



Micro-Loan Fund “MicroInvest”

Financial report for the period

January 1, 2006 - December 31, 2006

Micro-Loan Fund MicroInvest
January 1, 2006 - December 31, 2006

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**To the Board of Advisors of the
Micro-Loan Fund “MicroInvest”**

REPORT OF THE INDEPENDENT AUDITORS

Introduction

We have audited the accompanying balance sheet of the Micro-Loan Fund “MicroInvest” (hereafter: “the Fund”) as of December 31 2006, the related income and cash flow statements for the year then ended (hereafter referred to as ‘the financial statements’). These financial statements set out on pages 7 to 29 are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the financial positions of the Micro-Loan Fund “MicroInvest” as of December 31, 2006 and of the results of its operations and its cash flows for the year then ended in accordance with the generally accepted accounting principles.

We also audited the adjustments described in Note 19 that were applied to restate the 2005 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

May 8, 2007

Finconsult Ltd
Dushanbe
Tajikistan



Firouz Afrouz
General Director

Micro-Loan Fund MicroInvest

January 1, 2006 - December 31, 2006

GENERAL INFORMATION

Under the USAID-funded Stability & Food Security Program and Fergana Valley Regional Microfinance Project, ACDI/VOCA established two microfinance institutions (MFIs) in the Ferghana Valley in March of 2002. With MDTM in Khujand, Tajikistan and FV-MARD in Andijon, Uzbekistan, the program sought to deliver high-quality micro-finance services to this historically important and densely populated region.

MDTM was re-registered and re-named to Microloan Fund “MicroInvest” after the issuance of the law on Microfinance Organizations in Tajikistan. ACDI/VOCA is a sole founder of MicroInvest. MicroInvest registration procedure was finished by obtaining certificate from National Bank of Tajikistan on June 13th, 2005 and organization started operations under new status on July 22nd, 2005. Currently organization specializes in financing small-scale traders, service providers, goods producers, agricultural products processors and livestock raisers.

MISSION

MicroInvest purpose is to strengthen the economic base of the low-income households in Tajikistan through increased access to credit services for entrepreneurial activities in urban and surrounding areas. We intend to offer diverse products, combine cost-efficient methodologies with exemplary customer service, and maintain financial self-sufficiency.

MicroInvest has ten client outlets that are located within 200 kilometres to the north and south of the main office in Khujand. Also there is an office in Dushanbe, which provides services to Districts of Republican Subordination (surrounding Dushanbe). Offices that are staffed by Loan Officers only are considered sub-offices. Three of the outlets are officially registered branches with their own administration structure and sub-offices accountable to them. The rest of the offices are presently sub-offices of the Khujand Main Office.

INSTITUTIONAL PROFILE

ACDI/VOCA is the sole founder of MicroInvest. ACDI/VOCA is a private, non-profit organization that promotes broad-based economic growth and the development of civil society in emerging democracies and developing countries. ACDI/VOCA was created through the consolidation of Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance. The U.S. agricultural cooperative community founded both organizations in the 1960s to promote international cooperation and improve the lives of people worldwide.

FUND’S STRATEGIC PLAN FOR THE YEARS 2007-2009

One of the main strategies for upcoming years for MicroInvest will be expansion in area surrounding Dushanbe and Khatlon Oblast. Although this will demand high operational costs and effective logistics administration it is necessary in order to remain one of the biggest MFI in the country and transfer to next level of development.

Expansion Strategy

The main strategic goals of the organization for the next three years are the following:

- Expand to Central part and Southern part of Tajikistan;
- Increase number of active clients to 12 230 and OLP to 6 855 250 USD;
- Decentralization of Management, 6 branches and 11 sub-offices;
- Increase number of clients per each Loan Officer to 222 clients
- Transformation in to Micro-deposit taking Company by 2008;
- Raise equity;

The expansion will be continued separating Khujand Branch from head office. Khujand Branch will be officially registered branch with 4 sub-offices accountable to it. As for the new office

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locations during 2007-2009 MicroInvest plans to open 2 new sub-offices in Asht region and city of Dushanbe and two new branches in Khatlon Oblast. Organization will expand slower than before, as the area is new, big and might have different business and social setting than Sugd Region. By the end of 2009, Fund will have 11 sub-offices and 6 branches.

