and registered in the Central Registry on 14 February 2008 and is limited liability company.

The Association is an affiliate of Habitat for Humanity International (“HFHI”) and although it receives assistance in information resources, training, publications and prayer support it is primarily and directly responsible for its operations.

To fulfil the purpose of their functioning the Association operates through financial support of development initiations by project grants from its affiliate offices around the world, being under direct supervision of Habitat for Humanity-Europe/Central Asia. Other than aforementioned it receives donations and contributions from other donors.

The Group performs its activities in order to provide simple, decent and affordable housing solutions for low income social groups; provide connections to water supply network for marginalized communities and improve energy efficiency.

### **2. Basis of preparation**

#### **(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

#### **(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis.

The methods used to measure fair values are discussed further in note 4.

#### **(c) Functional and presentation currency**

The consolidated financial statements are presented in Macedonian Denars (“denars” or “MKD”), which is the Association’s functional currency. All financial information presented in MKD has been rounded to the nearest thousand.

#### **(d) Use of estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRS’s requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

## Notes to the consolidated financial statements

### 2. Basis of preparation (continued)

#### (d) Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 12 - Loans receivable
- Note 19 - Financial instruments.

#### (e) Changes in accounting policies

##### (i) Overview

Starting as of 1 January 2009, the Group has changed its accounting policies in the following areas:

- Presentation of financial statements

##### (ii) Presentation of financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Group entities.

#### (a) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (a) Basis of consolidation (continued)

##### (ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### (b) Foreign currency

Transactions in foreign currencies are translated to denars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to denars at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in denars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate of the date of transaction.

#### (c) Financial instruments

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial instruments comprise loans receivable, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method less any impairment losses.

Cash and cash equivalents comprise cash on hand and cash at bank.

Accounting for finance income and expense is discussed in note 3 (j).

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (d) Property, plant and equipment

##### (i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in profit or loss.

##### (ii) *Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### (iii) *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embedded in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Equipment	5 years
Fixtures and fittings	5-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

#### (e) Inventories

Inventories represent real estate under construction which is intended for sale after its completion. It is measured at the lower of cost and net realisable value. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group’s construction activities based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (f) Impairment

##### (i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

##### (ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit or CGU").

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (e) Impairment (continued)

##### (ii) *Non-financial assets (continued)*

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the assets in the unit (group of units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### (g) Employee benefits

##### (i) *Defined contribution plans*

The Group contributes to its employees' post retirement plans as prescribed by the national legislation. Contributions, based on salaries, are made to the national organizations responsible for the payment of pensions. There is no additional liability in respect of these plans. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

##### (ii) *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

##### (iii) *Other long-term employee benefits*

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that the employees will receive when they are retired. In accordance with local regulations the Group pays two average salaries to its employees at the moment of retirement. The employee benefits are discounted to determine their present value. There is no additional liability in respect of these liabilities.

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (h) Income

##### (i) Donations

Grants and donations are contributions from legal entities and individuals (hereinafter referred as donors) from the country or abroad in cash or other assets (donations in kind).

The contributions made in cash or in-kind, received from HFHI, are reported as designated or undesignated, based on the source of the funds. These classifications are defined as follows:

- Designated grants relate to the grants received from donors through HFHI specifically designated to the Association.
- Undesignated grants are received from HFHI from the pool of funds of HFHI received from donors without specific grant restrictions.

The grants received from HFHI are non-refundable and are approved for the covering of the general operational expenses of the Group and financing of the budgeted program activities.

Unconditional grants are recognized in profit or loss when the grants become receivable. Other grants are recognized initially as deferred income when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

##### (i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

##### (j) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. There are no qualifying assets for which the borrowing costs have been capitalised.

Foreign currency gain and losses are reported on a net basis.

## **Notes to the consolidated financial statements**

### **3. Significant accounting policies (continued)**

#### **(k) Income tax expense**

Income tax expense comprises current tax. Current tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

According to the changes in Income Tax Law, from 1 January 2009, entities are obliged to calculate and pay income tax on non-deductible expenses, on dividends paid and other distributions from profit. Income tax rate is 10% (2008: 10%).

Basis for calculation of income tax on dividends paid and other distributions from profit is the amount of dividends paid and other distributions from profit made during the current year. Taxation on dividends, i.e. dividends' advances paid in cash, is in the moment of payment of dividend.

