



ИНН 01810200010153

Исх. № 44 от «24» 04 2006 г.

To the Founder of the LLC "Micro Credit Company
"Financial Group Companion"

THE INDEPENDENT AUDITOR'S REPORT

We, the Limited Liabilities Company "BNK Tax Consultants' Bureau" (license # 0021 series GK of September 6, 2004) in accordance with Contract # 4-01/06 of January 23, 2006, have audited the accompanying financial statements prepared by the LLC "Micro Credit Company "Financial Group Companion" (hereinafter referred to as the Micro Credit Company) consisting of the balance sheet as of December 31, 2005, income statement, cash flow statement, statement of changes in net assets for the period ended on that date, and notes to the financial statements. The preparation and contents of the financial statements are the responsibility of the Micro Credit Company's management. Our responsibility is to express an opinion on the above-mentioned financial statements based on our audit.

We have conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free of material misstatements. The evidence supporting the value and disclosure in the financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates prepared by the management as well as evaluating the overall preparation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of the Micro Credit Company give a true and fair view of the financial position of the Micro Credit Company as of December 31, 2005 and the results of its operations as well as the cash flows for the year ended on the stated date in accordance with the International Financial Reporting Standards.

Aramyan I.A.
Auditor, qualified certificate # 00037 of June 24, 2004
Director of the LLC "BNK Tax Consultants' Bureau"

Date _____

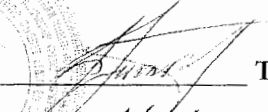


MCC "KOMPAKON FINANCIAL GROUP" LTD
BALANCE SHEET
AS OF DECEMBER 31, 2005

(by thousands soms)

#	Item title	Notes	2005
	Assets		
1	Cash assets and assets in computation	3	676,7
2	Deposits in banks and financial institutions	4	26 848,5
3	Loans for clients	5	153 860,4
4	Minus: Reserve expenses for coverage of potential credit and leasing losses (LLR)	6	-6 260,1
5	<i>Total: neat loans</i>		147 600,3
6	Receivable accrued interests	7	3 093,2
7	Main assets	8	11 240,2
8	Other assets	9	1 313,6
9	Total: assets		190 772,5
	Liabilities		
10	Loans from banks and other financial institutions	10	179 842,9
11	Deferred tax due	11	486,0
12	Other liabilities	12	4 597,2
13	Total: liabilities		184 926,1
	Capital		
14	Authorized capital stock	13	10 000,0
15	Undistributed profit	13	-4 153,6
16	Total: capital		5 846,4
17	Total: liabilities and capital		190 772,5

Chief Executive Officer
MCC "Kompanion Financial Group"


Tolbaev B. L.

Chief Accountant
MCC "Kompanion Financial Group"


Akimkanov U.I.

Bishkek, Kyrgyz Republic

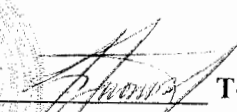
« 21 » 05 2006

*Notes are integral part of this financial report.

MCC "KOMPAKON FINANCIAL GROUP" LTD
INCOME STATEMENT
FOR THE PERIOD, FINISHED ON DECEMBER 31, 2005

(by thousands soms)

#	Item title	Notes	2004-2005
	Interest yields		
1	Interest yields and commissions on credits	14	50 910,1
2	<i>Total: interest yields</i>		50 910,1
	Interest expenses		
3	Other interest expenses	14	1 935,3
4	<i>Total: interest expenses</i>		1 935,3
5	Net interest yield		48 974,8
6	Minus: Reserve expenses for coverage of potential loan and leasing losses (LLR)	14	6 353,4
7	<i>Potential net profit after deductions into LLR</i>	14	42 621,4
	Operational profit		
8	Payment for failure to fulfill obligations on loans	15	481,0
9	Other kinds of profit	15	4 321,8
10	<i>Total: operational profit</i>		4 802,8
	Operational expenses		
11	Personnel expenses	16	29 986,8
12	Expenses for main assets and intangible assets	16	6 795,1
13	Administrative expenses	16	11 260,5
14	Loan and debt expenses	16	33,9
15	Other operational expenses	16	1 547,3
16	Tax expenses, except profit tax	16	1 117,1
17	<i>Total: operational expenses</i>		50 740,7
18	Profit (losses) before deduction of profit tax and windfall gains and contingencies		(3 316,5)
19	Profit tax	17	540,4
20	Deferred taxes	17	296,7
21	<i>Total: expenses for profit tax</i>		837,1
22	Net profit (losses) before windfall gains and contingencies		(4 153,6)
23	Windfall gains and contingencies		0,0
24	Expenses for windfall gain tax		0,0
25	Net profit (losses)		(4 153,6)

Chief Executive Officer
MCC "Kompanion Financial Group"  Tolbaev B. L.