MicroInvest has envisioned the transformation to a different legal status during next 3 years. Fund aims to expand its services beyond lending and be able to provide savings. This will be also necessary to remain compatible in rapidly developing Microfinance market in Tajikistan. According to the legislation fund would have to be transformed into Micro-deposit taking Company (MDC).

As at December 31, 2006 the Fund provided the following loan products:

	Commercial Product	Livestock Product	Individual Product	Fruits Processing
Activity Type	Micro-scale trade, services and production	Fattening of cows, bulls, goats, sheep	Small-scale trade, services and production	Micro-scale fruit processing
Loan amounts In TJS	1,200 – 4,000	1,200-4,000	3,000–20,000	Up to 2,000
Loan terms	2- 8 months	2- 8 months with 1-6 months grace period	2 - 12 months	2 - 8 months with 1-6 months grace period
Repayment frequency	Bi-weekly or monthly	Monthly	Monthly	Monthly
Methodology	Group of 4 to 8	<i>Group of 4 to 6</i>	Individual loans	Group of 3 to 6
Monthly interest rate (on declining balance)	3,5 – 4%	3-4%	2,5 –3,5%	4%
Administrative fee (one time payment)	0.5% - 1.5%	1% -1.5%	1% -1.5%	1.5%
Collateral	Group Guarantee	Group Guarantee	Movable property and real estate	Group Guarantee

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Number of authorized offices and registered address:

As at December 31, 2006 the activities of the Fund were carried out by 4 branches and 7 sub-offices:

Location	Date of establishment	Address
Khujand Head Office	March 2002	27/6 Shark str., Khujand
Spitamen sub-office	January 2003	1 Bobojon Gafurov str., Spitamen
J. Rasulov sub-office	January 2003	1 Nurmatova str, J. Rasulov district
Istaravshan Branch	August 2003	166 Lenina str., Istaravshan district
Shahristan sub-office	December 2003	1 M. Karimov str., Shakhristan
Mascha sub-office	February 2004	PMK 3 building Lenin str., Buston
Isfara Branch	December 2004	Jomi str., near Anushervon restaurant Isfara
Zafarabad sub-office	March 2005	In front of “Khurshed” shop, Zafarabad district
Kanibadam sub-office	June 2005	45 Sovetskaya str., Kanibadam
Ganchi sub-office	August 2005	Ganchi district
Dushanbe Branch	September 2006	46-129 Aini str., Dushanbe

Board of Advisors

The Board of Advisors of the Fund comprises the following persons:

Sanoat Fattulaeva	Chairman
Fred Smith	Member
Mukaram Buzrukova	Member
Dilorom Atabaeva	Member
Ibrohim Gafurov	Member
Madjid Mahmudov	Member
Hotamjon Yuldashev	Member

Executive Committee

The Executive Committee of the Fund comprises the following persons:

Shoira Sodikova	General Director
Gulnora Yakubova	Deputy General Director/Head of Credit Department
Khurshed Abdulloev	Director of Istaravshan branch
Kahor Abdulloev	Chief Accountant
Abdusaid Razokkov	IT Manager

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FINANCIAL STATEMENTS

Income statement

	<u>Notes</u>	<u>Jan-Dec 2006</u>
		TJS
Interest and similar income	3	2,110,689
Interest expenses and similar charges	3	(413,581)
Net interest income		1,697,108
Fee and commission income	4	181,980
Fee and commission expense	4	(55,504)
Net fee and commission income		126,476
Foreign exchange result	5	(135,924)
Other operating income	6	14,535
Operating income		1,702,195
General and administrative expenses	7	1,011,916
Impairment (gains)/losses on loans	9	164,517
Operating expenses		1,176,433
Net operating result before grant income		525,762
Grant income	10	115,948
Net profit (before allocation)		641,710
Income tax	11	160,420
Net profit/(loss)		481,290

The accompanying notes on pages 11 to 29 are an integral part of these financial statements.

