



Microcredit Deposit Organisation  
"ARVAND"

Financial Statements and Auditor's  
Report

For the year ended 31 December 2009

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## INDEPENDENT AUDITOR'S REPORT

### **To the Shareholders and Board of Directors of Limited Liability Company "Microcredit Deposit Organization ARVAND"**

- 1 We have audited the accompanying financial statements of Microcredit Deposit Organizations "ARVAND" (the "MDO") which comprise the Statement of Financial Position as at 31 December 2009 and the Statement of Comprehensive Income, Statement of changes in equity and Statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

- 2 Management is responsible for the preparation and fair presentation of these 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

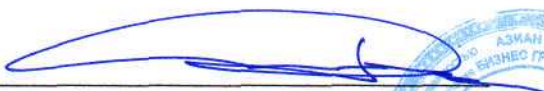
- 3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

- 6 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the MDO as of 31 December 2009, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of matter*

- 7 Without qualifying our opinion we draw your attention to Note 2 to the accompanying financial statements. In the recent years the Republic of Tajikistan faces significant financial and economic difficulties. At present it is impossible to determine the future effect of the present economic uncertainty on the borrowers, clients and suppliers of the Company. Since the effect of the said factors on the operations of the Company cannot be predicted, the accompanying financial statements do not include provisions of any adjustments which would be needed due to such uncertainty. Possible adjusting entries can be made to the statements when the need to reflect them would be evident and they become known and estimable.



**Firaz Bulbulov, Audit Partner**

The License for audit of bank activities has been granted by National Bank of Tajikistan at 16/05/2007.

Dushanbe, Tajikistan, February 25, 2010



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**MDOARVAND**  
**Statement of Financial Position**


(in Somoni)	Note	31 December 2009	31 December 2008
<b>Assets</b>			
Cash and cash equivalents	5	410 207	25 769
Bank deposit	6	4050 420	-
Mandatory reserves in NBT	7	2 292	-
Microcredits to customers	8	17 936 558	697 146
Fixed assets	9	743 311	-
Intangible assets	10	16 875	-
Other assets	11	1 917	5 155
<b>Total assets</b>		<b>23 161 581</b>	<b>728 070</b>
<b>Liabilities</b>			
Deposits from customers	12	44 070	-
Loans payable	13	14 236 730	-
Current income tax payable	14	543 869	4 300
Other liabilities	15	63 293	396
<b>Total liabilities</b>		<b>14 887 962</b>	<b>5 301</b>
<b>EQUITY</b>			
Share capital	16	7288 540	700 000
Additional capital			2 147
Mandatory reserves	17	561 056	20 622
Retaining earnings		424 023	
<b>Total equity</b>		<b>8 273 620</b>	<b>722 769</b>
<b>Total liabilities and equity</b>		<b>23 161 581</b>	<b>728 070</b>


General Director

Chief Accountant

**MDOARVAND**  
**Statement of Comprehensive Income**

<i>(in Somoni)</i>	<b>Note</b>	<b>2009</b>	<b>2008</b>
Interest income	18	4 946 113	24 974
Interest expense	18	(1 138 897)	-
<b>Net interest income</b>		<b>3 807 217</b>	<b>24 974</b>
Provision for loan impairment	8	(577 343)	-
<b>Net interest income after provision for loan impairment</b>		<b>3 229 874</b>	<b>24 974</b>
Gain less losses from changes of exchange rates		666 822	-
Gains less losses from trading in foreign currencies		(41 059)	-
Administrative and other operating expenses	19	(2 291 823)	(4 352)
Other operational income		3 928	-
<b>Income before tax</b>		<b>1 567 743</b>	<b>20 622</b>
Income tax expense	14	(603 285)	-
<b>Income for the year before other comprehensive income</b>		<b>964 458</b>	<b>20 622</b>
<b>Other comprehensive income</b>			
<b>Total comprehensive income for the year</b>		<b>964 458</b>	<b>20 622</b>

