

**Micro-Lending Company**  
**“Frontiers” LLC**

Financial Statements

For the year ended 31 December 2005

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## **Independent Auditors' Report**

To the Board of Directors of Micro-Lending Company Frontiers LLC

We have audited the accompanying balance sheet of Micro-Lending Company "Frontiers" LLC (the "Company") as at 31 December 2005, and the related statements of income, changes in owner's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the fact that the corresponding figures as at and for the year ended 31 December 2004 are unaudited.

*KPMG Bishkek LLC*

KPMG Bishkek LLC

10 February 2006

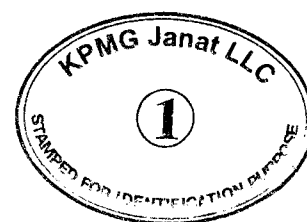
*Micro-Lending Company" Frontiers" LLC*  
*Income Statement for the year ended 31 December 2005*

	Notes	<b>2005</b> <b>KGS'000</b>	<b>2004</b> <b>(Unaudited)</b> <b>KGS'000</b>
Interest income	4	<u>8,427</u>	<u>540</u>
Fee and commission income	5	824	50
Fee and commission expense	6	<u>(115)</u>	<u>-</u>
<b>Net fee and commission income</b>		<u><b>705</b></u>	<u><b>50</b></u>
Net foreign exchange loss	7	(880)	(2,241)
Other income/(expense)		56	(55)
General and administrative expenses	8	<u>(4,726)</u>	<u>(2,976)</u>
<b>Income/(loss) before income tax</b>		<b>3,586</b>	<b>(4,682)</b>
Income tax expense	9	<u>(566)</u>	<u>(29)</u>
<b>Net income/(loss)</b>		<u><b>3,020</b></u>	<u><b>(4,711)</b></u>

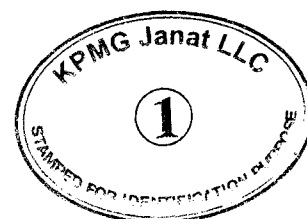
The financial statements as set out on pages 4 to 26 were approved on 10 February 2006.

General Manager  
 Patricia Gates

Chief Accountant  
 Rahat Kazybaeva

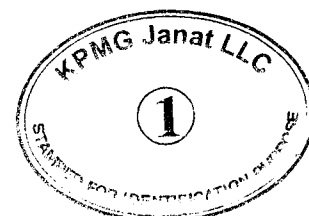


	Notes	2005 KGS'000	2004 (Unaudited) KGS'000
<b>ASSETS</b>			
Cash	19	32,348	65,932
Loans to customers	10	90,837	15,523
Equipment	11	894	924
Other assets	12	422	179
<b>Total assets</b>		<b>124,501</b>	<b>82,558</b>
<b>LIABILITIES AND OWNER'S EQUITY</b>			
<b>Liabilities</b>			
Loans payable		-	1,567
Other liabilities	14	859	103
<b>Total liabilities</b>		<b>859</b>	<b>1,670</b>
<b>Owner's equity</b>			
Registered capital	15	124,274	44,000
Additional paid-in capital		1,955	42,495
Reserve for general business risks		2,737	781
Accumulated losses		(5,324)	(6,388)
<b>Total owner's equity</b>		<b>123,642</b>	<b>80,888</b>
<b>Total liabilities and equity</b>		<b>124,501</b>	<b>82,558</b>



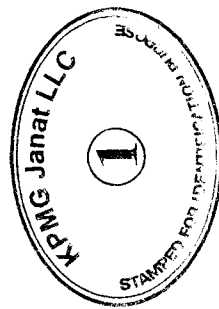
*Micro-Lending Company "Frontiers" LLC*  
*Statement of Cash Flows for the year ended 31 December 2005*