Signed and authorized by:

Shoira Sadykova
General Director of MicroInvest

Kahor Abdulloev
Chief Accountant of MicroInvest

April 23, 2007

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Balance sheet

	Notes	31-Dec-06	Unaudited 31-Dec-05
		TJS	TJS
Assets			
Cash and cash equivalents	12	80,943	166,789
Loans and advances to customers	13	6,883,912	2,964,062
Property and equipment	14	1,180,873	312,010
Other assets	15	230,876	152,589
		<hr/>	<hr/>
Total assets		8,376,604	3,595,450
		<hr/>	<hr/>
Liabilities			
Differed income	16	200,064	258,633
Due to non-banking financial institutions	17	4,745,101	1,023,776
Other liabilities	18	650,077	12,969
		<hr/>	<hr/>
Total liabilities		5,595,242	1,295,378
		<hr/>	<hr/>
SURPLUS OF ASSETS AND LIABILITIES			
ACDI/VOCA	19	1,853,793	1,853,793
MDTM	19	71,241	71,241
Retained earnings	20	856,328	375,038
		<hr/>	<hr/>
Total equity		2,781,362	2,300,072
		<hr/>	<hr/>
Total equity and liabilities		8,376,604	3,595,450
		<hr/>	<hr/>

The accompanying notes on pages 11 to 29 are an integral part of these financial statements.

Signed and authorized by:

Shoira Sadykova
General Director of MicroInvest

Kahor Abdulloev
Chief Accountant of MicroInvest

April 23, 2007

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Statement of changes in surplus of assets and liabilities

	Notes	ACDI/VOCA contribution	MDTM contribution	Retained earnings	Total equity
		TJS	TJS	TJS	TJS
Balance at December 31, 2005		1,853,793	71,241	375,038	2,300,072
Net result for the year				481,290	481,290
Balance at December 31, 2006		1,853,793	71,241	856,328	2,781,362

The accompanying notes on pages 11 to 29 are an integral part of these financial statements.

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Statement of cash flows

	<u>Notes</u>	<u>2006</u>
		TJS
Net result		481,290
Depreciation		95,944
Cash flows from operating profits before changes in operating assets and liabilities		577,234
<i>Changes in operating assets and liabilities</i>		
Net (increase)/decrease in loans and advances to customers		(3,919,850)
Net (increase)/decrease in other assets		(78,287)
Net increase/(decrease) in other liabilities		1,131,029
Net cash used in operating activities		<u>(2,289,874)</u>
Cash flows from investing activities		
Purchase of property and equipment		(964,807)
Net cash (used in)/from investing activities		<u>(964,807)</u>
Cash flows from financing activities		
Long term liabilities		3,168,835
Net cash (used in)/from financing activities		<u>3,168,835</u>
Net increase in cash and cash equivalents		(85,846)
Cash and cash equivalents at beginning of year	10	<u>166,789</u>
Cash and cash equivalents at end of year	10	<u>80,943</u>

The accompanying notes on pages 11 to 29 are an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies

The principal accounting policies adopted for the preparation of these financial statements are set out below:

1.1 Basis of accounting

The financial statements have been prepared in accordance with generally accepted accounting principals. The financial statements have been prepared under the historical cost convention, financial assets and financial liabilities held at fair value through profit or loss. Property and equipment is valued at fair value.

The Fund maintains its books and records in Tajik Somoni and in compliance with the statutory and central banking regulations prevailing in Tajikistan. Certain adjustments to the Tajik accounts were made in order to present the financial statements in conformity with generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies, the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

1.2 Foreign currencies

a) Functional and presentation currency

The financial statements are presented in Tajik Somoni, which is the Fund's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

The exchange rates used for the financial statements are the official exchange rates as issued by the National Bank of Tajikistan. As of December 31, 2006 and December 31, 2005 the principal exchange rates were:

	<u>Dec 31, 2006</u>	<u>Dec 31, 2005</u>
	TJS	TJS
1 US dollar =	3.4265	3.1993
1 euro =	4.5137	3.7832

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1.3 Interest income and expense

Interest income and expense are recognized in the income statement for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.4 Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

1.5 Grant/grants

The Fund receives grants for operational expenses and trainings from various donors. When a grant is received it is recognized as short-term liability (funds received from other agencies). The donor money is expensed in the income statement once the actual spending takes place. The remaining grant amount is payable to the donors according to the grant agreements between the Fund and donors.

The Fund also receives grants for fixed assets. The grants are stated as differed income which is recognized as income on a systematic and rational basis over the useful life of the asset.