  
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 General Director

  
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 Chief Accountant

*MDOARVAND*  
*Statement of Changes in Equity*

<i>(inSomoni)</i>	Note	Share capital	Additional capital	Mandatory reserves	Retaining Earnings	Total equity
Balance at 31 December 2007		-	-	-	-	-
<b>Movements in 2008 year</b>						
Payment to Share Capital	16	700 000	2 147			702 147
Profit for the year					20 622	20 622
Mandatory reserves	17			20 622	(20 622)	-
Balance at 31 December 2008		700 000	<b>2147</b>	<b>20 622</b>	-	<b>722 769</b>
<b>Movements in 2009 year</b>						
Payment to Share Capital	16	6588 540	(2 147)			6 586 393
Profit for the year					964 458	964 458
Mandatory reserves	17			540 434	(540 434)	-
Balance at 31 December 2009		<b>7 288 540</b>	-	<b>561 056</b>	424 023	<b>8 273 620</b>

*MDOARVAND*  
*Statement of Cash Flows*

<i>(In Somoni)</i>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Interest received	5926623	13109
Interest paid	(1127680)	-
Income received from trading foreign currencies	(73401)	-
Other operating income received	3928	-
Administrative and other operating expenses paid	(2058418)	(4206)
Income tax paid	(59167)	-
<b>Cash flows from operating activities before changes in microcredit's portfolio</b>	<b>2611886</b>	<b>8903</b>
<b>Changes in microcredit's portfolio</b>		
Net increase in microcredit's portfolio	(5290203)	(685281)
<b>Net cash used in operating activities</b>	<b>(2678318)</b>	<b>(676378)</b>
<b>Cash flows from investing activities</b>		
Acquisition of fixed assets	(739295)	-
Acquisition of intangible assets	(18750)	-
<b>Net cash used in investing activities</b>	<b>(758045)</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Loans received	4573550	-
Repayment of loans	(3427420)	-
Proceeds from shares issue	2490341	702147
<b>Net cash from financing activities</b>	<b>3636471</b>	<b>702147</b>
Effect of exchange rate changes on cash and cash equivalents	184330	-
<b>Net decrease in cash and cash equivalents</b>	<b>384438</b>	<b>25769</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>25769</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>410207</b>	<b>25769</b>

## **1 Introduction**

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 for Microcredit Deposit Organization ARVAND (further - «MDO»).

MDO has been established in June, 2008 in the form of a Limited Liability Company.

MDO was incorporated and is domiciled in the Republic of Tajikistan. MDO is a Limited Liability Company. The responsibility of the shareholders of the company is limited to the proportion of their share invested in the share of company. MDO has been established according to the requirements of the legislation of the Republic of Tajikistan. Founders and shareholders of the MDO are Microloan Fund "Microinvest" entity duly incorporated under the laws of the Republic of Tajikistan with 52% shares and Microcredit Organisation "Frontiers" entity duly incorporated under the laws of the Republic of Kirgizstan with 48% shares in share capital of MDO accordingly.

**Primary activity.** MDO according to terms stated in the license provided by the National Bank of Tajikistan (given on April 07, 2009), can carry out below mentioned operations:

- To accept deposits from individuals and legal entities;
- To issue microcredits (secured and unsecured);
- To accept out cash operations: receipt, recalculate, exchange (not forex), pack and store of banknotes and coins;
- To open and serve accounts of individuals and legal entities;
- To perform transfer operations by clients' order;
- To perform settlement operations;
- To provide consulting and informational services to existing and potential clients;
- Borrow money (whether secured by its assets or otherwise)
- Acquisition right to demand from third parties
- Sale of assets received under the pledge agreements

MDO employed 153 and 0 staff as of 31 December 2009 and 2008, respectively.

**Registered address and place of business.** MDO's registered address is: 27/6 Shark street, Khujand, Republic of Tajikistan.

**Presentation currency.** These financial statements are presented in Tajik Somoni (further « Somoni»).

## **2 Operating Environment of the MDO**

In recent years, the Republic of Tajikistan has undergone substantial political, economic and social changes. As an emerging market, the Republic of Tajikistan does not possess a well-developed business regulatory infrastructure that would generally exist in more developed market economies. As a result, operations in the Republic of Tajikistan involve risks that are not typically associated with those in developed markets. The Tajik banking industry's operations reflect uncertainty surrounding the future direction of economic and regulatory policy development. Interest rates in the Republic of Tajikistan are therefore relatively high by international standards, reflecting these risks. Also the banking sector in the Tajikistan is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity.

