



**International Micro-Loan Fund
“IMON”**

Financial report

for the period July 1 – December 31, 2005

International Micro-Loan Fund “IMON”
Financial statements for the period July 1 - December 31, 2005

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To the Board of Directors of
The International Micro-Loan Fund “IMON”

Report of the auditors

Introduction

We have audited the accompanying balance sheet of International Micro-Loan Fund “IMON” (hereafter: “the Fund”) as of December 31, 2005, the related income and cash flow statements and the statement of changes in equity for the period July 1 – December 31, 2005 (hereafter: ‘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 position of International Micro-Loan Fund “IMON” as of December 31, 2005 and of the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

May 18, 2006

Finconsult Ltd
Dushanbe



Firouz Afrouz
General Director

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General information

Fund’s Operations

The National Association of Business Women of Tajikistan (NABWT) and Mercy Corps decided to establish an International Micro-Loan Fund “IMON”. The partnership agreement between Mercy Corps and NABWT was signed on November 17, 2004.

“IMON” was registered with the Ministry of Justice of Tajikistan on November 23, 2004.

“IMON” was registered with the National Bank of Tajikistan and was issued a license for micro-lending activities on March 15, 2005. “IMON” became operational on July 1, 2005.

Mercy Corps and NABWT signed an addendum to continue their partnership relationship and prolong the duration of the Memorandum of Understanding between Mercy Corps and NABWT (including Program Policies and Procedures, Program Budget, Information about fixed assets and Business Plan) until the International Micro-Loan Fund “IMON”, was established and received a registration certificate from the National Bank of the Republic of Tajikistan and became operational on July 1, 2005.

On November 1, 2004 NABWT and MEDA (Mennonite Economic Development Associates of Canada) signed a loan agreement for the amount of CDN \$1 million. MEDA provided the loan to NABWT for a rural credit loan fund in accordance with the Poverty Reduction Strategy Paper of the Government of Tajikistan – designed to alleviate poverty amongst farm families by offering rural credit, agricultural extension, development of processing and market opportunities. A loan management agreement was also signed by the two parties.

When IMON was established, NABWT and MEDA signed an “Acknowledgment and Consent” document in April 2005, where the agreement between NABWT and MEDA continued to be in full force and effect and assigned by NABWT to IMON.

As at December 31, 2005 “IMON” provided the following loan products:

Product	Interest rate	Up-front fee	Amount	Term	Grace period for principal repayment	Collateral
<i>Group Lending</i>						
Group	3.5% monthly declining balance	1.5%	TJS 1,000 – TJS 4,500	2-9 months	Up to 3 months	None
<i>Individual lending</i>						
Individual	22% annually, declining balance, dollar denominated for loans issued by NABWT micro-finance programme	0-3%	TJS 3,000 – TJS 15,000	3-18 months	None	Real estate and movables
Individual	3.5% monthly declining balance	1%	TJS 1,500 – TJS 30,000	3-18 months	Up to 6 months	Real estate and movables
Individual	34% annually, declining balance, dollar denominated	1%	TJS 1,500 – TJS 30,000	3-24 months	Up to 6 months	Real estate and movables
<i>Micro-leasing in agricultural sector</i>						
Micro-leasing	3,5% monthly declining balance	None	Up to TJS 30,000	Up to 24 months	Up to 3 months	Leased commodities
Micro-leasing	3,5% monthly declining balance	None	Up to TJS 12,000	Up to 24 months	None	Leased commodities

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Board of Trustees

The Board of Trustees of “IMON” comprises the following persons:

James M. White	Chairman
Nabijon Yuldashev	Secretary
Thomas J. Jacobs	Member
Kathlen M. Graham	Member
Pamela A. Eser	Member

Board of Directors

The Board of Directors of “IMON” comprises the following persons:

Gary R. Burniske	Chairman
Muhabbat Nazimova	Member
Jerry J. Quigley	Member
James H. Anderson	Member
Ayubjon Yussoupov	Member

Number of authorized offices and registered address

As at December 31, 2005 the activities of “IMON” were carried out by 3 branches and 16 sub offices:

Soghd branch

Khudjand office	27 Hakim Karim Street	Khudjand
Kanibadam sub-office	129 Lenin Street	Kanibadam
Isfara sub-office	10 Lenin Street	Isfara
Istaravshan sub-office	115 Lenin Street	Istaravshan
Penjikent sub-office	85 Rudaki Street	Penjikent
Spitamen sub-office	29 Lenina Street	Spitamen
Dj.Rasulov sub-office	64 Lenina Street	Dj. Gulakandoz