1.6 Financial assets

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

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(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of trading the receivable.

Purchases and sales of financial assets at fair value through profit or loss are recognized on trade date – the date on which the Fund commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership.

1.7 Offsetting financial instruments

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

1.8 Impairment of financial assets

(a) Assets carried at amortized cost

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets 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 asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment

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loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

(b) Assets carried at fair value

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement.

Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

1.9 Fixed assets

Fixed assets are stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	%
Furniture and equipment	10
Vehicles	20
Computer equipment	20

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

1.10 Intangible fixed assets

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their

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estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Fund, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

1.11 Provisions

Provisions are recognized when the Fund 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. Provisions are of a short-term nature and are not discounted.

1.12 Pension obligations

The Fund operates a defined social security contribution plan. The pension fund is generally funded by payments from employees and by the Fund to a state pension fund. Contributions of the Fund are charged to the income statement in the year to which they relate. The Fund has no further obligations in respect of defined contribution schemes other than its contributions.

1.13 Provision for loan impairment

An allowance for loan impairment is established where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectible, it is written off against the related provision for impairments; subsequent recoveries are credited to the provision for loan losses in the income statement.

In determining the overall level of the provisions required, notwithstanding the good quality of the Fund Loan Portfolio, management considers numerous factors including, but not limited to, the financial condition of the borrower, existence and quality of collateral, domestic economic conditions, the composition of the loan portfolio and prior bad debt experience and repayments after year-end.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

The following provision rates have been used historically by the Fund:

Normally performing loans, other than agricultural	0.5 %
Normally performing agricultural loans including livestock	5.0 %
Loans 1 - 30 days in arrears	10.0 %

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Loans 31 – 60 days in arrears	30.0 %
Loans 61 – 90 days in arrears	50.0 %
Loans > 90 days in arrears	100.0 %

The loan loss provision is calculated on the outstanding principal of the loan.

1.14 Deferred income taxes

Deferred income taxes are provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income taxes. The principal temporary differences arise from depreciation on property, plant and equipment and provisions for loans.

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

Income taxes payable on profits, based on the applicable tax law in each jurisdiction is recognized as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

1.15 Borrowings

Borrowings are recognized initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

2 Use of financial instruments

2.1 Strategy in using financial instruments

By its nature the Fund's activities are principally related to the use of financial instruments. The Fund takes loans from international institutions at fixed and nil rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets.

2.2 Credit risk

The Fund takes on exposure to credit risk, which is the risk that a borrower will be unable to pay amounts in full when due. The Fund 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, and to geographical and industry segments. Limits on the level of credit risk by product, industry sector and by country are approved by the Board of Trustees of the Fund. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet

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interest and capital 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.

2.3 Market risk

The Fund 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.

2.4 Currency risks

The Fund does not invest extensively in assets denominated in currencies other than its reporting currency, the Tajik Somoni (TJS). Consequently, the Fund is exposed to risks that the exchange rate of the Tajik Somoni relative to other currencies may change in a manner that has an adverse effect on the reported value of that portion of the Fund's assets, which are denominated in currencies other than the Tajik Somoni.

Currency analysis

The amount of total assets and total liabilities analysed by currency at December 31, 2006 is as follows:

all amounts are expressed in TJS

	TJS	USD	EURO	Total
Assets				
Cash and cash equivalents	46,678	34,265	-	80,943
Loans and advances to customers	6,473,218	410,694	-	6,883,912
Property and equipment	1,180,873	-	-	1,180,873
Other assets	230,876	-	-	230,876
Total assets	7,831,645	444,959	-	8,376,604
Liabilities				
Deferred income	200,064	-	-	200,064
Due to other financial institutions	1,486,963	3,032,453	225,685	4,745,101
Other liabilities	265,597	384,480	-	650,077
Total liabilities	1,952,624	3,416,933	225,685	5,595,242
Total assets -/- liabilities	5,979,021	(2,971,974)	(225,685)	2,781,362

As of December 31, 2006 the fund's outstanding portfolio of US Dollar denominated loans amounted to TJS 418,216 - 6% of the total outstanding loan portfolio.

2.5 Interest rate risk

The Fund 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.