	2005	2004
Note	<u>KGS'000</u>	<u>(Unaudited) KGS'000</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(loss) before income tax	3,586	(4,682)
Adjustments for:		
Depreciation	351	270
Interest income	(226)	(26)
Loans origination fees	523	117
Unrealized foreign exchange loss	880	2,241
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>	<u>5,114</u>	<u>(2,080)</u>
<b>Change in operating assets and liabilities</b>		
Increase in loans to customers	(75,793)	(15,868)
(Increase)/decrease in other assets	(243)	49
Increase in other liabilities	756	65
<b>Net cash provided from operating activities before taxes paid</b>	<u>(70,162)</u>	<u>(17,834)</u>
Taxes paid	(566)	(29)
<b>Cash flows used in operations</b>	<u>(70,728)</u>	<u>(17,863)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(322)	(98)
<b>Cash flows used in investing activities</b>	<u>(322)</u>	<u>(98)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from increase of capital	39,734	41,660
Repayment of loans payable	(1,561)	(12)
<b>Cash flows from financing activities</b>	<u>38,173</u>	<u>41,648</u>
<b>Net (decrease)/increase in cash</b>	<u>(32,877)</u>	<u>23,687</u>
Effect of changes in exchange rates on cash	(707)	(2,073)
Cash at the beginning of the year	65,932	44,318
<b>Cash at the end of the year</b>	19 <u>32,348</u>	<u>65,932</u>



*Micro-Lending Company "Frontiers" LLC*  
*Statement of changes in the owner's equity for the year ended 31 December 2005*

	Registered capital KGS '000	Additional paid-in capital KGS '000	Reserve for general business risks KGS '000	Accumulated losses KGS '000	Total KGS '000
<b>Balance at 1 January 2004, unaudited</b>	44,000	835	-	(896)	43,939
Net loss for the year, unaudited	-	-	-	(4,711)	(4,711)
Reserve for general business risks, unaudited	-	-	781	(781)	-
Contribution, unaudited	-	41,660	-	-	41,660
<b>Balance at 31 December 2004</b>	<b>44,000</b>	<b>42,495</b>	<b>781</b>	<b>(6,388)</b>	<b>80,888</b>
Net income for the year	-	-	-	3,020	3,020
Reserve for general business risks	-	-	1,956	(1,956)	-
Contribution	-	39,734	-	-	39,734
Transfer to registered capital	80,274	(80,274)	-	-	-
<b>Balance at 31 December 2005</b>	<b>124,274</b>	<b>1,955</b>	<b>2,737</b>	<b>(5,324)</b>	<b>123,642</b>



The statement of changes in owner's equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

## **1 Background**

### **Principal activities**

Micro-lending company "Frontiers" LLC (the "Company") was established in the Kyrgyz Republic as a limited liability company and received its certificate for lending activities from the National Bank of the Kyrgyz Republic ("NBKR") in 2003. The principal activity of the Company is the provision of loans to micro-finance institutions. The activities of the Company are regulated by the NBKR. The registered address of the Company's head office is 201, Abdrahmanova Str, 1st Floor, Bishkek, Kyrgyz Republic, 720033. The majority of the Company's assets and liabilities are located in the Kyrgyz Republic. The average number of persons employed by the Company during the year was 7 (2004: 7).

### **Founder**

The Founder and the owner of the Company is Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance ("ACDI/VOCA"), a not-for-profit organisation based in the United States of America that promotes broad-based economic growth and the development of civil society in emerging democracies and developing countries.

### **Kyrgyz Republic business environment and country risk**

The Kyrgyz Republic has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Kyrgyz Republic involve risks, which do not typically exist in other markets. The accompanying financial statements reflect management's assessment of the impact of the Kyrgyz business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

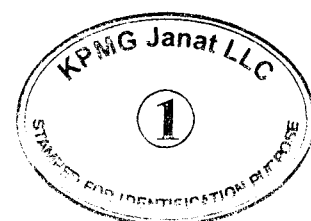
## **2 Basis of preparation**

### **Statement of compliance**

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### **Basis of measurement**

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale assets are stated at fair value.