In 2008 the methodology for calculation of income tax was different. Tax base was profit adjusted for certain income and expenses and tax exemptions and incentives.

The Association's fully owned subsidiary is liable for income tax while as a not-for-profit organization the Association is not liable for income tax. Pursuant to Article 27-a of Income Tax Law, specific purpose income is exempted of income tax payment. Specific purpose income is considered income made by memberships, sponsorships and purpose donations, which are not intended for activity threshing and which sole function is gathering and distribution for specific purpose. If the non-profitable organizations make income from economic activities, for the surplus of income over expenses from economic activity, it is obliged to calculate tax on the surplus of income over expenses.

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (I) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements:

- Amendments to IFRS 2 *Share-based Payment - Group Cash-settled Share-based Payment Transactions* (effective for annual periods beginning on or after 1 January 2010). The amendments to the Standard require that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets to recognise the goods or services received in its financial statements. Previously group cash-settled share-based payment transactions were not addressed directly in IFRS 2.

The amendments to IFRS 2 are not relevant to the Group's financial statements as the Group does not have any share-based compensation plans.

- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:
  - All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
  - Subsequent change in contingent consideration will be recognized in profit or loss.
  - Transaction costs, other than share and debt issuance costs, will be expensed as incurred.
  - The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquire on a transaction-by-transaction basis.

The Group has not yet completed its analyses of the impact of the standard.

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013, early adoption is permitted).

This Standard replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (I) New standards and interpretations not yet adopted (continued)

A financial asset is measured at amortized cost if the following two conditions are met: the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.

The Group is currently in the process of evaluating the potential effect of this Standard.

- Revised IAS 24 *Related Party Disclosure* (effective for annual periods beginning on or after 1 January 2011).

The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.

The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

The Group is currently in the process of evaluating the potential effect of this Standard.

- Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent".

The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.

The Group is currently in the process of evaluating the potential effect of this Standard.

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (I) New standards and interpretations not yet adopted (continued)

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual period beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendments to IAS 32 are not relevant to the Group's financial statements as the Group has not issued such instruments at any time in the past.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 July 2009). The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.

The amendments to IAS 39 are not relevant to the Group's financial statements as the Group does not apply hedge accounting.

- *IFRS for Small and Medium-sized Entities* (The IFRS for SMEs does not contain an effective date; instead, it will take effect from a date determined by the national regulator in each jurisdiction). The IFRS for SMEs is intended to facilitate financial reporting by small and medium-sized entities (SMEs) that want to use international standards by providing an accounting standard suitable for them. It is a simplified and slimmed-down version of full IFRSs and is available for entities that do not have public accountability. It will be up to the national regulators and legislators to decide who is permitted or required to IFRS for SMEs in each jurisdiction.

IFRS for SMEs simplifies the recognition and measurement requirements compared to full IFRSs in some areas and excludes topics not considered relevant for SMEs and removes the more complex option in certain areas in which full IFRSs allow more than one accounting option.

An entity follows either the requirements of the IFRS for SMEs in full or else uses full IFRSs. The only exception is that an entity applying the IFRS for SMEs can choose for financial instruments to apply either the provisions of the IFRS for SMEs, or the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of the IFRS for SMEs.

The Group is currently in the process of evaluating the potential effect of this Standard.

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (I) New standards and interpretations not yet adopted (continued)

- Amendment to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual period beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 is not relevant to the Group's financial statements as the Group does not have any defined benefit plans with minimum funding requirements.

- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective prospectively for annual periods beginning on or after 15 July 2009). The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.

As the Interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the Interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41.

The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.

The Group did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's financial statements for the year ending 31 December 2010.

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (I) New standards and interpretations not yet adopted (continued)

Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine the effects of application in advance.

*Improvements to International Financial Reporting Standards 2009*, released by the IASB in April 2009, introduced 15 amendments to 12 standards that result in accounting changes for presentation, recognition or measurement purposes. These improvements are not applicable for annual periods beginning before 1 July 2009 and are not expected to have a significant impact on the financial statements of the Group.

### 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### (i) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes.

#### (ii) Loans receivable

The fair value of loans receivable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

The Group places part of its loans to financial intermediaries in the Republic of Macedonia at fixed rates determined by the Group. Since these loans are unique in the Republic of Macedonia, the interest that the Group charges represents the market interest rate of these loans.

#### (iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

## Notes to the consolidated financial statements

### 5. Financial risk management

#### Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included through these consolidated financial statements.