Chief Accountant
MCC "Kompanion Financial Group"  Akimkanov U.I.

Bishkek, Kyrgyz Republic

« 31 » 03 2006


*Notes are integral part of this financial report



MCC "KOMPAION FINANCIAL GROUP" LTD
 CASH FLOW REPORT
 FOR THE PERIOD, FINISHED ON DECEMBER 31, 2005 (*indirect method*)

(by thousands soms)

#	Item title	Notes	2004-2005
	Cash flow from operational activities	16	
1	Net profit/losses		(4 153,6)
	<i>Corrections for comparison of net profit with net cash assets of operational activities</i>		
2	Depreciation		1 429,2
3	LLR deductions		6 353,4
4	<i>Profit/ (losses) before changes in the operational assets (Increase)/ decrease of assets</i>		3 629,0
5	Accrued receivable profit		(3 093,2)
6	Loans		(153 953,7)
7	Other assets		(1 319,1)
	<i>Increase (decrease)/of liabilities</i>		
8	Accrued payable liabilities		2 576,3
9	Deferred tax liabilities		486,0
10	Other liabilities		2 140,9
11	(Paid profit tax)		(120,0)
12	<i>Net cash assets from operational activities</i>		(149 653,8)
	Cash flow from investment activities	16	
13	Sale of main assets		
14	(purchase of main assets)		(12 663,9)
15	<i>Net cash assets from investment activities</i>		(12 663,9)
	Cash flow from financial activities	16	
16	Inflow into the stock capital		10 000,0
17	Received loans		179 842,9
18	<i>Net cash assets from financial activities</i>		189 842,9
19	Net increase (decrease) of cash assets and their equivalents		27 525,2
20	<i>Cash assets and their equivalents as of the beginning</i>		-
21	<i>Cash assets and their equivalents as of the end</i>		27 525,2

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Bishkek, Kyrgyz Republic
 « 31 » 03 2006

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MCC "KOMPANION FINANCIAL GROUP" LTD
 REPORT ON STRUCTURAL CHANGES OF THE CAPITAL
 AS OF DECEMBER 31, 2005

(by thousands soms)

#	Item title	Notes	2004-2005
	Authorized capital stock		
1	Opening balance		-
2	Owner's investments	13	10 000,0
3	Ending balance	13	10 000,0
	Profit		
4	Opening balance of the accounting year		-
5	Profit (losses) of the last accounting period	13	(4 153,6)
6	Other changes		-
7	Ending balance of the accounting period	13	(4 153,6)
8	Total capital	13	5 846,4

Chief Executive Officer
 MCC "Kompanion Financial Group"  Tolbaev B. L.

Chief Accountant
 MCC "Kompanion Financial Group"  Akimkanov U.I.

Bishkek, Kyrgyz Republic
 « 31 » 05 2006

*Notes are integral part of this financial report

MCC "KOMPANION FINANCIAL GROUP" LTD
NOTES TO THE FINANCIAL STATEMENTS FOR 15 MONTHS PERIOD, AS OF
DECEMBER 31, 2005

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Note 1. Major work directions

MCC "Kompanion Financial Group" MCC (hereafter referred to as "MCC") was registered by the Ministry of Justice of the Kyrgyz Republic on October 12, 2004, under the number 21732-3300-000. It is a specialized credit institution of the Kyrgyz Republic, created in the form of Limited Liability Company. Mercy Corps, an international non-governmental and non-commercial organization is the only founder of the company. Mercy Corps is registered by the State Department of the United States (Washington State).

Activities of MCC are implemented on the basis of the Certificate of National Bank of the Kyrgyz Republic # 24, of November 4, 2004, in accordance with the Law of the KR "On micro finance organizations in the Kyrgyz Republic".