## 2 Basis of preparation, continued

### Functional and Presentation Currency

The national currency of the Kyrgyz Republic is the Kyrgyz som ("KGS"). Management have determined the Company's functional currency to be the KGS as it reflects the economic substance of the underlying events and circumstances of the Company. The KGS is also the Company's presentation currency for the purposes of these financial statements.

### Convertibility of the Kyrgyz som

The KGS is not a convertible currency outside the Kyrgyz Republic and, accordingly, any conversion of KGS amounts to USD should not be construed as a representation that KGS amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

## 3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements.

### Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

### Cash

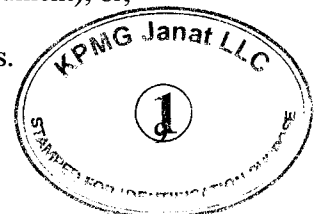
The Company considers cash and bank accounts to be cash.

### Financial instruments

#### *Classification*

*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the entity as at fair through the profit or loss.



### 3 Significant accounting policies, continued

#### Financial instruments, continued

##### *Classification, continued*

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company intends to sell immediately or in the near term, those that the Company upon initial recognition designates as at fair value through profit or loss, or those which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity, other than those that:

- the Company upon initial recognition designates as at fair value through profit or loss;
- those that the Company designates as available-for-sale; or
- those that meet the definition of loans and receivables.

*Available-for-sale assets* are financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss.

##### *Recognition*

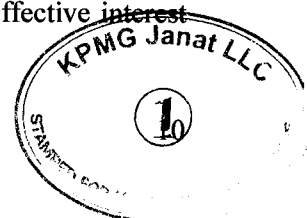
Financial assets and liabilities are recognized in the balance sheet when the Company becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

##### *Measurement*

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held to maturity investments which are measured at amortized cost using the effective interest method; and



### **3 Significant accounting policies, continued**

#### **Financial instruments, continued**

##### *Measurement, continued*

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

##### *Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

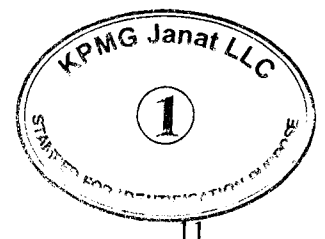
Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Company would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

##### *Gains and losses on subsequent measurement*

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the income statement
- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the income statement calculated using the effective interest method.



### **3 Significant accounting policies, continued**

#### **Financial instruments, continued**

##### ***Gains and losses on subsequent measurement, continued***

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

##### ***Derecognition***

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognized when it is extinguished.

##### **Offsetting**

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

##### **Equipment**

###### ***Owned assets***

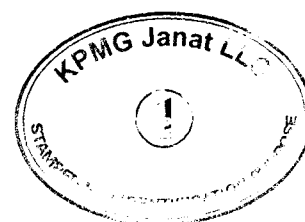
Items of equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of equipment comprises major components having different useful lives, they are accounted for as separate items of equipment.

###### ***Depreciation***

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Furniture and office equipment	4 to 7 years
Computer equipment and software	3 years



### 3 Significant accounting policies, continued

#### Impairment

##### *Financial assets carried at amortized cost*

Financial assets carried at amortized cost consist principally of loans, other receivables and unquoted available-for-sale debt securities ("loans and receivables"). The Company reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

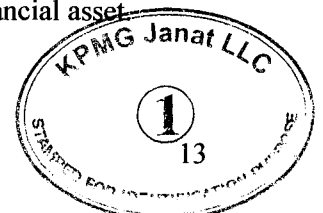
If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

##### *Financial Assets Carried at Cost*

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.



### **3 Significant accounting policies, continued**

#### **Impairment, continued**

##### *Financial assets carried at cost, continued*

All impairment losses respect of these investments are recognized in the income statement and can not be reversed.

##### *Non financial assets*

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed 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.

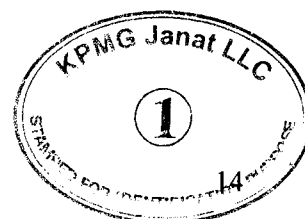
#### **Taxation**

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.