#### Risk management framework

The Managing Board of the Group has overall responsibility for the establishment and oversight of Group's risk management framework. The risk management is set to ensure balance between the risks and return, while minimizing the potential negative effect on the operations of the Group.

The Group carries out its activities through the financial intermediaries including: Savings House Moznosti DOO, Skopje and the Foundation for Economic Development Horizonti, Skopje (hereinafter: "Financial intermediaries").

Group's risk management is established in order to identify and analyse the risks faced by Group, to set appropriate risk limits and controls and monitor risks and adherence to limits.

#### (a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans receivable, trade and other receivables and cash and cash equivalents.

This risk primarily relates to loans given to financial intermediaries (Savings House Moznosti DOO, Skopje and Foundation for Economic Development Horizonti), loan to the public enterprises JP Turija, Vasilevo, JP Ograzden, Bosilovo, to private enterprise Mi-Komerc DOOEL Kavadarci and cash balances held with domestic banks.

The loans to Savings House Moznosti DOO, Skopje relate to the Innovative program which is established for providing small loans for reconstruction and renovation of the substandard homes. The decision for the approval of the small loans to the end users is brought by a credit board which is constituted from members of both the Group and the Savings House Moznosti. According to the loan agreements the Savings house Moznosti DOO, Skopje bears 100% of the collection risk on the loans given. At the balance sheet date there was significant concentration of credit risk relating to Saving house Moznosti DOO, Skopje.

In case of default of collection of the loan given to Savings House Moznosti DOO, Skopje in the amount of MKD 61,447 thousand, the Group has the legal right to take over the loan/mortgage portfolio and related rights from Savings House Moznosti to the Group.

## Notes to the consolidated financial statements

### 5. Financial risk management (continued)

#### (a) Credit risk (continued)

Out of the total loans given MKD 89,244 thousand or 87% represent receivables from Saving house Moznosti DOO Skopje (2008: MKD 77,580 thousand or 87% from total loans receivable). Saving house Moznosti makes an analysis of creditworthiness of the loan applicants and takes measures for collection of the loans. The Group regularly monitors exposure.

The loan to Foundation for Economic Development Horizonti relate to a program for financing of Roma ethnic community and the marginalized community, for the purpose of reconstruction and renovation of homes. The decision for the approval of the small loans to the end users is brought by a credit board which is constituted from members of both the Association and the Foundation for Economic Development Horizonti. According to the loan agreement the collection risk on the loans given is bared jointly by the Association and the Foundation for Economic Development Horizonti in a proportion of 50:50. The group monitors its credit exposure by receiving data from Horizonti for all overdue individual loans on a quarterly basis.

The loan to the public enterprise JP Turija, Vasilevo relates to a “Water supply and Sanitation Project” program for financing of connections to the water supply network for the marginalized community. The initial selection of the end users is made by the public enterprise and the final list of end users is approved by the Association.

The loan to the private enterprise, which is specialised company that carries out the windows and doors replacement Mi-Komerc 2000 Dooel, Kavadarci, relates to a “Energy Efficient Homes Project” program for providing small loans which will finance windows and doors replacement, increasing that way the thermo insulation capabilities of the homes. The initial selection of the end users is made by the company and the final list of end users is approved by the Association. Mi- Komerc 2000 Dooel, Kavadarci, takes full risk and responsibility for the repayment of the cumulative loan, even in cases when end users are late with the repayment.

For the purposes of risk management reporting the Group analyses and consolidates all of the elements of the credit risk (risk of default in payment, country risk, and sector risk).

#### (b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group’s approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Group’s policy is to finance its operations from the interest earned on loans given. However as the interest which the Group earns currently is not sufficient to finance the Group’s operations, the Group obtains additional funds from donations from HFHI and other donors. This excludes the potential impact of extreme circumstances, as natural disasters or political disturbances in the region.

## Notes to the consolidated financial statements

### 5. Financial risk management (continued)

#### (c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

#### (i) Currency risk

The Group incurs foreign currency risk on receiving donations, and loans approved that are denominated in a currency other than MKD. The currency giving rise to this risk is primarily the EUR. The trend of EUR currency during the period of reporting was relatively stable and the Group expects this trend to continue in the future and therefore the currency risk exposure is low.

The Group is not involved in hedging activities.