The tax, currency and customs legislation within the Tajikistan is subject to varying interpretations, and changes, which can occur frequently. The future economic direction of the country is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, and regulatory developments.

***Resent instability in global Financial markets***

As a result of ongoing global crisis in liquidity which started around the middle of 2007 year, aside from others, appeared such cases as the reduction of the possibilities of the attraction financing in markets of capital, the reduction of liquidity level in banking sector and the periodical increase of interbanking lending rates, as well as very high volatility in financial and currency markets.

Fully foresee the possible impact of ongoing financial crisis and find measures for absolute protection from its negative impact now impossible

In spite of recent years active economic growth, in 2009 year financial and economic situation in Tajikistan become significantly worse. From beginning 2009 year increased instability in currency market was observed and as result significant devaluation of Tajik somoni relative to other main currencies occurred. Official rate of National Bank of Tajikistan for one USD increased from 3, 4519 somoni as at December 31, 2008 till 4, 3710 somoni as at December 31, 2009

Also in 2009 due to financial crisis volume of money transfer from labor migrants worked abroad significant decreased. Indicated transfers are the material part of population income in Tajikistan. Money transfers in recent years were largest source of funds inflow and support domestic demands and allow the country to accumulate reserves.

Government of Tajikistan with the purpose to eliminate the negative impact of financial crisis on economic take some actions, including:

- Development a plan for additional anticrisis actions for short -term period
- Development program for improvement entrepreneurial climate - 200 days of reforms
- Creation inter-agency commission for supporting domestic commodity producers and protection of local markets
- Declaration a moratorium for any type of inspections of small and medium entities
- Decreasing rate of value added tax from 20 to 18%, and profit tax from 25 to 15% (for production companies)

Purpose of these actions is improvements in entrepreneurial and investing climate; retention existing and creation new working places, elimination excessive administrative barriers in development of private sector, small and medium business, especially production activity

To support financial market, government takes below actions

- Special working group founded to promptly analyze the financial positions of banks, with the purpose to identification possible risks and relates losses;
- Refinancing rate was decreased
- Rate of mandatory reserves was decreased
- Developed a mechanism for providing short term recourses to banks in foreign currency for customers money transfers service and in national currency for settlement operations
- Repayment terms extended for loans provided by government from state budget for supporting liquidity of banks

These and other actions assist to resolve main problems and lessen shortage in current liquidity within banking system, timely accomplishment of payments and settlements

Take into account current economic situation, borrowers of MDO can suffer from decrease of liquidity and this situation will impact in its ability to repay obligation. Deterioration of borrowers' activity conditions also could influence to management projections on cash flows and value of impairment of assets and liabilities.

On basis of available information, management reflects revised value of future cash flows used to estimate of impairment.

In result of financial crisis there is increasing uncertainty related to management judgments used in preparation of this financial statement. Such judgments include identification of indication of impairment and calculation of financial assets' impairment, and also estimation of fair value. Judgments reviewed on regular basis and management believes that these are effective in current situation and reflects all available information.

Management unable reliable assess the possible impact of subsequent decreasing of liquidity in financial markets and instability in currency market on financial position of MDO. Management believe that it take all necessary actions for stability and development of business

The present financial statement does not include any corrections which would be necessary owing to the settlement of such uncertainties in the future. Possible corrections can be included into the reporting, when a necessity of their reflection becomes obvious and estimation of their numeric values becomes possible.

### **3 Basis of Preparation and Significant Accounting Policies**

**Basis of Preparation.** These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of trading securities and derivatives. The principal accounting policies applied in the preparation of these financial statements are set out below.

**Key measurement terms.** Depending on their classification financial instruments are carried at cost, fair value, or amortised cost as described below.

**Fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Amortised cost** is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using, the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

**The effective interest method** is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

**Cash and cash equivalents.** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Funds restricted for a period of more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

**Microcredits.** Microcredits (microloans) to customers are recorded when the MDO advances money by way of giving microcredits to originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Microcredits to customers are carried at amortised cost.