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2.6 *Liquidity risk*

Liquidity risk arises from the possibility that the Fund may be unable to satisfy current and future financial commitments.

The Fund exposed to calls on its available cash resources from maturing loans received by the Fund and loan draw downs. The Fund does not maintain cash resources to meet these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted quite reasonable.

Maturity analysis

The amount of total assets and total liabilities analyzed over the remaining period to the contractual maturity date at December 31, 2006 and December 31, 2005 is as follows:

December 31, 2006	Demand (including arrears)	Up to 6 months	From 6 months to 1 year	Over 1 year	No specified maturity	Total
	TJS	TJS	TJS	TJS	TJS	TJS
Assets						
Cash and cash equivalents	80,943	-	-	-	-	80,943
Loans and advances to customers	11,489	6,371,108	501,315	-	-	6,883,912
Property and equipment	-	-	-	-	1,180,873	1,180,873
Other assets	-	230,876	-	-	-	230,876
Total assets	92,432	6,601,984	501,315	-	1,180,873	8,376,604
Liabilities						
Deferred income	-	-	32,437	167,627	-	200,064
Due to other financial institutions	-	625,026	951,240	3,168,835	-	4,745,101
Other liabilities	-	650,077	-	-	-	650,077
Total liabilities	-	1,275,103	983,677	3,336,462	-	5,595,242
Net liquidity gap	92,432	5,326,881	(482,362)	(3,336,462)	1,180,873	2,781,362

2.7 *Fair values of financial assets and liabilities*

The fair value of the financial assets and liabilities that are presented on the Fund's balance sheet approximates their carrying value. The fair value is calculated as follows:

(a) Loans and advances to customers

The estimated fair value of loans and advances represents the discounted amount of

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estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(b) Borrowings

The estimated fair value of fixed and nil interest-bearing borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

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NOTES TO THE INCOME STATEMENT

3 Net interest income

	Jan 1 – Dec 31, 2006
	TJS
Interest and similar income	
Loans and advances	2,110,689
Total interest income	2,110,689
Interest expense and similar charges	
Interest expense	413,581
Total interest expenses	413,581

Interest income from placements with commercial banks represents interest received on interest bearing deposits with commercial banks.
All income arises within Tajikistan.

4 Net fee and commission income

	Jan 1 – Dec 31, 2006
	TJS
Fee and commission income	
Commission income	181,980
Total fee and commission income	181,980
Fee and commission expenses	
Commission expenses	55,504
Total fee and commission expenses	55,504

5 Foreign exchange result

	Jan 1 – Dec 31, 2006
	TJS
Net foreign exchange gains/(loss)	(135,924)

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6 Other operating income

Other income consists mainly of penalties charged to customers.

7 General and administrative expenses

	Jan 1 – Dec 31, 2006
	TJS
Staff costs	584,564
Professional services	40,215
External audit fee	46,052
VAT	18,482
Road tax	44,701
Other taxes	23,305
Depreciation	95,945
Repair, maintenance and other facilities	18,991
Communication	26,683
Transport	15,243
Rent	23,449
Stationery	32,174
Advertisements	11,235
Penalties	1,008
Other expenses	29,869
Total General and administrative expenses	1,011,916

8 Staff costs

	Jan 1 – Dec 31, 2006
	TJS
Wages and salaries	436,000
Incentive fees	2,243
Other benefits	6,581
Social security contribution	111,206
Travel costs	28,534
Total staff costs	584,564

The average number of persons employed by the Fund during the year was 64 (2005: 54).

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9 Impairment losses on loans and advances

	Jan 1 – Dec 31, 2006
	TJS
Impairment on loans and advances to customers	164,517
Release of provision	-
Collected previously written off loans	-
Total impairment losses on loans and advances	164,517

10 Grant income

	Jan 1 – Dec 31, 2006
	TJS
Novib, Oxfam	58,569
Microfinance Rating and Assessment Fund	27,412
German Society on Technical Cooperation (GTZ)	29,967
Total grant income	115,948

11 Income tax

	Jan 1 – Dec 31, 2006
	TJS
Current tax	201,407
Deferred tax	(40,987)
Total income tax	160,420

Income tax is calculated at 25% of taxable profits that is in accordance with the legislation of Tajikistan.

Deferred taxation reflects the impact of timing differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes.