#### (ii) Interest rate risk

At 31 December 2009 the Group has loan receivables/payables that are arranged with fixed and variable interest rate. Accordingly, the Group is affected by the changes on the interest rates depending on the lender's decisions which will have reflections to the interest rates on the loans given.

The Group has fixed rate financial assets consisted of cash and cash equivalents, loans receivables and loans and borrowings.

#### (d) Capital management

The Group's policy is to maintain stability of capital base so as to maintain donor and market confidence and to sustain future development of the activities.

The Group is not subject to externally imposed capital requirements.

## Notes to the consolidated financial statements

### 6. Donations

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
Donation from HFHI		
- Designated funds	14,923	6,774
- Undesignated funds	8,982	12,175
Other donations	3,445	3,082
	<u>27,350</u>	<u>22,031</u>

### 7. Personnel expenses

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
Wages and salaries	5,937	4,080
Compulsory social security contributions	1,314	848
Other staff costs	2,551	1,672
	<u>9,802</u>	<u>6,600</u>

Other staff costs are comprised of allowances for food, transport and holiday allowance, per diems etc.

### 8. Other operating expenses

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
Professional services	1,123	1,388
Transportation services	840	946
Advertising expenses	747	692
Rent (refer to note 23)	703	606
Accommodation expenses	1,824	578
Materials and consumables	698	438
Bank charges	112	171
Energy	150	101
Other operating expenses	258	520
	<u>6,455</u>	<u>5,440</u>

Part of other operating expense in the amount of MKD 78 thousand (2008: nil) represents tax on non-deductable expenses.

## Notes to the consolidated financial statements

### 9. Finance income and expense

#### *Recognised in profit or loss*

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
Interest income	5,974	3,617
Net foreign exchange gain	-	72
Finance income	<u>5,974</u>	<u>3,689</u>
Interest expenses	(5,238)	(2,277)
Net foreign exchange loss	(259)	-
Impairment loss on loans receivables	(318)	-
Finance expenses	<u>(5,815)</u>	<u>(2,277)</u>
<b>Net finance income recognised in profit or loss</b>	<u><u>159</u></u>	<u><u>1,412</u></u>

### 10. Income tax expense

#### *Current tax expense*

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
Current year	<u>-</u>	<u>58</u>

#### *Reconciliation of effective tax rate*

<i>In thousands of denars</i>	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
Profit for the year		<u>10,932</u>		<u>11,135</u>
Income tax using the Group's domestic tax rate	0.0%	-	10.0%	1,114
Non-deductible expenses	0.0%	-	0.5%	54
Tax exempt revenues (specific purpose income)	0.0%	-	(10.0%)	(1,110)
	<u>0.0%</u>	<u>-</u>	<u>0.5%</u>	<u>58</u>

According the changes in Income Tax Law, from 1 January 2009, the Group calculates and pays income tax on dividends and other distributions from profit using tax rate of 10%. In 2008 the methodology for calculation of income tax was different. Tax basis was profit adjusted for certain income and expenses and tax exemptions and incentives.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessment and penalties. The Group's management is not aware of any additional circumstances, which may give rise to a potential material liability in this respect.

## Notes to the consolidated financial statements

### 11. Property, plant and equipment

<i>In thousands of denars</i>	<b>Equipment</b>	<b>Fixtures and fittings</b>	<b>Under construction</b>	<b>Total</b>
<b>Cost</b>				
Balance at 1 January 2008	878	364	291	1,533
Additions	359	152	-	511
Transfers to works in progress	-	-	(291)	(291)
Balance at 31 December 2008	<u>1,237</u>	<u>516</u>	<u>-</u>	<u>1,753</u>
Balance at 1 January 2009	1,237	516	-	1,753
Additions	442	121	-	563
Balance at 31 December 2009	<u>1,679</u>	<u>637</u>	<u>-</u>	<u>2,316</u>
<b>Depreciation</b>				
Balance at 1 January 2008	242	135	-	377
Charge for the year	195	73	-	268
Balance at 31 December 2008	<u>437</u>	<u>208</u>	<u>-</u>	<u>645</u>
Balance at 1 January 2009	437	208	-	645
Charge for the year	288	100	-	388
Balance at 31 December 2009	<u>725</u>	<u>308</u>	<u>-</u>	<u>1,033</u>
<b>Carrying amounts</b>				
At 1 January 2008	<u>636</u>	<u>229</u>	<u>291</u>	<u>1,156</u>
At 31 December 2008	<u>800</u>	<u>308</u>	<u>-</u>	<u>1,108</u>
At 31 December 2009	<u>954</u>	<u>329</u>	<u>-</u>	<u>1,283</u>

#### **Security**

The Group has no liens or encumbrances on its other assets nor has any asset been pledged as collateral.