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Uncollectable assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Derecognising of financial assets. MDO derecognises financial assets when

- i. the assets are redeemed or the rights to cash flows from the assets otherwise expired or
- ii. MDO has transferred substantially all the risks and rewards of ownership of the assets or
- iii. MDO has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**Fixed assets.** Fixed assets are stated at cost less accumulated depreciation and provision for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. If impaired, fixed assets are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

**Depreciation.** Depreciation of Fixed assets is calculated using the diminishing balance method to allocate their cost to their residual values over their estimated useful lives at the following annual rates: Office equipment and furniture — 8-20% per annum; Computers — 20% per annum; Transportation -15% per annum.

The residual value of an asset is the estimated amount that MDO would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if MDO expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

**Operating leases.** Where MDO is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to MDO, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

**Received loans.** Received credits and loans are non-derivative liabilities and are carried at amortised cost.

**Income taxes.** Income taxes have been provided for in the financial statements in accordance with Tajik legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when MDO has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**Income and expense recognition.** Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by MDO to originate loans at market interest rates are integral to the effective interest rate if it is probable that MDO will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. MDO does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

**Foreign currency translation.** Functional currency of MDO is the currency of the primary economic environment in which the MDO operates. MDO's functional currency and presentation currency is the national currency of the Republic of Tajikistan -Tajik Somoni

Monetary assets and liabilities are translated into Somoni at the official exchange rate of the National Bank of Tajikistan (NBT) at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the functional currency at

year-end official exchange rates of the NBT are recognised in Statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The principal rate of exchange used for translating foreign currency balances was USD 1 = 3, 4519 Somoni at 31 December 2008 and USD 1 = 4, 3710 at 31 December 2009

**Offsetting.** Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Staffcosts and related contributions.** Wages, salaries, salary-related taxes, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of MDO.

#### 4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

MDO makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Impairment losses on loans.** MDO regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, MDO makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**Tax legislation.** Tax, currency and customs legislation of the Republic of Tajikistan is subject to varying interpretations.

**Initial recognition of related party transactions.** In the normal course of business MDO enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

#### 5 Cash and Cash Equivalents

<i>(in Somoni)</i>	<b>2009</b>	<b>2008</b>
Cash on hand	292 785	15 592
Bank account balance	<b>117 422</b>	10 177
<b>Total cash and cash equivalents</b>	<b>410 207</b>	<b>25 769</b>

**6 Bank deposits**

As at December 31, 2009 MDO has three bank deposits in banks located in Tajikistan in the total amount of 4 050 420 somoni, including accrued interest. All deposits are in foreign currency. Below is the list of deposits as at December 31, 2009:

Bank	Currency	Amount	Amount in Somoni	Accrued interest
CJSC "Fononbank"	USD	300000	1311300	64254
CJSC "Fononbank"	USD	300000	1311300	38902
OJSC "Agroinvestbank"	USD	300000	1311300	13364
<b>Total bank deposits</b>			<b>3 933 900</b>	<b>116 520</b>

**7 Mandatory reserves in NBT**

As per requirements of Tajikistan bank law, MDO required to transfer to National Bank of Tajikistan (NBT), reserved amounts under clients' deposits. Below is the information on movements in reserves

<i>(in Somoni)</i>	2009	2008
Transfer to mandatory reserves	2 292	-
<b>Total mandatory reserves in NBT</b>	<b>2 292</b>	<b>-</b>

**8 Microcredits to customers**

<i>(in Somoni)</i>	2009	2008
Current microcredits	17 456 475	685 281
Overdue microcredits	592 853	-
Interest receivable from microcredits	388 160	11 865
Less: Reserve for loan impairment	(500 930)	-
<b>Total microcredits to customers</b>	<b>17 936 558</b>	<b>697 146</b>

Movements in the provision for loan impairment are as follows:

<i>(in Somoni)</i>	<b>2009</b>	2008
<b>Reserve for loan impairment at 1 January</b>	-	-
(Recovery)/Provision for loan impairment during the year	577 343	-
Net write off of loans and advances to customers during the year	(76 413)	-
<b>Reserve for loan impairment at 31 December</b>	<b>500 930</b>	-