A deferred tax asset has only been accounted for in the financial statements, as the crystallization of such an asset appears to be likely i.e. the asset can be offset against tax charges in the first year after the period under review.

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NOTES TO THE BALANCE SHEET

12 Cash and cash equivalents

	<u>31-Dec-06</u>	<u>31-Dec-05</u>
	TJS	TJS
Cash in TJS	23,296	12,093
Bank in TJS	23,382	5,804
Cash in USD	-	-
Bank in USD	34,265	148,892
	<u>80,943</u>	<u>166,789</u>

13 Loans and advances to customers

	<u>31-Dec-06</u>	<u>31-Dec-05</u>
	TJS	TJS
Loans outstanding	7,048,133	2,973,474
Provision for impairment on loans	(164,221)	(9,412)
	<u>6,883,912</u>	<u>2,964,062</u>

13.1 Analysis by sector

	<u>31-Dec-06</u>	<u>31-Dec-05</u>
	TJS	TJS
Trade	3,486,883	1,882,893
Agriculture/Farming	3,027,403	835,677
Production	304,049	157,778
Services	167,604	85,301
Consumer loans	62,194	11,825
Total	<u>7,048,133</u>	<u>2,973,474</u>

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13.2 Analysis by type of collateral

	<u>31-Dec-06</u>	<u>31-Dec-05</u>
	TJS	TJS
Movables	202,791	13,100
Real estate	595,299	140,087
Solidarity group	6,187,849	2,808,462
Loans to employees (no collateral)	62,194	11,825
	<u>7,048,133</u>	<u>2,973,474</u>

13.3 Geographical analysis

As of December 31, 2006 the geographic spread of Fund's loan portfolio within Tajikistan is as follows:

	<u>31-Dec-06</u>	<u>31-Dec-05</u>
	TJS	TJS
Khudjand	1,105,874	645,558
Gafurov	485,469	227,914
Chkalovsk	40,384	36,021
Kistakuz	163,621	69,701
Nau	869,836	320,002
J. Rasulov	795,038	462,571
Kayrakum	35,623	25,720
Istaravshan	988,190	545,130
Ovchi – kalacha	52,664	25,924
Mastchoh	322,724	148,451
Shakhristan	508,206	175,577
Isfara	850,039	204,151
Zafarobod	411,330	55,658
Konibodom	174,902	9,523
Gonchi	157,671	21,573
Rudaki	23,619	-
Hisor	15,389	-
Tursunzoda	47,554	-
	<u>7,048,133</u>	<u>2,973,474</u>

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13.4 Arrears

	<u>31-Dec-06</u>	<u>31-Dec-05</u>
	TJS	TJS
1-30 days	10,580	-
31-60 days	861	-
61-90 days	2,728	5,198
> 90 days	3,095	4,214
	<u>17,264</u>	<u>9,412</u>
Total	17,264	9,412

13.5 Provision

The movements in provisions for losses are as follows:

	<u>31-Dec-06</u>	<u>31-Dec-05</u>
	TJS	TJS
Balance at January 1, 2006	9,412	-
Impairment losses	164,517	12,292
Bad debts written off	(9,708)	(2,880)
	<u>164,221</u>	<u>9,412</u>
Balance at 31 December, 2006	164,221	9,412

13.6 Prolonged loans

When a loan is prolonged the initial repayment schedule is changed. The loan prolongation is carried out in exceptional cases and because of the following events, to which the borrower was exposed:

Fire, sickness, death, legitimated property confiscation, theft, damage to borrower's property by natural disaster, poor harvest or cattle plague.

The loan prolongation is approved by the Credit Committee at branch or head office levels.

When a loan is prolonged it is provided for in the loan loss provision for 100%.

As of December 31, 2006 the fund had prolonged loans for the total amount of TJS 22,253.