The main goal of the MCC according to the Charter is delivery of accessible micro finance services to the population in the Kyrgyz Republic, leading to poverty alleviation, increase of employment rate, support of small and micro enterprise development and social mobilization.. Main field of activity is micro lending to physical and legal entities based on conditions of urgency, repayment and collectibility.

Head office is located in Bishkek. As of December 31, 2005, company has 7 (seven) branches, in Chui (Bishkek), Osh, Jalalabat, Batken, Talas, Naryn and Issyk-Kul oblasts.

Legal address: 8th Micro district, Bld. 28A, Bishkek, 720075, tel: (0312) 692381

Note 2. Accounting policy

Main principles of the financial accounting, used for preparation of the financial statements of MCC are described further in paragraphs 2.1 to 2.16.

2.1. Main principles of financial accounting

Financial statements are prepared in accordance with International Accounting Standards ("IAS") and inclusive of banking legislation requirements of the Kyrgyz Republic in the parts which do not conflict with indicated standards:

In accordance with IAS, MCC is ruled by the following major assumptions:

- Accrual method of accounting supposes that results of operations and other activities are recognized when they are actually completed/performed, but not when cash is received. These operations are entered and presented in the financial statements during the period of their occurrence.
- Continuity of MCC activities supposes that MCC will continue its activities in the foreseeable future. MCC does not have intentions of and necessity in liquidation or considerable decrease of activities.

These financial statements were prepared on the basis of the data of financial accounting.

2.2. Presentation of the financial statements

Financial statements of MCC are prepared for the whole fiscal year, in accordance with requirements and forms of reports provided by "Regulations on requirements to form financial statements and presentation of the information by non-bank institutions, acting on the basis of the license of the National Bank of the Kyrgyz Republic", approved by the decree of national bank management of the KR #36/1 of December 27, 2003. Financial statements for 2005 are prepared for the period of 15 months from October 12, 2004 up to December 31, 2005 in accordance with regulations of the International Accounting Standards.

Following types of reports belong to the annual financial statements:

- Report on financial condition as of December 31, of reporting year;
- Income statement for reporting period;

- Cash flow statement for reporting period;
- Report on changes in the equity structure for reporting period;
- Explanatory note (disclosure) for reporting period.

2.3. Reporting currency

Reporting currency of MCC is KGS, Kyrgyz Som ("som"). Numeric information given in Notes, is presented in thousands soms.

2.4. Cash and equivalents

Cash and its equivalents consist of cash from the cash-box and balances in the bank accounts, with liquid financial investments for the term of three months or less from the date of acquisition.

2.5. Loans

MCC admits disbursed loans in balance, in case where if MCC makes an agreement, as a result of which it gets legal rights to receive cash for repayment of disbursed loan. MCC stops admission of the loan, when it loses its control over the requirement rights, according to the agreement.

Initially, loans in the account are admitted according to actually disbursed amounts. Further, initial balance decreases by the amount of repayment of borrower's debt and by the amount of partial writing-off at the expense of reserves that are made in relation to emergence of unreliable indebtedness.

Collateral received by MCC during disbursement of loan is not reflected on the balance sheet accounts and is considered on the off-balance accounts.

2.6. Loan loss reserves

Amount of losses, which were specifically estimated and amount of potential losses, which was not specifically estimated are recognized as expenses and deducted from total balance of loans through forming reserve to cover losses. Estimation of these losses is conducted by management of MCC based on internal normative documents, which were developed in accordance with normative requirements of the National bank of KR on asset classification and formation of loan loss reserves. Management of MCC applies its evaluation consistently from period to period.

In case if it is impossible to repay loans, they are written-off at the expense of loan loss reserves. Loans that are written off from the balance are considered on off-system accounts during five years. After five years a loan is withdrawn from the off-system accounting in the order provided by the internal normative document

2.7. Interests charged

Interest income is recognized based on effective interest rate accrual method in relation to all outstanding loans. Calculations related to the method of effective interest rate are done at least once during the reporting period.

2.8. Fixed assets

Initially, fixed assets of MCC are assessed at actual expenses for purchases. Actual expenses for purchases include purchasing price, import duties and non-compensated taxes on purchase and any other direct expenses of bringing the asset to operational status for purposeful use. Any trade privileges are deducted when estimating the purchasing price. Primary expenses on transportation, setting up, professional services such as services of architects and engineers are included in direct expenses.