Below is the structure of loan portfolio by types of microcredits:

<i>(in Somoni)</i>	<b>2009</b>		2008	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Microcredits for Agricultural business development	311 972	2%		
Microcredits for business development and livestock	5740 750	32%		
Individual microcredits for business development	6676 859	37%	474 588	69%
Individual consumer microcredits	1478 563	8%	210 693	31%
Commercial microcredits	3422 947	19%		
Group consumer microcredits	116 886	1%		
Microcredits for employees	195 664	1%		
Microcredits for construction	105 687	1%		
<b>Total Microcredits to clients</b>				
<b>(before impairment, revaluation and interest)</b>	<b>18049 328</b>	<b>100%</b>	685 281	100%

All of these loans have monthly principal and interest repayments.

**9 Fixed assets**

<i>(in Somoni)</i>	Office furniture and equipments	Computer equipments	Transports	Total
<b>Historical cost</b>				
As at December 31, 2008	-	-	-	-
Additions	251009	496182	139486	886677
Disposals	-	-	-	-
As at December 31, 2009	251009	496182	139486	886677
<b>Accumulated depreciation</b>				
As at December 31, 2008	-	-	-	-
Charge for the period	(61283)	(59587)	(22496)	(143366)
Written-off/ Disposals	-	-	-	-
As at December 31, 2009	(61283)	(59587)	(22496)	(143366)
<b>Net book value</b>				
As at December 31, 2008	-	-	-	-
As at December 31, 2009	189 726	436 595	116 990	743 311

**10 Intangible assets**

<i>(in Somoni)</i>	Total
Carrying amount at 31 December 2008	-
<b>Movements in 2009</b>	
Additions	18 750
Depreciation charge	(1 875)
Carrying amount at 31 December 2009	16 875
Cost at 31 December 2009	18750
Accumulated depreciation	(1 875)
Carrying amount at 31 December 2009	16 875

<b>11 Other Assets</b>	<b>2009</b>	<b>2008</b>
<i>(in Somoni)</i>		
Prepayments	1 917	5 155
Other	-	-
<b>Total other assets</b>	<b>1917</b>	<b>5155</b>

<b>12 Clients' deposits</b>	<b>2009</b>	<b>2008</b>
<b>Deposits of individuals</b>		
— Current accounts/demand accounts	-	-
— Time deposits	44 070	-
<b>Total clients' deposits</b>	<b>44 070</b>	<b>-</b>

In accordance with Civil code of Tajikistan, MDO obligated to return amount of deposit of individuals at the moment of notice. In cases when time deposit of individuals will be paid on demand before the expiry date of deposit, interest on deposit will be paid at rate applicable to current accounts, except other rates stipulated in the agreement

**13 Loans payable**

At 31 December 2009 the company had ten loans payable in the total amount of 14 236 730 Somoni including the interests payable. Five loans are denominated in Somoni and five in foreign currency. Loans payable as of December 31, 2009 consist of the following:

	<b>The name of Lender</b>	<b>Loan currency</b>	<b>Amount in loan currency</b>	<b>Amount in Somoni</b>
1	Oikocredit	TJS	346 530	346 530
2	Oikocredit	USD	250 000	1 092 750
3	Oikocredit	TJS	343 070	343 070
4	Oikocredit	USD	250 000	1 092 750
5	Triple Jump, Novib	TJS	976 856	976 856
6	Triple Jump	USD	732 802	3 203 079
7	Dual Return Fund S.I.C.A.V.	USD	500 000	2 185 500
8	Wallberg Invest S.A.	USD	500 000	2 185 500
9	CJSC "Fononbank"	TJS	1 200 000	1 200 000
10	CJSC "Fononbank"	TJS	1 200 000	1 200 000
	<b>Total loans payable</b>			<b>13 826 035</b>

Some loans have special conditions covenants which MDO should to follow. For example maintenance of debt to equity ratio, portfolio at risk ratio, positive ROE, net foreign currency position.