## Notes to the consolidated financial statements

### 12. Loans receivable

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
<b><i>Non-current loans</i></b>		
Loan to public enterprise JP Turija, Vasilevo and JP Orazden, Bosilovo	2,714	1,292
Loan to private enterprise Mi – Komerc 2000 DOOEL, Kavadarci	956	-
Loans to financial intermediaries	80,886	81,556
	<u>84,556</u>	<u>82,848</u>
<b><i>Current loans</i></b>		
Current portion of loan to public enterprise JP Turija, Vasilevo	1,302	692
Current portion of loan to private enterprise Mi – Komerc 2000 DOOEL, Kavadarci	593	-
Current portion of loans to financial intermediaries	2,475	2,195
Interest receivable	3,228	2,995
	<u>7,598</u>	<u>5,882</u>

This note provides information about the contractual terms of the Group's interest-bearing loans receivable, which are measured at amortised cost. For more information about the Group exposure to credit risk, interest rate and foreign currency risk, see note 19.

Long-term loan to Savings House Moznosti DOO, Skopje in the amount of MKD 16,115 thousand (2008: MKD 16,133 thousand) relates to the loan approved for the Innovative program (the "Program") initialized in Macedonia. This Program establishes credit line to provide small loans for reconstruction and renovation of the substandard homes. The credit line is a disbursement tool of the Home Improvement Fund (the "Fund"). The credit line was released in May 2005, with maximum grace period of 5 years in which period the Group is required to deliver at most 500,000 USD, i.e. 100,000 USD each year from 2005 through 2009. In agreement with the borrower the repayment of the first installment begins from year 2010. This loan is denominated in Euros and bears fixed interest at the rate of 3% p.a.

Long-term loan to Savings House Moznosti DOO, Skopje in the amount of MKD 61,447 thousand (2008: MKD 61,447 thousand) relates to the loan approved for enabling the marginalized community to establish sustainable program which will enable them to improve their housing conditions in order to get decent home. The interest is repayable in 10 annual instalments with last instalment due on 5 June 2018 and the principal is repayable at the end of the 10<sup>th</sup> year due on 5 June 2018. This loan is denominated in Euros and bears variable interest at the rate of 7.51% p.a.

Long-term loan to Foundation for Economic Development Horizonti, Skopje in the amount of MKD 1,833 thousand (2008: MKD 1,826 thousand) relates to the loan approved for the financing of the sub-loans to the Roma national community and the marginalized community, for the purpose of reconstruction and renovation of homes. The loan is approved with grace period of 3 years and it is repayable in 10 equal quarterly installments, with the last installment due on 31 December 2012. This loan is denominated in Euros and bears fixed interest at the rate of 4% p.a.

## Notes to the consolidated financial statements

### 12. Loans receivable (continued)

Long-term loan to Foundation for Economic Development Horizonti, Skopje in the amount of MKD 2,141 thousand (2008: MKD 2,150 thousand) relates to the loan approved for the financing of the sub-loans to the Roma national community and the marginalized community, for the purpose of reconstruction and renovation of homes. The loan is approved with grace period of 3 years and it is repayable in 10 equal quarterly instalments, with the last instalment due on 31 December 2013. The interest is paid regularly from the date of the initial withdrawal of the loan. The loan is denominated in Euros and bears fixed interest at the rate of 5% p.a.

Long-term loan to Foundation for Economic Development Horizonti, Skopje in the amount of MKD 2,141 thousand (2008: nil) relates to the loan approved for the financing of the sub-loans to the Roma national community and the marginalized community, for the purpose of reconstruction and renovation of homes. The loan is approved with grace period of 3 years and it is repayable in 10 equal quarterly instalments, with the last instalment due on 30 March 2015. The interest is paid regularly from the date of the initial withdrawal of the loan. The loan is denominated in Euros and bears fixed interest at the rate of 6% p.a.

Long-term loan to Public enterprise "Turija", Vasilevo in the amount of MKD 1,234 thousand (2008: MKD 1,984 thousand) relates to the loan approved for the financing of a "Water supply and Sanitation Project", program for financing of connections to the water supply network for the marginalized community. The loan is repayable in 36 monthly instalments, with the last instalment due on 6 December 2011. This loan is denominated in Euros and bears fixed interest at the rate of 3% p.a.