### 3 Significant accounting policies, continued

#### Interest income and expense and fee and commission income

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated live of the financial instrument using the effective interest rate method. As the majority of the loans to customers are short-term, most of the fees are recognised as income during the year they received.

Other fee and commission income is recognised when the corresponding service is provided.

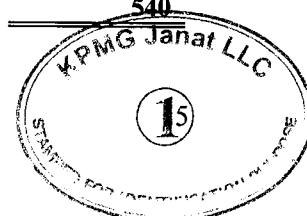
#### New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on Company's operations. The Company plans to adopt these pronouncements when they become effective. The Company has not yet analysed the likely impact of these new standards on its financial statements.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's capital.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts*, which is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.

### 4 Interest income

	2005 KGS '000	2004 (Unaudited) KGS '000
<b>Interest income</b>		
Loans to customers	8,269	540
Placements with banks	158	-
	<u>8,427</u>	<u>540</u>



## 5 Fee and commission income

	<b>2005</b> <b>KGS '000</b>	<b>2004</b> <b>(Unaudited)</b> <b>KGS '000</b>
Origination fees	820	50
Penalties for late payment	4	-
	<u>824</u>	<u>50</u>

## 6 Fee and commission expense

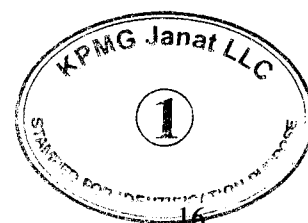
	<b>2005</b> <b>KGS '000</b>	<b>2004</b> <b>(Unaudited)</b> <b>KGS '000</b>
Bank charges	115	-

## 7 Net foreign exchange loss

	<b>2005</b> <b>KGS '000</b>	<b>2004</b> <b>(Unaudited)</b> <b>KGS '000</b>
Loss from revaluation of financial assets and liabilities	<u>(880)</u>	<u>(2,241)</u>

## 8 General administrative expenses

	<b>2005</b> <b>KGS '000</b>	<b>2004</b> <b>(Unaudited)</b> <b>KGS '000</b>
Salaries and related costs	1,698	753
Professional services	904	391
Rent	649	813
Travel	446	308
Depreciation and amortization	353	270
Taxes other than on income	225	17
Communication	134	112
Other	116	164
Repairs and maintenance	104	71
Office supplies	80	49
Advertising and marketing	17	28
	<u>4,726</u>	<u>2,976</u>



## 9 Income tax expense

	<b>2005</b> <b>KGS '000</b>	<b>2004</b> <b>(Unaudited)</b> <b>KGS '000</b>
<b>Current tax expense</b>		
Current year	566	29
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(214)	(539)
Change in unrecognized tax assets	214	539
	-	-
Total income tax expense in the income statement	<u>566</u>	<u>29</u>

## 9 Income tax expense, continued

The Company's applicable tax rates for current tax and deferred tax are 20% and 10%, respectively (2004: 20%).

### Reconciliation of effective tax rate:

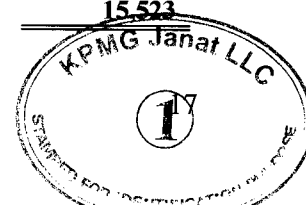
	<b>2005</b> <b>KGS '000</b>	<b>%</b>	<b>2004</b> <b>(Unaudited)</b> <b>KGS '000</b>	<b>%</b>
Income/(loss) before tax	<u>3,586</u>		<u>(4,682)</u>	
Income tax at the applicable tax rate	717	20	(936)	(20)
(Non-taxable income)/non-deductible costs	(365)	(10)	374	9
Change in unrecognized tax assets	214	6	539	12
	<u>566</u>	<u>16</u>	<u>29</u>	<u>1</u>

## 10 Loans to customers

### Industry and geographical analysis of the loan portfolio

Loans to customers are issued to micro-credit organisations located in Kazakhstan, Tajikistan and the Kyrgyz Republic.

