

INICJATYWA MIKRO Sp. z o.o.

**Report for the financial
year ended on December 31, 2007**

Inicjatywa Mikro Sp. z o.o.

**Annual report
for the financial year ended on December 31, 2007**

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Inicjatywa Mikro Sp. z o.o.
(translation only)

**Independent auditors' report to the shareholders of
Inicjatywa Mikro Sp. z o.o**

We have audited the financial statements which comprise of the profit and loss account, balance sheet and the related notes. The key items of these financial statements are:

- (a) Net assets as at December 31, 2007 amounting to PLN 8,914,935,
- (b) Net profit for the financial year ended December 31, 2007 amounting to PLN 140,988.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom laws and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards of Auditing.

We report to you our opinion as whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for audit, or if information specified by law regarding directors' and supervisory board's remuneration and transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with International Standards of Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of presentation of information in the financial statements.

Opinion

In our opinion the financial statements give true and fair view of the state of the Company's affairs as at December 31, 2007 and of its financial result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

AdAc Sp. z o.o.
AdAc Sp. z o.o.

Kraków, April 18, 2008

MANAGING DIRECTORS' REPORT for the year ended 31 December 2007

Hereby, the directors present the operating statement and the audited financial statements of the Company for the year ended 31 December 2007.

Principal activities

The Company's principal activity is operating a loan fund for micro- and small enterprises registered in the area of Malopolska and Silesia province. Loans were granted to support the development, as well as setting up small businesses. Extending loans to entrepreneurs who do not meet the formal criteria required to receive a bank credit, Inicjatywa Mikro fulfilled its mission to support local microenterprise development.

Review of business and future developments

In year to year comparison, as of the end of December 2007 the Company achieved an increase in the volume of loans outstanding by 55% (from 9.3 million zloty up to 14.4 million of zloty). The arrears ratio over thirty days at the end of the year was decreased from 1.39% to 0.29%, while the portfolio at risk, ratio used in line with the best micro-financial practice, was decreased from 12.34% to 1.59%.

In 2007 Inicjatywa Mikro held the third position in the loan funds' ranking according to the number of loans disbursed (data from the most recent report presented by the Polish Association of Loan Funds on the basis of examination of 69 institution in Poland).

Inicjatywa Mikro continued the implementation of the grant agreement of 10,000,000 zlotys, signed with the Polish Agency for Enterprise Development and the cooperation with Bank Gospodarstwa Krajowego (the National Economy Bank) under the program "The First Business", financed by the Ministry of Economy and Labour.

In the year 2007 Inicjatywa Mikro continued as a support member of the Polish Association of Loan Funds

Results and use of net income

The Company's net result for the financial year is 140 988,10 PLN profit. According to the Agreement of the Company the profit is used for increasing the loan fund capital.

The managing directors who held office during the year are given below:

Izabela Norek – President and Executive Director
Magdalena Berska – Vice-President and Finance Director

The managing directors had no interests in the shares of the Company or the parent company.

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(translation only)

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Research and development

In the first months of 2007 the Company modified its offer and the process of advancing loans. Changes were implemented in the range of products offered, interest rates charged and the loan approval process shortened. The branch offices in Krakow and Katowice were moved to more accessible and visible locations. In addition, the branches were fitted out and painted establishing a corporate identity.

An advertising campaign was carried out to increase the brand identification stayed in local media.

Employees

In the year 2007 Inicjatywa Mikro continued with staff development including training in financial analysis and legal aspects of loan collateral.

Also quarterly meetings of field staff took place, being aimed at a skill-sharing, discussion about changes on the market ; customer needs and also increase the integration of IM into one team.

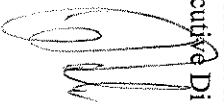
In the connection with the planned development of activity of the fund during the year new Loans' Specialists were employed in Cracow, Katowice and Bielsko-Biala and new Administrative Assistants in the customer service's office in Cracow and Czestochowa.

Statement of managing directors' responsibilities

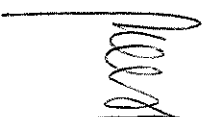
The managing directors are required to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for the period.

The directors confirm that suitable accounting policies have been used and applied consistently to prepare the financial statements. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2007 and that applicable accounting standards have been followed.