Further expenses that are related to fixed assets, increase balance if MCC more likely receives future economic profits that are more than initial normative indicators of the asset. All other expenses are recognized as expenses to the period when they occur.

MCC uses straight-line depreciation method of fixed assets.

MCC forms the following groups of fixed assets and following terms of asset service:

- Furniture 5 years
- Office equipment 5 years
- Computers 5 years
- Transport 10 years

Depreciation charges for each period are recognized as expenses if they are not included in price of another asset. In such cases, depreciation is part of actual expenses for purchase of another asset and is included in its balance price.

2.9. Inventory

Inventory is assessed at initial cost. Initial cost includes all expenses for purchase. Expenses for purchase include purchasing price, uncompensated taxes, transportation costs, processing and other expenses related to purchase of an object. Trade discounts are deducted while estimating expenses for purchase. Further, FIFO method (first in – first out) is used for assessment of inventory of MCC.

2.10. Intangible assets

Intangible asset is assessed at initial cost, i.e. amount of paid cash or equivalents, or fair value of other compensation transferred during purchase of an asset.

Further expenses occurring in relation to intangible asset after its purchase are recognized as expenses at the moment when they occur, except for the cases when these expenses most likely will allow the asset to create higher future economic profits than initially estimated norm and these expenses can be reliably assessed and attributed to the asset.

After initial recognition, intangible asset is admitted at initial cost by deduction of added depreciation and losses from devaluation. Term of useful service of intangible asset is set up to 10 years. MCC accepts straight-line depreciation method as the main method.

2.11. Other assets

Accounting of other assets is done at actual prime cost.

2.12. Loans received

MCC recognizes financial liability on balance only when it becomes a party of an agreement regarding a financial instrument.

Loans received from Mercy Corps are primarily recognized on balance in the size of actual amount received.

Further evaluation of financial liabilities is implemented excluding amounts used for repayment of loan liabilities.

MCC writes-off financial liability in balance only when it is extinct: when the responsibility indicated in agreement is implemented, cancelled or its term expired.

Short-term liabilities are recognized in financial statements on actual purchased price according to amounts of cash or equivalent payments, which are expected to take place under the normal trend of events.

2.13. Taxation

MCC recognizes deferred income tax by method of liabilities on balance, recognizing deferred tax claims or deferred tax liabilities, if balance price of assets and liabilities differs from their taxable base during the initial recognition. Deferred tax claims are recognized when there is a possibility of having tax profits in the future.

MCC makes netting when deferred tax claims and deferred tax liabilities are related to income tax and are taken by the same tax department.

Deferred tax claims and liabilities are estimated on tax rate of 20%, which was in force at the reporting date.

Deferred taxes make correction to income tax expenses calculated according to the tax legislation and are included in net profit (loss) of the period.

Tax liabilities (or claims) and obligations to Social fund of the current period and previous periods are calculated as the amount expected to be paid (compensated) to the budget on the basis of rates that are valid at the reporting date.

According to the requirements of the Tax Code of the Kyrgyz Republic, MCC (as a source of income payments) is obliged to compute, deduct, and transfer taxes to the budget from income that is paid to employees and individuals as salary. MCC accepts decrease in obligations on payment of rewards to certain individuals in amount of deducted taxes, while at the same time increases current tax obligations to the budget.

MCC is not a taxpayer of VAT.

2.14. Equity

In pursuance of constructing its financial statements, MCC accepts the following financial concept: income is considered to be received only if financial value of net assets at the end of period is larger than financial value of net assets at the beginning of period after deduction of all distributions and fees of Participant during the period.

2.15. Recognition and evaluation of income and expenses

Interest income of MCC is recognized on proportional timely basis that considers effective profitability of an asset. Administrative fees, taken during loan disbursement and directed to paying expenses of MCC that are related to loan and its disbursement, are recognized on the basis of actually received funds. Rewards for service of Mercy Corps loans are recognized in amount that is indicated in agreement according to the accrual basis.

Expenses are recognized on the basis of accordance of expenses with certain income articles. If economic income is expected during several periods and connection with income can be observed only in general or indirectly, then expenses are recognized on the basis of systematic and gradual distribution. MCC does not distribute between several periods expenses in amount of less than 1 000 som. In order to provide accordance between expenses and income, financial statements are constructed on the basis of accrual method.