Interest on loans payable as of December 31, 2009 consist of the following:

	The name of Lender	Interest payable currency	Amount in loan currency	Amount in Somoni
1	Oikocredit	TJS	31 979	31 979
2	Oikocredit	USD	14 816	64 761
3	Oikocredit	TJS	12 342	12 342
4	Oikocredit	USD	5 313	23 223
5	Triple Jump, Novib	TJS	44 935	44 935
6	Triple Jump	USD	22 460	98 173
7	Dual Return Fund S.I.C.A.V.	USD	24 653	107 758
8	Wallberg Invest S.A.	USD	6 297	27 524
<b>Interest payable</b>				<b>410 695</b>

#### 14 Profit tax and Deferred tax liability

The Company provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Tajikistan which may differ from International Financial Reporting Standards. For the years ended December 31, 2009 and 2008 in the Republic of Tajikistan the rate of profit tax for legal entities in financial sector was 25%. The Company is subject to certain permanent and temporary tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain incomes.

In calculation of profit tax for 2009 year there was no temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes and as the result there was not any deferred tax assets or liabilities at the end of reporting period.

Below is the reconciliation between theoretical and actual profit tax expenses

	2009	2008
<b>Profit/(Loss) before profit tax as per IFRS</b>	992 393	(3 189)
Theoretical tax expenses (recovery) at required rate (2009 r.: 25%; 2008 r.: 25%)	248 098	(797)
Net tax effect of expenses not deducted for tax purpose, less exempt income	355 187	797
<b>Profit tax expenses/(recovery)</b>	<b>603 285</b>	<b>-</b>

#### 15 Other Liabilities

(in Somoni)	2009	2008
Current taxes payable	19 759	396
Professional fee	43 534	-
Other		
<b>Total other liabilities</b>	<b>63 293</b>	<b>396</b>

**16 Share Capital**

As at December 31, 2008 registered share capital was 700 000 somoni. In year 2009 share capital increased from 700 000 somoni to 7 288 540 somoni and as at December 31, 2009 was 7 288 540 somoni. Below is the information on structure of share capital.

Shareholders	December 31, 2009		December 31, 2008	
	In somoni	%	In somoni	%
MLF "Microinvest"	3 800 000	52%	350 000	50%
MCO «Frontiers»	3 488 540	48%	350 000	50%
<b>Total</b>	<b>7 288 540</b>	<b>100%</b>	<b>700 000</b>	<b>100%</b>

**17 Mandatory reserves**

In accordance with local legislation MDO shall create a reserve in the amount of 2-5 % of the expected amount of the standard loans to be capable to cover the potential credit related losses. The reserve should be formed from MDO's retained profit of previous periods. Movements in the reserves are as follows:

(in Somoni)	2009	2008
Mandatory reserves at 1 January	20 622	-
Provision for potential credit related losses during the year	540 434	20 622
<b>Provision for loan impairment at 31 December</b>	<b>561 056</b>	<b>20 622</b>

**18 Interest Income and Expense**

(in Somoni)	2009	2008
<b>Interest income</b>		
Interest from microcredits	4 074 314	24 814
Commissions for handling microcredits	515 757	49
Penalties from overdue microcredits	165 165	111
Interest from short term investments	190 877	
<b>Total interest income</b>	<b>4 946 113</b>	<b>24 974</b>
<b>Interest expense</b>		
Interest from loans received	(1 138 897)	-
<b>Total interest expense</b>	<b>(1138 897)</b>	<b>-</b>
<b>Net interest income</b>	<b>3 807 217</b>	<b>24 974</b>

**19 Administrative and Other Operating Expenses**

<i>(in Somoni)</i>	<b>2009</b>	2008
Staff costs	1 463 455	-
Office and transportation rent	192532	-
Depreciation and amortization	145241	-
Taxes other than on income	127741	552
Business trip and transportation expenses	104380	-
Professional services	50223	-
Advertising expenses	46311	-
Administrative expenses	42261	-
Bank charges	35383	3800
Entertainment expenses	28393	-
Communication	25836	-
Expenses related to fixed assets	10638	-
Security	5614	-
Others	13815	-
<b>Total administrative and other operating expenses</b>	<b>2 291 823</b>	<b>4 352</b>

The staff expenses included a social tax in the amount of 299 654 Somoni for 2009 year and 0 Somoni for 2008 year.