Izabela Norek
Executive Director



Magdalena Berska
Financial Director



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Profit and loss account
for the year ended on December 31, 2007

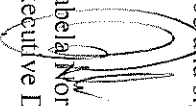
	Note	2007 zł	2006 zł
Turnover			
Grants and donations received		-	-
Income from lending activities	2	2,447,250	2,081,486
Other income		3,012	246
		2,450,262	2,081,732
Operating expenses			
Marketing costs		(278,767)	(133,143)
Third party's charges		(255,426)	(199,420)
Personnel costs	3	(1,049,626)	(892,220)
Depreciation and amortisation	7	(32,442)	(23,984)
Management and administration costs	4	(660,485)	(243,624)
Other operating expenses		(49,994)	(47,561)
		(2,326,740)	(1,539,952)
Profit on ordinary activities before interest and taxation			
Interest receivable		134,051	93,161
Interest payable	5	(40,923)	(76,186)
Net foreign exchange differences		10,301	2,145
		103,429	19,120
Profit on ordinary activities before taxation			
Income tax	6	(85,963)	(130,788)
		140,988	430,112


Inicjatywa Mikro Sp. z o.o.
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Balance sheet as at December 31, 2007

	Note	31.12.2007	31.12.2006
		zł	zł
Fixed Assets			
Intangible assets	7	42,245	4,881
Tangible assets	7	79,983	36,198
		122,228	41,079
Current assets			
Loan and interest receivables	8,9	14,846,556	9,644,123
-due within one year	8,9		2,892,198
Other receivables and prepayments	8	46,359	12,019
-due within one year	8		1,265
Deferred tax asset	10	27,731	50,619
Cash at banks and in hand		4,327,301	7,709,354
Payables - falling due within 1 year	11	19,247,947	17,416,115
		(409,039)	(510,444)
Net current assets		18,838,908	16,905,671
Total assets less current liabilities		18,961,136	16,946,750
Payables - falling due after more than 1 year	12	(10,889)	(211,135)
Provision for deferred tax	13	(25,973)	(31,736)
Special Accounts	14	(10,009,339)	(7,929,932)
		(10,046,201)	(8,172,803)
Net assets		8,914,935	8,773,947
Shareholders' equity			
Share capital	15	5,256,500	5,256,500
Additional paid-in capital	15	45,303	45,303
Retained earnings	15	3,613,132	3,472,144
Total shareholders' equity		8,914,935	8,773,947

The financial statements on pages 6 to 16 were approved by the Board of Directors on April 18, 2008 and signed by:


 Izabela Norek
 Executive Director


 Magdalena Berska
 Finance Director

Notes to the financial statements
for the year ended on December 31, 2007

1. Principal accounting policies

(a) Preparation of the financial statements

The Company prepares and maintains its books and records in accordance with the Polish Accountancy Act. For purposes of this report, it has made certain adjustments to comply with generally accepted accounting principles in the United Kingdom.

(b) Currency of the presentation

The accompanying financial statements are presented in Polish Złoty (PLN), which is the functional currency of the Company.

(c) Foreign currency transactions

Foreign currency transactions are valued according to the average exchange rate announced for a given currency by the National Bank of Poland at the transaction date. Assets and liabilities are valued according to the National Bank of Poland average exchange rate as of the balance-sheet date for a given currency.

Gains and losses arising on foreign currency transactions are included in the profit and loss account in the period to which they relate.

(d) Cash

Cash includes balances held on current and short-term deposit bank accounts. The Company maintains its cash accounts in Polish and European Union currency with a high-credit, quality financial institution.

(e) Loan receivables

Loans are valued at their amounts due, including interest accrued at the contractual rate based on the principal outstanding balance. Loans which principal balance or interest is overdue for more than one hundred eighty days are excluded from base used to accrue the interest income. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, loans and related interest are written off when they are six months overdue.

Loans are considered impaired when, based on current information, it is probable that the Company will not collect all principal and interest payments according to contractual terms. Generally, loans are considered impaired once principal or interest payments become one hundred twenty days or more overdue. Management also considers the financial condition of the borrower and cash flows of the loan. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate and management's estimates.

Notes to the Financial Statements for the year ended on December 31, 2007 (Continued)

(f) Provision for loan losses

By the year end 2007 the Company had changed principles of assessing the size of provisioning, by using the system operated in most of the Opportunity Partners within Eastern Europe, the system is known as CAMEL.

The following criteria explains the above policy

Delay loan	Provisions made
1 - 30	10 %
31 – 60	25 %
61 – 90	50 %
91 -120	75 %
more than 120 days	100 %

(g) Tangible and intangible fixed assets

Tangible and intangible fixed assets are recorded at purchase prices less accumulated depreciation or amortization. Improvements are capitalised while repair and maintenance costs are written-off in the period they were incurred. Depreciation and amortisation are recorded using the straight-line method over the expected useful lives of the assets.

Depreciation and amortisation annual rates are as follows:

Computer equipment	30%
Vehicles	20%
Other assets	10%
Software	50%

Purchases of property and equipment and software below PLN 2,000 are expensed immediately. Result on sales of fixed assets is disclosed in the profit and loss account for the period in which the sale was effected.