2.16. Reserves

Reserves are reflected in financial statements under emergence of obligations (legal or traditional) of MCC before the reporting date. In such cases, there is high probability that MCC will require outflow of economic resources for repayment of these obligations and the amount of obligations can be counted with high enough level of reliability. MCC forms reserve on vacations and reserve on rewards.

Note 3. Cash assets

Cash assets of MCC as of 31.12.05:

	2005
Cash	669,7
Money in transit	7,0
Total	676,7

Note 4. Deposits in banks and financial institutions

As of 31.12.2005, cash assets in the bank accounts in soms are 26 848,5 thousand, including cash assets in US dollars – 1 844,2 (76,2 thousand soms).

Note 5. Loans to clients

Main activity of the MCC is loan disbursement to solidarity groups (group lending) and loan disbursements to individual businessmen and legal entities (individual lending).

Solidarity groups represent voluntary merger of 4 or more women, which run businesses activity. Loans for solidarity groups are disbursed for replenishment of working capital in such types of business activities, as small wholesale and retail trading, fattening and breeding of cattle, small scale production, national handicrafts, processing of agricultural crops and service providing to population.

Loans for individual businessmen and legal entities are disbursed for replenishment of working capital in the following types of businesses: wholesale and retail trading, service providing to population, small scale production and processing of agricultural products. Individual loans are also disbursed for purchase of trade and industrial equipment, transport and commercial real estate.

Lending operations started in February 2005. Disbursements and repayments are done in national currency (kyrgyz som)..

Loan portfolio as of 31.12.2005, was 153860,4 thousands soms, including:

Title	Individual loans	Group loans
Outstanding loans	33 459,9	119 207,1
Delinquent loans	142,7	1 050,7
LLR	(352,2)	(5 907,9)
Total	33 250,4	114 349,9

Loan portfolio structure, broken down by economic sectors was characterized by following data:

Title	Individual lending	Group lending
Agriculture		90 034,4
Trade	27 388,6	5 623,8
Services	1 873,7	5 322,2
Production	4 340,3	19 277,4
Total	33 602,6	120 257,8

Loan portfolio structure, broken down by lending terms:

Repayment terms	Individual lending	Group lending
1-3 months	0	740,5
4- 6 months	894,0	51 230,8
6 -12 months	26 606,6	68 286,5
1 - 3 years	6 102,0	0
Total	33 602,6	120 257,8

As of 31.12.2005, individual loan portfolio consisted of 204 loans totaling 33 602,6 thousand soms , which comprise 21,8% of the whole portfolio. Maximum size of individual loan in the active individual loan portfolio is 1,5 million soms. The largest share of loan investments has loans with the term from 6 months up to one year (79.2%).

As of 31.12.2005, group loan portfolio consisted of 2295 loans totaling 120 257,8 thousand soms, which comprise 78,2% of the whole portfolio. Maximum size of group loan in the active group loan portfolio is 400 thousand soms. MCC has 12 015 participants of group lending, united into 2295 solidarity groups. The largest share of loan investments have group loans with repayment rate from 6 months up to one year (56,8%).

Individual loans are disbursed on movable and immovable property of clients, trade and industrial equipment of clients. Size of the collateral should not be less then 120% of the potentially disbursed loan and there should be enough cash flows for repayment of loans.

Group loans are disbursed on joint guarantee of borrowers, which form a group for receiving loans.

Note 6. Reserve for coverage of potential loan and leasing losses.

In accordance with requirements of Credit Policy, MCC specialists monthly conduct classification of disbursed loans, with an assessment of loan risk. Loan classification is based on quantitative indicators of the portfolio in accordance with Regulations on classification of loans and deductions for LLR, approved by the Founder Representative from June 17, 2005. MCC forms General reserve in the amount of up to 5% and Special reserve, which is supposed to timely cover potential losses on assets, subject to potential loan risk. Deductions for LLR are executed at the expense of costs for creation of reserve for coverage of

losses in the sum, which is large enough for maintenance of the reserve on the level, corresponding to the quality assessment of assets.

	2004 - 2005
Reserve for devaluation of portfolio as of October 12, 2004	0
(Deductions for reserve)/reserve recovery during the year	6 336,1
Loans for borrowers, written-off during the year as the expense of Reserve	76,0
Reserve for devaluation of portfolio as of December 31, 2005	6 260,1

Loans at the amount of 17,3 thousand soms were written-off at the expense of expenses for creation of reserves.