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14 Property and equipment

2006	Leased Assets	Computers	Furniture & Equipment	Vehicles	Intangible assets	Total
	TJS	TJS	TJS	TJS	TJS	TJS
As at January 1, 2006						
Historical cost	-	165,446	118,505	64,283	45,888	394,122
Accumulated depreciation	-	(41,518)	(28,443)	(5,847)	(6,304)	(82,112)
Net book value	-	123,928	90,062	58,436	39,584	312,010
Movements 2006						
Additions	896,372	21,530	44,052	956	1,897	964,807
Disposals	-	-	-	-	-	-
Reversal of accumulated depreciation	-	-	-	-	-	-
Depreciation	(35,855)	(29,136)	(17,895)	(8,909)	(4,149)	(95,944)
As at December 31, 2006						
Historical cost	896,372	186,976	162,557	65,239	47,785	1,358,929
Accumulated depreciation	(35,855)	(70,654)	(46,338)	(14,756)	(10,453)	(178,056)
Net book value	860,517	116,322	116,219	50,483	37,332	1,180,873

Property and equipment is not insured.

15 Other assets

	Dec 31, 2006	Dec 31, 2005
	TJS	TJS
Accrued interest on loans	119,269	47,097
Accounts receivable	55,629	95,655
Deferred expenses	-	-
Prepayments	4,524	8,638
Deferred income tax	51,069	-
Other assets	385	1,199
	230,876	152,589

16 Differed income

The Fund receives grants for fixed assets. The grants are stated as differed income which is recognized as income on a systematic and rational basis over the useful life of the asset.

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17 Due to other financial institutions (loans)

Loans from other financial institutions are the borrowings, which the Fund takes for loan portfolio expansion.

17.1 By financial institutions (short-term loans)

	31-Dec-06	31-Dec-05
	TJS	TJS
European Bank for Reconstruction and Development (EBRD)	799,519	-
Micro Lending Company "Frontiers"	599,637	1,023,776
First Microfinance Bank	142,845	-
Cooperative Housing Foundation	34,265	-
	1,576,266	1,023,776

17.2 By financial institutions (long-term loans)

	31-Dec-06	31-Dec-05
	TJS	TJS
European Bank for Reconstruction and Development (EBRD)	1,599,031	-
First Microfinance Bank	82,840	-
Novib Oxfam	1,486,964	-
	3,168,835	-

17.3 By currency

	31-Dec-06	31-Dec-05
	TJS	TJS
Local currency	1,486,963	-
Foreign currency	3,258,138	1,023,776
	4,745,101	1,023,776

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18 Other liabilities

	31-Dec-06	31-Dec-05
	TJS	TJS
Accrued interest payable	1,313	-
Audit fee payable	46,052	12,969
Professional fees payable	23,986	-
Income tax payable	189,139	-
VAT payable	18,482	-
Lease liability	359,181	-
Other liabilities	11,924	-
	650,077	12,969

19 Equity contributions

	31-Dec-06	31-Dec-05
	TJS	TJS
ACDI/VOCA	1,853,793	1,853,793
MDTM	71,241	71,241
Total equity	1,925,034	1,925,034*

MDTM made a contribution to Microinvest in the form profit generated in the microfinance programme for the amount of TJS 71,241.

ACDI/VOCA contribution for the total amount of TJS 1,853,793 represents the loan funds previously employed by ACDI/VOCA in microfinance programme for the amount of TJS 1,722,129, fixed assets with net book value of TJS 95,922 and cash for the amount of TJS 35,742.

The amount of total equity was adjusted in these financial statements, and namely reflected as equity contribution, instead of grant income as was stated in the 2005 financial statements audited by predecessor auditor.

20 Retained earnings

	31-Dec-06	31-Dec-05
	TJS	TJS
Opening balance	375,038	-
Result for the year	481,290	375,038
Balance as at December 31	856,328	375,038

21 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or

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exercise significant influence over the other party in making financial or operational decisions.

A number of fund's transactions are entered into with related parties in the normal course of business. These include loans to employees. These transactions were carried out on commercial terms and conditions and at market rates, but with no collateral. The volumes of related party transactions, outstanding balances at the year-end is TJS 62,194 (2005: TJS 11,825).

22 Directors' remuneration

A listing of the members of the Board of Advisors is shown on page 6 of the financial statements. In 2006 the remuneration to their members is TJS 2,243 (2005: TJS 1021).

23 Commitments, contingent liabilities and off-balance sheet financial instruments

Undrawn loan commitments

The Fund has no undrawn loan commitments.

24 Subsequent events

No events have occurred since the balance sheet date, which significantly affect the state of affairs of the Fund at the balance sheet date or which require additional disclosure.