	<b>2005</b> <b>KGS'000</b>	<b>2004</b> <b>(Unaudited)</b> <b>KGS'000</b>
Kyrgyz Republic	54,108	6,193
Kazakhstan	22,575	8,269
Tajikistan	13,903	1,035
Accrued interest	251	26
	<u>90,837</u>	<u>15,523</u>



## 10 Loans to customers, continued

### Significant credit exposures

As at 31 December 2005 and 2004 the Company had 3 borrowers, whose loan balances exceeded more than 10% of loans to customers. The amount of these loans as at 31 December 2005 and 2004 was KGS 44,145 thousand and KGS 12,125 thousand, respectively.

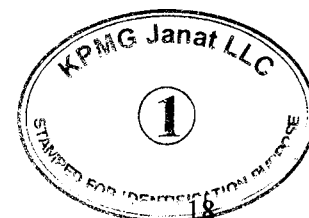
The Company has reviewed its current loan portfolio and has not identified any loans which display indicators of impairment. In addition, the Company historically has had no impaired loans. The Company has not therefore created a provision for impairment on its loans to customers.

### Loan maturities

The maturity of the Company's loan portfolio is presented in note 22, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the credits issued by the Company, it is likely that some of the Company's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be longer than the classification indicated based on contractual terms.

## 11 Equipment

KGS '000	Furniture and office equipment	Computer equipment	Software	Total
<b>Cost</b>				
At 1 January 2005	754	489	-	1,243
Additions	114	139	69	322
Disposals	-	(1)	-	(1)
At 31 December 2005	<u>868</u>	<u>627</u>	<u>69</u>	<u>1,564</u>
<b>Depreciation</b>				
At 1 January 2005	169	150	-	319
Depreciation charge	154	175	22	351
At 31 December 2005	<u>323</u>	<u>325</u>	<u>22</u>	<u>670</u>
<b>Carrying value</b>				
At 31 December 2005	<u><u>545</u></u>	<u><u>302</u></u>	<u><u>47</u></u>	<u><u>894</u></u>
At 31 December 2004	<u><u>585</u></u>	<u><u>339</u></u>	<u><u>-</u></u>	<u><u>924</u></u>



## 12 Other assets

	2005 KGS '000	2004 (Unaudited) KGS '000
Receivable withholding taxes	320	39
Prepayments	100	138
Inventory	2	2
	<u>422</u>	<u>179</u>

## 13 Deferred tax assets

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as at 31 December 2005 and 2004. These deferred tax assets have not been recognized in these financial statements. The future tax benefits will only be realized if profits will be available against which the unused tax losses can be utilized and there are no changes to the law and regulations that adversely affect the Company's ability to claim the deductions in future periods. These future tax benefits have not been recognized due to uncertainties concerning their realization.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

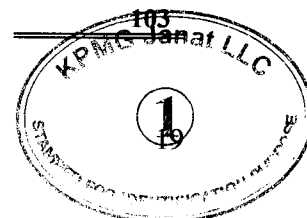
KGS '000	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
Property and equipment	-	-	(13)	(20)	(13)	(20)
Tax loss carry-forwards	870	663	-	-	870	663
Total deferred tax assets/(liabilities)	870	663	(13)	(20)	857	643
Unrecognized deferred tax assets/(liabilities)	(870)	(663)	13	20	(857)	(643)
Recognized net deferred tax assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The rate of tax applicable for deferred taxes was 10% (2004: 10%).

The above deductible temporary differences do not expire under current tax legislation except for the tax loss carry-forwards which expire in 5 years.

## 14 Other liabilities

	2005 KGS '000	2004 (Unaudited) KGS '000
Payables for services	826	-
Other	33	103
	<u>859</u>	<u>103</u>



## 15 Owner's equity

### Capital and additional paid-in capital

The registered capital was KGS 124,274 thousand as at 31 December 2005 (2004: KGS 44,000 thousand). During 2005 and 2004 additional paid-in capital was increased by KGS 39,734 thousand and KGS 41,660 thousand, respectively, through contributions from the Founder. In 2005 KGS 80,274 thousand was transferred from additional paid-in capital to registered capital.