Reserves for coverage of potential losses as of December 31, 2005, were created in the following way:

Classification categories of portfolio	Number of days in arrears	Deduction ratio	2005	
			Loan portfolio	LLR size
Standard (for group lending)	Up to 30 days	Up to 5%	119 803,9	5 691,3
Normal (for individual lending)	0	0%	20 786,6	0,0
Satisfactory (for individual lending)	0	2%	12 303,8	246,1
Under supervision (for individual lending)	Up to 30 days	5%	109,7	5,5
Sub-standard (for all types of lending)	From 31 up to 90 days	25%	559,2	143,6
Doubtful (for all types of loans)	From 91 up to 180 days	50%	247,3	123,7
Losses (for all types of loans)	More than 180 days	100%	49,9	49,9
Total			153 860,4	6 260,1

Loan loss reserve is 4,07% of portfolio.

Note 7. Accrued receivable interests

Interest rates for disbursed loans are set based on designated purpose of loans. Average weighted interest rates on loan types:

Designated purpose of loan	2005	
	Individual lending	Group lending
Trade	29%	35%
Services	29%	36%
Production	28%	37%
Agriculture	---	36%

MCC uses effective interest rate method while charging interests. Sum of accrued receivable interests as of 31.12.2005 is 3 093,2 thousand soms.

Note 8. Fixed assets

Availability and flow of fixed assets in 2004-2005:

Title of the fixed asset group	Purchasing price as of 12.10.2004r	Acquiring during 2004 – 2005	Retirement during 2004 – 2005 rr.		Purchasing price as of 31.12. 2005r
			Sold	Written-off by act	
Office furniture and inventory		2 998,8	-	15,7	2 983,1
Computer hardware		6 359,9	-	-	6 359,9
Transport		3 305,2	-	-	3 305,2
Total		12 663,9	-	15,7	12 648,2

Accumulated depreciation for a period:

Group title	Balance as of 12.10.2004	Accrued	Written-off	Balance as of 31.12.2005
Office furniture and inventory		370,4	15,7	354,7
Computer hardware		786,5	-	786,5
Transport		266,8	-	266,8
Total		1 423,7	15,7	1 408,0

Balance value of main assets as of 31.12.2005 is 11 240,2 thousand soms

Note 9. Other assets

1313,6 thousand soms are on the account of other assets, as of 31.12.05, including:

	2005
Accounts receivable	278,2
Prepayment for computer and communication hardware	657,1
Inventory	115,0
Temporary disability benefits	73,0
Other assets (future period expenses, petty cash)	148,9
Net intangible assets	41,4
Total	1 313,6

Accounts receivable are those, which are drawn up to Mercy Corps, in the amount of 108,3 thousand soms for portfolio management and also to MFC "Barakot" in the amount of 169,9 thousand soms for provided services.

Temporary disability benefits, paid to MCC employees, on illness, pregnancy and childbirth, are to be reimbursed from the State budget in 2006, according to the Decree of the Government of the KR "On measures for transfer of financial payments of allowances for temporary disability, pregnancy and childbirth benefits, allowances for funerals and health care activities to the state budget" of July 19, 2005 #300.

"Delta Soft" program software had been purchased in 2005 for financial accounting. Accumulated depreciation on this intangible asset for 2005 was 5,5 thousand soms. Straight-line method is used for calculation of depreciation deductions. Depreciation is done on a monthly basis, in accordance with service terms. Service term of the intangible asset is 5 years.

Note 10. Loans from banks and other financial institutions

Loan activities are implemented at the expense of loans received from Mercy Corps:

Agreement (date and #)	Repayment term	Interest rate	Sum
23.11.2004	23.11.2009r.	8% annual	60 000,0
26.11.2004	At first demand, during 10 working days	0% annual	118 000,0
12.04.2005	12.04.2010r.	0% annual	1 842,9
Total			179 842,9

These loans from Mercy Corps are unsecured.

Note 11. Deferred tax liabilities

Deferred tax liabilities emerge as a result of temporary tax differences between accounting base and tax base of assets and liabilities on fixed assets, reserves on vacations and reserves on bonuses. Deferred tax liabilities are 486 thousand soms.