Long-term loan to Public enterprise "Turija", Vasilevo in the amount of MKD 1,982 thousand (2008: nil) relates to the loan approved for the financing of a "Water supply and Sanitation Project", program for financing of connections to the water supply network for the marginalized community. The loan is repayable in 36 monthly instalments, with the last instalment due on 9 November 2011. This loan is denominated in Euros and bears fixed interest at the rate of 4% p.a.

Long-term loan to Public enterprise "Ograzden", Bosilovo in the amount of MKD 800 thousand (2008: nil) relates to the credit line in the total amount of MKD 1,600 thousand approved for the financing of a "Water supply and Sanitation Project", program for financing of connections to the water supply network for the marginalized community. The loan will be realised in three tranches (first tranche 50% - is realised seven days after signing the contract in December 2009, second tranche 30 % - when 70 connections to the public water supply network will be realised and third tranche 20% - when 140 connections to the public water supply network will be realised). In agreement with the borrower the repayment of the first instalment begins one month after the last tranche will be transferred, in 36 equal monthly instalments. This loan is denominated in Euros and bears fixed interest at the rate of 6% p.a.

Long-term loan to Private enterprise "Mi-Komerc 2000", DOOEL Kavadarci in the amount of MKD 1,549 thousand (2008: nil) relates to the loan approved for the financing of a "Energy Efficient Homes Pilot Project", program for financing and replacement of the existing energy un-efficient windows and doors, increasing that way the thermo insulation capabilities of the homes of low income families. The loan is repayable in 12 quarterly instalments, with the last instalment due on 15 June 2012. This loan is denominated in Euros and bears fixed interest at the rate of 6% p.a.

## Notes to the consolidated financial statements

### 12. Loans receivable (continued)

#### *Security*

Loans given are secured over bill of exchange. In case of default of collection of the loan given to Savings House Moznosti DOO, Skopje in the amount of MKD 61,447 thousand, the Group has the legal right to take over the loan/mortgage portfolio and related rights from Savings House Moznosti to the Group.

### 13. Inventories

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
Work in progress	21,927	4,148
	<u>21,927</u>	<u>4,148</u>

In 2007 the Group started project for construction of apartments for marginalized community members in Veles. After its completion the apartments will be sold to the end users at cost.

### 14. Deposits with banks

Deposits with banks relate to placed deposit of USD 235,000 (equivalent to MKD 9,764 thousand) as cash collateral for short-term bank loan (note 16) with original maturity of twelve months and fixed interest rate of 1.1% per annum.

### 15. Cash and cash equivalents

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
Cash on hand	9	28
Bank balances	4,239	2,324
	<u>4,248</u>	<u>2,352</u>

The Group exposure to interest rate risks and a sensitivity analysis for financial assets and liabilities are disclosed in note 19.

## Notes to the consolidated financial statements

### 16. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 19.

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
<b>Non-current liabilities</b>		
Unsecured loan from DigH	61,450	61,450
	<u>61,450</u>	<u>61,450</u>
<b>Current liabilities</b>		
Secured loans from NLB Tutunska Banka	8,001	-
Unsecured loans from Macedonian Centre for International Cooperation	13,000	-
Interest payable	2,224	2,278
	<u>23,225</u>	<u>2,278</u>

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

<i>In thousands of denars</i>				<b>2009</b>	<b>2008</b>
	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>Carrying amount</b>	<b>Carrying amount</b>
Secured loan from NLB Tutunska Banka	EUR	3.8%	2010	8,001	-
Unsecured loan from DigH	EUR	6.01%	2018	61,450	61,450
Unsecured loan from Macedonian Center for International Cooperation	MKD	6.5%	2009	13,000	-
Interest liabilities				2,224	2,278
Total interest-bearing liabilities				<u>84,675</u>	<u>63,728</u>

The Group has signed a loan agreement with Stichting Dutch International Guarantees for Housing Foundation (DigH), Holland. According to the agreement, the loan in the amount of EUR 1,000,000 (2007: EUR 1,000,000) bears an interest comprised of an interest rate of 5.97% plus additional variable rate for currency risk of 0.03% (2008: 5.97% plus additional variable rate for currency risk of 0.03%). The interest on the loan is calculated and paid annually while the principal matures on 22 May 2018.