**20 Financial Risk Management**

The risk management function within MDO is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

**Credit risk.** MDO takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. MDO structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and borrower are approved regularly by the Management. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. MDO's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

**MDOARVAND****Notes to the Financial Statements - 31 December 2009**

**Market risk.** MDO takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Management sets limits on the value of risk that may be accepted, which is monitored. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

**Liquidity risk.** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. MDO does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Management of MDO. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to successful management of MDO.

**Interest rate risk.** MDO takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

In practice MDO's interest rate risk is very low as a result of contractually fixed interest rates for assets and liabilities. The Management monitors and sets limits on the regular basis the level of mismatch of interest rate repricing that may be undertaken.

**Geographical risk.** The geographical concentration of MDO's assets and liabilities at 31 December 2009 is set out below:

<i>(in Somoni)</i>	<b>Tajikistan</b>	<b>OECD</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	410 207	-	410 207
Bank deposit	4050 420	-	4050 420
Mandatory reserves in NBT	2 292	-	2 292
Microcredits to customers	17 936 558	-	17 936 558
Fixed assets	743 311	-	743 311
Intangible assets	16 875	-	16 875
Other assets	1 917	-	1 917
<b>TOTAL ASSETS</b>	<b>23 161 581</b>	<b>-</b>	<b>23 161 581</b>
<b>LIABILITIES</b>			
Deposits from customers	44 070	-	44 070
Loans payable	2535 282	11701 448	14236 730
Current income tax payable	543 869	-	543 869
Other liabilities	63 293	-	63 293
<b>TOTAL LIABILITIES</b>	<b>3 186 514</b>	<b>11701448</b>	<b>14 887 962</b>
<b>Net balance sheet position</b>	<b>19 975 067</b>	<b>(11701448)</b>	

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand and fixed assets have been allocated based on the country in which they are physically held.

As at December 31, 2008 MDO did not has any assets and liabilities concentrated in other regions except Tajikistan

**MDOARVAND****Notes to the Financial Statements - 31 December 2009**

**Currency risk.** The MDO does not have material currency exposure at the end of the period. All monetary assets and liabilities of the MDO are denominated either in US dollars or Tajik somoni. The MDO disburses loans to its customers in Tajik somoni, part of loans indexed to US dollars. The customers of the Company have contractual obligation to repay the loans at exchange rates prevailing as of date of repayment.. The table below summarizes the exposure to foreign currency exchange rate risk as at 31 December 2009:

<i>(in Somoni)</i>	<b>Somoni</b>	<b>US Dollars</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	314 379	95 828	410 207
Bank deposit	-	4050420	4050 420
Mandatory reserves in NBT	2 292	-	2 292
Microcredits to customers	12840 755	5095803	17936 558
Fixed assets	743 311	-	743 311
Intangible assets	16 875	-	16 875
Other assets	1 917	-	1 917
<b>TOTAL ASSETS</b>	<b>13919 530</b>	<b>9242 051</b>	<b>23 161581</b>
<b>LIABILITIES</b>			
Deposits from customers	44 070	-	44 070
Loans payable	4155 712	10081018	14236 730
Current income tax payable	543 869	-	543 869
Other liabilities	63 293	-	63 293
<b>TOTAL LIABILITIES</b>	<b>4 806 944</b>	<b>10081 018</b>	<b>14 887 962</b>
<b>Net forex exposure</b>	<b>9 112 586</b>	<b>(838 967)</b>	

As at December 31, 2008 MDO did not has any assets and liabilities in foreign currency

**21 Contingencies and Commitments**

**Legal proceedings.** No facts concerning any current claims (court proceedings), raised against of MDO or indirectly concerning MDO, or any facts of any claims (court proceedings) subject to raising against of MDO or indirectly concerning MDO in future, are available on the date of the report issue.

**Tax legislation.** Tajik tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of MDO may be challenged by the relevant authorities.

The Tajik tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

**22 Related Party Transactions**

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2009 and 31 December 2008 the outstanding balances and income and expense items for the year with related parties were as follows:

<i>(in Somoni)</i>	<b>2009</b>	2008
Rent expenses	42 000	-

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