	Accounting base	Tax base	Temporary difference	Deferred tax liability (20%)
Fixed assets	11 281,6	7 616,9	3 664,7	732,9
Reserves on vacations	835,2	0	(835,2)	(167,0)
Reserves on bonuses	399,4	0	(399,3)	(79,9)
Total				486,0

Note 12. Other liabilities

Other liabilities are 4 597,2 thousand soms as of 31.12.2005, including:

	2005
Liabilities to the state budget	1 850,9
Liabilities to personnel	1 264,8
Liabilities to Mercy Corps on agency agreement	772,5
Other liabilities	709,0
Total	4 597,2

Liabilities to the state budget:

	2005
Income tax	231,1
Income tax	352,8
Deductions to the Fund on prevention and liquidation of emergencies	378,4
Deductions to the Social Fund	848,3
Other taxes	40,3
Total	1 850,9

Liabilities to the state budget have current character and MCC does not have overdue debt on these liabilities.

Liabilities to personnel:

	2005
Reserves on vacations	835,3
Reserves on bonuses for 4 quarter	399,4
Salary to be paid	30,1
Total	1 264,8

Other liabilities make up the amount to be paid for audit, provided services and good-material value.

Note 13. Charter capital. Retained earnings (loss)

During the year, initial capital of 100,0 soms was increased to 10 000,0 thousand soms according to the decision of founder. As of 31.12.05, charter capital is paid in amount of 10 000,0 thousand soms and matches the capital declared in constitutive documents.

According to the results of year 2005, MCC has losses in amount of 4153,6 thousand soms.

Equity is 5 846,4 thousand soms as of 31.12.2005.

Note 14. Interest income and expenses

Net interest income for 2004-2005:

	2004-2005
Interest income	50 910,1
<i>minus</i> Interest expenses	(1 935,3)
<i>minus</i> LLR	(6 353,4)
Net interest income	42 621,4

Article "Interest income" is amount of interest income – 46853,8 thousand soms on disbursed loans, and commission fees – 4056,3 thousand soms, that are related to loan disbursement.

Article "Interest expenses" is amount of interests paid on Mercy Corps credit line. MCC paid out all the liabilities on interests for 2005 as of 01.01.2006.

Note 15. Operating income

Operating income is presented in following articles:

	2004-2005
Payment for unimplemented liabilities on loans	481,0
Other income	4 321,8
- rewards on agency agreement of Mercy Corps	3 740,3
- other income	581,5
Total	4 802,8

Other income is received for services to Micro finance institution "Barakot" according to the agreement on mutual cooperation, and as a result of services on corporate communication for employees of MCC.

Note 16. Operating expenses

Operating expenses are 50 740,7 thousand soms and are as following:

Personnel expenses	2004-2005
- salaries of employees, including reserve on vacations	22 298,3
- rewards to employees, including reserve on bonuses	923,5
- deductions to the Social fund	5 262,5
- expenditures for trainings	1 487,2
- other	15,3
Total	29 986,8

Expenses on fixed assets and intangible assets	2004-2005
- expenses on rent of buildings	4 371,5
- expenses on security of buildings	286,2
- depreciation	1 429,2
- expenses on maintenance of building and current renovation work	156,1
- payment of public utilities	239,8
- expenses on current renovation and maintenance of furniture and equipment	312,3
Total	6 795,1

Administrative expenses	2004-2005
- stationary goods	1 150,4
- communication services	2 154,1
- travel expenses	1 842,7
- representation expenses	252,9
- expenses on maintenance of vehicles	1 705,9
- payment for the specialists' services	2 122,4
- advertisement, printing, publication expenses	359,5
- reserves on loss of purchased software product	567,0
- other expenses	1 105,6
Total	11 260,5

Loan expenses	2004-2005
- loan repayment expenses	33,9
Total	33,9

Other operating expenses	2004-2005
- charity expenses	103,8
- other operating expenses (bank's services, monitoring, etc.)	1 443,5
Total	1 547,3

Tax expenses	2004-2005
- deductions to Fund for prevention and liquidation of emergency situations	835,7
- automobile road tax	70,9
- tax on paid services to the population	131,6
- other taxes	78,9
Total	1 117,1

Charity expenses are related to implementation of the social project "Apple for communities". The given project is being implemented in accordance with the charter goals of MCC in regard to rendering infrastructure and consultative aid to local communities in Tamga and Tosor villages in Issyk Kul oblast.