The borrowing from the Macedonian Center for International Cooperation matured on 31 December 2009, and was subsequently repaid in January 2010.

## Notes to the consolidated financial statements

### 17. Trade and other payables

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
Trade payables	2,882	1,314
Other payables	35	83
	<u>2,917</u>	<u>1,397</u>

The Group exposure to currency and liquidity risk related to trade and other payables is disclosed in note 19.

### 18. Fund balance and reserves

#### *Special reserve*

According to a decision of the Managing Board of the Association, part of the profit has been allocated to a special reserve account. This part will be used for covering expenses in the coming year for the project new builds in Veles.

### 19. Financial instruments

#### (a) Credit risk

##### (i) *Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

<i>In thousands of denars</i>	<i>Notes</i>	<b>Carrying amount</b>	
		<b>2009</b>	<b>2008</b>
Trade receivables		68	-
Loans receivables	<i>12</i>	92,154	88,730
Deposits with banks	<i>14</i>	9,764	-
Cash and cash equivalents	<i>15</i>	<u>4,248</u>	<u>2,352</u>
		<u>106,234</u>	<u>91,082</u>

## Notes to the consolidated financial statements

### 19. Financial instruments (continued)

#### (a) Credit risk (continued)

##### (i) Exposure to credit risk (continued)

The maximum exposure to credit risk for loans and receivables at the reporting date by geographic region was:

<i>In thousands of denars</i>	Carrying amount	
	2009	2008
Domestic	92,154	88,730
	<u>92,154</u>	<u>88,730</u>

##### (ii) Impairment losses

The aging of loans and receivables as at the reporting date was:

<i>In thousands of denars</i>	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due	88,081	-	83,060	-
Past due 1-90 days	3,559	30	5,190	-
Past due 91-180 days	180	36	-	-
Past due 181-365 days	444	148	-	-
More than 365 days	208	104	480	-
	<u>92,472</u>	<u>318</u>	<u>88,730</u>	<u>-</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

<i>In thousands of denars</i>	2009	2008
Balance at 1 January	-	-
Impairment loss recognised	318	-
Balance at 31 December	<u>318</u>	<u>-</u>

## Notes to the consolidated financial statements

### 19. Financial instruments (continued)

#### (b) Liquidity risk

The following are the contractual maturities of financial liabilities:

##### 31 December 2009

<i>In thousands of denars</i>	<b>Carrying amount</b>	Contractual cash flows	12 mths or less	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Loans and borrowings	84,675	(84,675)	(23,225)	-	-	(61,450)
Trade and other payables	2,883	(2,883)	(2,883)	-	-	-
	<u>87,558</u>	<u>(87,558)</u>	<u>(26,108)</u>	-	-	<u>(61,450)</u>

##### 31 December 2008

<i>In thousands of denars</i>	<b>Carrying amount</b>	Contractual cash flows	12 mths or less	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Loans and borrowings	63,728	(63,728)	(2,278)	-	-	(61,450)
Trade and other payables	1,397	(1,397)	(1,397)	-	-	-
	<u>65,125</u>	<u>(65,125)</u>	<u>(3,675)</u>	-	-	<u>(61,450)</u>

It's not expected that the cash flows included in the maturity analyses could occur significantly earlier, or at significantly different amounts.

## Notes to the consolidated financial statements

### 19. Financial instruments (continued)

#### (c) Currency risk

##### *Exposure to currency risk*

The Association's exposure to foreign currency risk was as follows based on notional amounts:

	<b>MKD</b>	<b>EUR</b>	<b>USD</b>	<b>Total</b>	<b>MKD</b>	<b>EUR</b>	<b>USD</b>	<b>Total</b>
	<b>31 December 2009</b>				<b>31 December 2008</b>			
Trade receivables	68	-	-	68	-	-	-	-
Loans given	262	91,892	-	92,154	24,748	63,982	-	88,730
Deposits with banks	-	-	9,764	9,764	-	-	-	-
Cash and cash equivalents	2,178	-	2,070	4,248	2,128	-	224	2,352
Loans and borrowings	(13,000)	(71,675)	-	(84,675)	-	(63,728)	-	(63,728)
Gross balance sheet exposure	(10,492)	20,217	11,834	21,559	26,876	254	224	27,354

The following significant exchange rates to MKD applied during the year:

<i>In thousands denars</i>	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2009</b>	<b>2008</b>	<b>31 December 2009</b>	<b>31 December 2008</b>
EUR 1	61.28	61.27	61.17	61.41
USD 1	44.14	42.36	42.67	43.56

##### *Sensitivity analysis*

A 10 percent strengthening of the MKD against the following currencies at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

<i>Effect in thousands of denars</i>	<b>Profit or loss</b>
<b>31 December 2009</b>	
EUR	(2,022)
USD	(1,183)
<b>31 December 2008</b>	
EUR	(25)
USD	(22)

A 10 percent weakening of the MKD against the above currencies at 31 December would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

## Notes to the consolidated financial statements

### 19. Financial instruments (continued)

#### (d) Interest rate risk

##### (i) Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

<i>In thousands of denars</i>	<b>Carrying amount</b>	
	<b>2009</b>	<b>2008</b>
<b>Fixed rate instruments</b>		
Financial assets	41,941	26,952
Financial liabilities	(20,001)	-
	<u>21,940</u>	<u>26,952</u>
<b>Variable rate instruments</b>		
Financial assets	64,225	64,102
Financial liabilities	(63,674)	(63,728)
	<u>551</u>	<u>374</u>

##### *Fair value sensitivity analysis for fixed rate financial instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

##### *Cash flow sensitivity analyses for variable rate instruments*

A change of 100 basis points in the interest rates at the reporting date would have increased (decreased) surplus/deficit of income over expenses by the amount shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

<i>Effect in thousands of denars</i>	<b>Profit or loss</b>	
	<b>100 bp increase</b>	<b>100 bp decrease</b>
<b>31 December 2009</b>		
Variable rate instruments	6	(6)
Cash flow sensitivity	<u>6</u>	<u>(6)</u>
<b>31 December 2008</b>		
Variable rate instruments	4	(4)
Cash flow sensitivity	<u>4</u>	<u>(4)</u>

## Notes to the consolidated financial statements

### 19. Financial instruments (continued)

#### (e) Fair values

##### (i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

<i>In thousands of denars</i>	<i>Note</i>	<b>31 December 2009</b>		<b>31 December 2008</b>	
		<b>Carrying amount</b>	<b>Carrying amount</b>	<b>Carrying amount</b>	<b>Fair value</b>
Trade receivable		68	68	-	-
Loans receivable	12	92,154	92,154	88,730	88,730
Deposits with banks	14	9,764	9,764	-	-
Cash and cash equivalents	15	4,248	4,248	2,352	2,352
Loans and borrowings	16	(84,675)	(84,675)	(63,728)	(63,728)
Trade and other payables	17	(2,883)	(2,883)	(1,397)	(1,397)
		<u>18,676</u>	<u>18,676</u>	<u>25,957</u>	<u>25,957</u>

The basis for determining fair values is disclosed in note 4.

### 20. Capital commitments

As at 31 December 2009 the Group has no capital commitments (2008: none).

### 21. Contingencies

#### *Legal disputes*

The Group is not involved in legal proceedings in the ordinary course of business.

### 22. Related parties

The Association is affiliated and approved by Habitat for Humanity International (“HFHI”) Europe/Central Asia regional area office and it operates under covenant agreement with Habitat for Humanity International (“HFHI”). The regional area office makes commitment to send ordinary fund transfers (grants) in accordance with the HFHI Europe/Central Asia policies and related procedures on basis of submitted annual plan and budgeted on behalf of the Association.

The Group has a related party relationship with individuals with authority over and responsibility for the Group, entities related to the abovementioned entities.

## Notes to the consolidated financial statements

### 22. Related parties (continued)

The following transactions were carried out with related parties:

#### (i) Donations

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
HFHI	23,905	18,949
	<u>23,905</u>	<u>18,949</u>

#### (ii) Key management personnel compensation

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
Salaries and other short-term employee benefits	1,693	1,522
	<u>1,693</u>	<u>1,522</u>

### 23. Operating leases

#### *Leases as lessee*

Non-cancelable operating lease rentals are payable as follows:

<i>In thousands of denars</i>	<b>2009</b>	<b>2008</b>
Less than one year	209	200
	<u>209</u>	<u>200</u>

The Group has rented business premises under an operating lease.

During the year ended 31 December 2009 MKD 703 thousand was recognized as an expense in the income statement in respect of operating leases (2008: MKD 606 thousand) (refer note 8).

### 24. Subsequent events

No material events subsequent to the reporting date have occurred which require disclosure in the financial statements.