**Notes to the Financial Statements
for the year ended on December 31, 2007 (Continued)**

(In) Taxation

The income tax in the Company comprises current and deferred tax.

In connection with temporary differences between the value of assets and liabilities as disclosed in the accounting books and their value for tax purposes, the Company makes a provision for deferred tax and determines a deferred tax asset. The prudence principle is applied for determination of the deferred tax asset. The amounts of the provision and the assets in respect of deferred tax are determined with regard taken of the tax rates prevailing in the year in which the tax become chargeable. The rates of 19% were adopted in the calculation of deferred taxes for the current year and for the previous year.

The Company presented separately the asset, calculated only on the basis of negative temporary differences, and the provision, calculated on the basis of positive temporary difference..

(i) Income from lending activities

Interest income is recognised using the effective interest method. Under this method the interest income is recognized based on the pattern reflecting a constant periodic rate of return on the outstanding loan balance. Interest income is allocated over the loan period payment on a systematic and rational basis. Loan instalment payments relating to the accounting period are applied to reduce both the principal and interest receivable.

Interest income on impaired loans is recognized on the cash basis.

Loan origination fees of two or three percent (2-3%) of the total loan is charged to each customer to cover the incremental direct costs incurred to complete each loan transaction. Since the origination fee approximately equals all incremental direct costs during the year, no amounts have been capitalised or accrued to amortize over the loan term.

(j) Other income

Government grants and donations are recognized as income, along with non-cash donations disclosed in fair value, when there is reasonable assurance that the Company will comply with any conditions attached to the grant and the grant will be received.

**Notes to the Financial Statements
for the year ended on December 31, 2007 (Continued)**

2. Income from lending activities

	2007 PLN	2006 PLN
Income from lending activities, gross	2,473,036	2,146,025
Provision for loan losses created	(437,493)	(445,759)
Recovered bad debts	411,707	381,220
	2,447,250	2,081,486

3. Personnel costs

The average monthly number of persons (including directors) employed by the Company in the year was as follows:

	2007	2006
Loan officers	12	10
Administration	9	7
	21	17

Personnel costs comprise of:

	2007 zł	2006 zł
Salaries	693,753	564,512
Social security costs	347,790	306,940
Other employees cost	8,082	20,768
	1,049,625	892,220

4. Management and administration costs

	2007 zł	2006 zł
Financial services	13,200	4,079
Automobile expenses	40,322	28,652
Rent	152,695	124,867
Office supplies and services	112,650	57,687
Management fee	262,803	-
Other expenses	78,815	28,339
	660,485	243,624

**Notes to the Financial Statements
for the year ended on December 31, 2007 (Continued)**

5. Interest payable

	2007 zł	2006 zł
Interest charge on loan	40,923	76,186
	40,923	76,186

6. Income tax for the financial year

	2007 zł	2006 zł
Current income tax	68,838	126,553
Deferred income tax	17,125	4,235
	85,963	130,788

The tax assessed for the current financial year is higher than the standard rate of income tax in Poland (19%). The differences are explained below:

Profit on ordinary activities before tax	226 941	560,900
Profit on ordinary activities multiplied by standard rate (19%)	43 119	106,571
Effects of:		
Expenses not deductible for tax purposes	481 000	83,184
Income not carried as taxable income	(345 634)	(63,202)
Donations	-	-
Current tax charge for the financial year	68 838	126,553

7. Tangible and intangible fixed assets

	Computer equipment	Vehicles	Office equipment	Software	Total
Gross value					
At the beginning of the year	67,014	37,190	64,468	32,851	201,523
Increases	47,654	-	14,182	56,636	118,472
Decreases	-	-	-	4,881	4,881
At the end of the year	114,668	37,190	78,650	84,606	315,114
Depreciation/amortisation					
At the beginning of the year	60,586	14,876	57,012	27,970	160,444
Charge for the year	7,999	7,339	2,713	14,391	32,442
Decreases	-	-	-	-	-
At the end of the year	68,585	22,215	59,725	42,361	192,886
Net book value					
At the beginning of the year	6,428	22,314	7,456	4,881	41,079
At the end of the year	46,083	14,975	18,925	42,245	122,228

**Notes to the Financial Statements
for the year ended on December 31, 2007 (Continued)**

8. Receivables

	31.12.2007	31.12.2006
	PLN	PLN
Loan receivables, gross	15,128,535	9,952,548
Revaluation write-offs	(281,979)	(308,425)
Loan receivables, net	14,846,556	9,644,123
Other receivables, net	983	223
Prepayments	45,375	11,796
	14,892,914	9,656,142

Loan receivables include PLN 7 574 155 (as at December 31, 2006: PLN 3 581 995) falling due after more than one year.