Note 17. Income tax

During reporting period, MCC had two tax periods for income tax imputation. According to the declaration of income tax in 2004, MCC had a loss in the amount of 946,5 thousand soms which according to the legislation was prolonged for 5 years. MCC used the prolongation right in year 2005. According to the declaration of 2005, income taxation before prolongation of loss was 2702,1 thousand soms, which served as basis for determining current income tax at 20% rate in amount of 540,4 thousand soms.

MCC has deferred income tax in amount of 296,7 thousand soms which is a result of temporary taxation differences between accounting and tax bases of assets and liabilities indicated in Note 11, and of deducted prolonged loss in amount of 189,3 thousand soms .

	Temporary difference	Deferred tax 20%
Fixed assets	3 664,7	732,9
Reserve on vacations	(835,2)	(167,0)
Reserve on bonuses	(399,3)	(79,9)
Prolonged loss	(946,5)	(189,3)
Total		296,7

Expenses on profit tax	2004- 2005
Income tax	540,4
Deferred tax	296,7
Total	837,1

Note 18. Cash flow

Report on cash flow is prepared using indirect method. Net cash flow from operating activities was determined using the indirect method by correcting the net loss considering:

According to the results of operating activities that include lending activities and activities on return of loan portfolio of Mercy Corps, MCC had cash outflow in the amount of 149 653,8 thousand soms.

Investing activity took place in relation to purchasing of fixed assets: computers, furniture, and transport. This resulted in cash outflow in the amount of 12 663,9 thousand soms.

Cash inflow from financing activity is related to Membership fees into charter capital in amount of 10 000 thousand soms, and to receiving loans from Mercy Corps.

Cash of MCC as of 31.12.2005 – 27 525,2 thousand soms.

Note 19. Related parties

In 2004-2005 MCC entered number of treaties with Mercy Corps that is the only founder of MCC. Treaties include loan agreements, indicated in Note 11 worth 179 842,8 thousand soms; agreements related to the management of loan portfolio of Mercy Corps that was transferred by PF MCA "Ai-Ken" for repayment of its liabilities; agency agreements on collection of loans that were under the management of PF MCA "Keremet-Kol", PF MCA "Ak Maral-Yug". Reward on above-mentioned agreements is 3740,3 thousand soms. Additionally, agreements on purchasing of fixed assets from Mercy Corps in amount of 37,1 thousand soms were concluded.

Note 20. Conditional liabilities and other risks

Conditions for economic activity

Economy of Kyrgyzstan carries characteristics of economy in transition and is experiencing significant financial, political, and economic difficulties, but there is no hyperinflation.

Kyrgyz tax legislation allows various interpretations and experiences frequent changes. Administration's evaluation of facts of economic activity of MCC may not match the interpretation of these facts by tax institutes. Therefore, there is a tax risk in operations of MCC.

Reestablishment of economic stability in the country greatly depends on effective measures taken by the Government including development of legislative and political situation in the country.

MCC is not planning to and/or does not see any necessity to stop operations or decrease its scope. Based on this, Strategic plan for company's development is developed and approved for 2006-2008.

Legal actions

The company is a defendant in two court processes and a plaintiff in one court process.

Suit of "SBS" software producer on registration of financial operations of MCC carries non-material character and the plaintiff requires implementing responsibilities on signing up the final act of receiving-transfer of the software product. In case if this suit isn't allowed, software producer may claim the rest of the amount worth 850,5 thousand soms, as a final repayment for the mentioned software product. In 2005 MCC paid advance money in amount of 567,0 thousand soms for the software product. In report period, MCC created reserve for the potential losses in amount of paid advance money.

Suit at an amount of 270,0 thousand soms is made by former employee of MCC to rehabilitate work place and to pay compensation.

Currently, it is impossible to predict final decision of court processes in relation to the above-mentioned suits.

Suit of MCC in amount of 74,8 thousand soms in relation to the client of MCC to pay overdue debt on loan agreement and levy of collateral is given to judicial bodies.

Chief Executive Officer

MCC "Kompanion Financial Group"


Tolbaev B. L.

Chief Accountant

MCC "Kompanion Financial Group"


Akimkanov U.I.