### Distributions

Distributions to the owner are restricted to the maximum retained earnings of the Company, which are determined according to legislation in the Kyrgyz Republic.

## 16 Risk management

Management of risk is fundamental to the business of financial services and is an essential element of the Company's operations. The major risks faced by the Company are those related to market risk, which includes price, fair value interest rate and currency risks, credit risk and liquidity risk. These risks are managed in the following manner:

### Market risk

#### *Price risk*

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument.

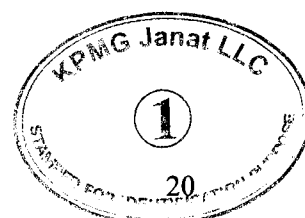
#### *Fair value interest rate risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information on the Company exposure to fair value interest rate risk at year end refer to notes 21 and 22.

#### *Currency risk*

The Company has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Company exposure to currency risk at year end refer to note 23.

The Company manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Management Board.



## **16 Risk management, continued**

### **Credit risk**

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Company. The Company has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Company's credit risk. Company's credit policy is reviewed and approved by the Management.

### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Company's liquidity policy is reviewed and approved by the Management Board. For further information on the Company's exposure to liquidity risk at year end refer to note 22.

## **17 Contingencies**

### **Insurance**

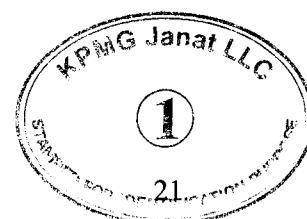
The insurance industry in the Kyrgyz Republic is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

### **Litigation**

The Company management is unaware of any significant actual, pending or threatened claims against the Company.

### **Taxation contingencies**

Kyrgyz commercial legislation, and tax legislation in particular, may give rise to varying interpretation and amendments, which may be retrospective. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Company may be assessed additional taxes, penalties and interest. The Company believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.



## 17 Contingencies, continued

### Pensions and retirement plans

The Company does not have any pension arrangements separate from the State pension system of the Kyrgyz Republic, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Company has no post-retirement benefits or significant other compensated benefits requiring accrual.

## 18 Related party transactions

### Control relationships

The party with ultimate control over the Company is ACDI/VOCA. No publicly available financial statements are produced by the Company's Parent, ultimate controlling party or any other intermediate controlling party.

### Transactions with members of the Credit Committee

Total remuneration included in employee compensation which comprises short-term benefits is as follows (refer note 8):

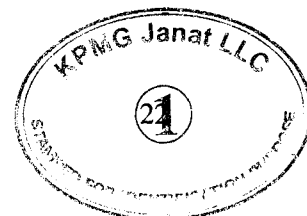
	2005	2004 (Unaudited)
	KGS '000	KGS '000
Members of the Credit Committee	<u>262</u>	<u>-</u>

### Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2005 and related income statement amounts of transactions for the years then ended with other related parties are as follows. There were no such transactions and/or balances in 2004.

Name of the organization	Relationship
Financial fund "Bai Tushum"	Founder – ACDI/VOCA
Micro-lending fund "Microinvest"	Founder – ACDI/VOCA
Micro-lending fund "MDTM"	Founder – ACDI/VOCA
Micro-lending fund "Kazakhstan Loan Fund"	Founder – ACDI/VOCA
Community Action Investment Program	Founder – ACDI/VOCA

	in KGS	Average Interest Rate
Loans to customers	28,586	14.40%
<b>Income statement</b>		
Interest income	2,368	-
Fee and commission income	419	



## 19 Cash

Cash at the end of the financial year as shown in the statement of cash flows is composed of the following items:

	2005 KGS '000	2004 (Unaudited) KGS '000
Cash on hand	21	10
Cash in banks	32,327	65,922
	<b>32,348</b>	<b>65,932</b>

## 20 Fair value of financial instruments

The estimated fair value of the Company's loans to customers, as required to be disclosed by IAS 32 "Financial Instruments: Disclosure and Presentation", are as follows:

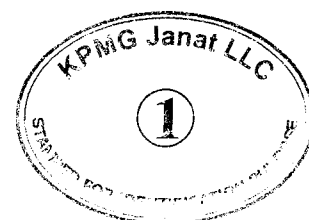
	2005 Fair value KGS '000	2005 Carrying value KGS '000	2004 (unaudited) Fair value KGS '000	2004 (unaudited) Carrying value KGS '000
ASSETS				
Loans to customers	91,172	90,837	15,403	15,523

The estimated fair value of loans and advances to customers and all other financial instruments represents the discounted amount of estimated future cash flows expected to be received.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

The estimated fair value of cash is its carrying value. The estimated fair value of loans payable, which are payable on demand, is their carrying value.

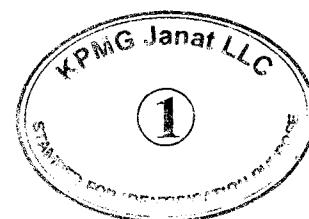
Management of the Bank believes that the fair value of financial instruments does not differ significantly from their carrying value. The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.



## 21 Average effective interest rates

The table below displays the Company's interest bearing assets as at 31 December 2005 and 2004 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

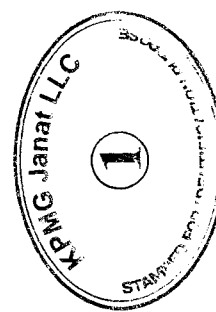
	<b>2005 Carrying amount KGS '000</b>	<b>2005 Average Effective Interest Rate</b>	<b>2004 Carrying amount (unaudited) KGS '000</b>	<b>2004 Average Effective Interest Rate</b>
<b>Bank deposits</b>				
- KGS	3,299	3.20%	-	-
- USD	3,275	5.50%	-	-
<b>Loans to customers</b>				
- KGS	54,124	14.16%	6,217	14.63%
- USD	36,713	12.27%	9,306	13.49%



## 22 Maturity analysis

The following table shows Company's assets and liabilities by remaining contractual maturity dates as at 31 December 2005. Due to the fact that substantially all the financial instruments of the Company are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

Assets	Less than 1 month KGS'000	1 to 3 months KGS'000	3 months to 1 year KGS'000	1 year to 5 years KGS'000	No maturity KGS'000	Total KGS'000
Cash	25,774	-	6,574	-	-	32,348
Loans to customers	252	7,847	10,224	72,514	-	90,837
Equipment	-	-	-	-	894	894
Other assets	-	100	-	-	322	422
<b>Total assets</b>	<b>26,026</b>	<b>7,947</b>	<b>16,798</b>	<b>72,514</b>	<b>1,216</b>	<b>124,501</b>
<b>Liabilities</b>						
Other liabilities	859	-	-	-	-	859
<b>Total liabilities</b>	<b>859</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>859</b>
<b>Net position as at 31 December 2005</b>	<b>25,167</b>	<b>7,947</b>	<b>16,798</b>	<b>72,514</b>	<b>1,216</b>	<b>123,642</b>
Net position as at 31 December 2004	65,958	138	(1,567)	15,497	861	80,887



## 23 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2005:

	<b>KGS KGS '000</b>	<b>USD KGS'000</b>	<b>Total KGS '000</b>
<b>Assets</b>			
Cash	8,168	24,180	32,348
Loans to customers	54,359	36,478	90,837
Equipment	894	-	894
Other assets	422	-	422
<b>Total assets</b>	<b>63,843</b>	<b>60,658</b>	<b>124,501</b>
<b>Liabilities</b>			
Loans payable	-	-	-
Other liabilities	859	-	859
<b>Total liabilities</b>	<b>859</b>	<b>-</b>	<b>859</b>
<b>Net position as at 31 December 2005</b>	<b>62,984</b>	<b>60,658</b>	<b>123,642</b>
Net position as at 31 December 2004	7,563	73,324	80,887