9. Provision for loan receivables

	2007	2006
	zł	zł
At the beginning of the year	308,425	265,461
Created	437,493	445,759
Released	(463,939)	(402,795)
At the end of the year	281,979	308,425

10. Deferred tax asset

	2007	2006
	PLN	PLN
At the beginning of the year	50,619	52,257
Charged to profit and loss account	27,731	50,619
Released in profit and loss account	(50,619)	(52,257)
At the end of the year	27,731	50,619

In the financial statements for current year, both deferred tax asset and provision have been disclosed separately at as the end of 2007 and 2006.

**Notes to the Financial Statements
for the year ended on December 31, 2007 (Continued)**

11. Payables - falling due within one year

	2007 PLN	2006 PLN
Taxation and social security	45,188	38,722
Other payables	107,257	19,699
Accruals and deferred income	62,829	50,109
Loan from OIKOCREDIT	193,764	401,914
	409,038	510,444

12. Payables - falling due after more than one year

	2007 PLN	2006 PLN
Provisions	10,888	13,704
Loan from OIKOCREDIT	-	197,431
	10,888	211,135

In April 2001 the Company signed a loan agreement with Oikocredit Ecumenical Development Cooperative Society, with its registered office in Amersfoort in the Netherlands. The principal of the loan amounted to EUR 400,000 and the interest to 9% p.a. In January 2005, the Company signed an annex to the agreement pursuant to which part of the loan having the value of EUR 175,000 was changed into the amount of PLN 711,569 in order to limit a foreign exchange risk. During the current year the Company paid two six-month instalments covering the aggregate principal of EUR 50,000 and two six-month instalments covering the aggregate principal of PLN 203,306. The last loan instalment is to be repaid in 2008.

The liability under the said loan in foreign currency without due interest amounted as at December 31, 2007 to EUR 25,000. The liability in PLN amounted as at December 31, 2007 to PLN 101,651.

13. Provision for deferred tax

	2007 PLN	2006 PLN
At the beginning of the year	31,736	37,610
Charged to profit and loss account	25,973	31,736
Released in profit and loss account	(31,736)	(37,610)
At the end of the year	25,973	31,736

**Notes to the Financial Statements
for the year ended on December 31, 2007 (Continued)**

14. Special Accounts

	BGK PLN	SPO-WKP PLN	Total PLN
At the beginning of the year	597,822	7,332,110	7,929,932
Increases	278,750	2,111,758	
Decreases	(311,102)		
At the end of the year	565,470	9,443,868	10,009,339

BGK Fund

In 2006 the Company performed an agreement it signed in 2004 with Bank Gospodarstwa Krajowego (BGK) to manage the distribution of public funds allocated for reducing unemployment among graduates. In accordance with the agreement, the Company has to manage the funds on behalf of BGK. The Company is entitled to receive a 2% commission under loans granted. The management recognised the funds as long-term because it was not determined till when they were to be repaid.

SPO-WKP Fund

In 2005, the Company signed an agreement for financial support with the Polish Agency for Enterprise Development (PAED) under the Sectoral Operational Programme "Improvement of the Competitiveness of Enterprises" (in short: SPO-WKP) with the aggregate value of PLN 10 million. As part of the realization of this agreement the Company received next part of the support amount of the 2 112 thousand of zlotys by this year.

The support received is to increase the lending fund of Inicjatywa Mikro subject to certain conditions. Failure to fulfil such conditions may cause termination of the agreement with PAED and result in necessity to repay the support received along with interest. The agreement may be terminated by either party upon a two-month notice.

Interest received on the loans granted from the support and on bank deposit constitute income of the Company. The support is secured with promissory notes issued by the Company.

**Notes to the Financial Statements
for the year ended on December 31, 2007 (Continued)**

15. Shareholders' Equity

	Share Capital	Additional Paid In Capital	Retained profit (accumulated loss)	Total
No. of shares	PLN	PLN	PLN	PLN
At the beginning of the year	52,565	5,256,500	45,303	3,472,144
Net profit for the year	-	-	-	140,988
At the end of the year	52,565	5,256,500	45,303	3,613,132
				8,914,935

16. Transactions with directors

The directors had no material interest in any contract or arrangement with the company during the year.

17. Post balance sheet events

No events, having potential influence on financial statements for the year ended on December 31, 2007 occurred between the balance-sheet date and the date of signing this report.

18. Ultimate parent undertaking

The immediate parent company until 21 December 2007 was Opportunity Microcredit (Eastern Europe) Fund, based in the United Kingdom. From that date 51% of the shares were held in Opportunity Microcredit Investment Ltd, [OMIL] based in the United Kingdom, and 49% of the shares were held by Opportunity Transformation Investments, [OTI] based in the USA.