Dushanbe branch

Dushanbe office	3 pr. Rudaki 94/4	Dushanbe
Hissar sub-office	60-years of Hissar	Hissar
Tursun-Zade sub-office	94 Khairullaev Street	Tursun-Zade
Rudaki sub-office	14 Turdieva Street	Somonien
Vakhdat sub-office	1-F Borbad Street	Vakhdat

Khatlon branch

Shaartuz office	35 Somony Street	Shaartuz
Djilikul sub-office	Lenin Street, Population Employment Department	Djilikul
Kolkhozabad sub-office	4 Tugalag Street	Kolkhozabad
Kurgan Tube sub-office	31 Saidova Street	Kurgan Tube

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Panj sub-office	Lenin Street, shop	Panj
Kumsangir sub-office	v. Dusty, hotel Izzat	v. Dusty
Kabodien sub-office	Lenin Street, hotel Orom	Kabodien

The head office is located at 51 Ordjenikidze Street, 734012 Khujand, Tajikistan.

Fund’s strategic plan for the years 2006-2009

IMON is going to transform into Micro-loan Deposit taking Organization (MDO) in the near future and has already developed an action plan towards reorganization.

IMON is also planning to do the following:

- Increase activities in existing markets and improve current products
- Expand operations geographically by converting two regional field offices into the branch offices and opening new field offices branches in Zafarabad, Mastchoh and Yavan.
- Introduce new products, such as deposits from customers, agricultural loans, consumer loans and leasing which are currently being introduced as pilot projects.

IMON intends to develop an appropriate financial management capacity which will result in more efficient financial management of IMON’s resources, contributing to improved profitability and the long-term sustainability of the organization.

IMON is going to develop an appropriate accounting system, which can provide reports consistent with both Tajik accounting standards and with International Financial Reporting Standards (IFRS), as well as further develop an internal audit function, including the provision of support in clarifying appropriate documentation and responsibility and accountability areas.

The strategic plan of IMON also covers strengthening of the following areas:

- Institutional Infrastructure
- Human Resource Management
- Management Information System
- Marketing and Product Development

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Financial report

Income statement

	Notes	July 1 – Dec 31, 2005
		TJS
Interest and similar income	3	2,244,711
Interest expense and similar changes	3	(58,140)
Net interest income		2,186,571
Fee and commission income	4	277,646
Fee and commission expense	4	69,975
Net fee and commission income		207,671
Foreign exchange result	5	(117,422)
Other operating income	6	32,550
Operating income		2,309,370
General and administrative expenses	7	1,160,163
Impairment (gains)/losses on loans	9	407,075
Operating expenses		1,567,238
Net operating result before grant income		742,132
Grant income	10	142,571
Net profit for the period		884,703
Income tax	11	320,846
Net profit/(loss) after income tax		563,857

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

Signed on behalf of the management and Board of Directors on May 18, 2006:

Sanavbar Sharipova
Chief Executive Officer of “IMON”

Gary R. Burniske
Chairman of the Board of Directors of
“IMON” and Country Director of Mercy Corps

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Balance sheet

	Notes	Dec 31, 2005	July 1, 2005
		TJS	TJS
ASSETS			
Cash and cash equivalents	12	906,122	315,161
Placements with commercial banks	13	200,000	-
Loans and advances to customers	14	11,698,036	7,835,848
Property and equipment	15	588,663	536,645
Other assets	16	234,978	47,124
		<hr/>	<hr/>
Total assets		13,627,799	8,734,778
		<hr/>	<hr/>
LIABILITIES			
Funds received from other agencies	17	55,293	162,399
Due to other financial institutions	18	11,435,150	7,399,040
Other liabilities	19	401,190	1,030
		<hr/>	<hr/>
Total liabilities		11,891,633	7,562,469
		<hr/>	<hr/>
EQUITY			
Mercy Corps contribution	20	635,664	635,664
NABWT contribution	20	536,645	536,645
Retained earnings	21	563,857	-
		<hr/>	<hr/>
Total equity		1,736,166	1,172,309
		<hr/>	<hr/>
Total equity and liabilities		13,627,799	8,734,778
		<hr/>	<hr/>

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

Signed on behalf of the management and Board of Directors on May 18, 2006:

Sanavbar Sharipova
 Chief Executive Officer of “IMON”

Gary R. Burniske
 Chairman of the Board of Directors of
 “IMON” and Country Director of Mercy Corps

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Statement of changes in equity

Statement of changes in net equity <i>(all amounts expressed in TJS)</i>	Notes	Mercy Corps contribution	NABWT contribution	Retained earnings	Total equity
Balance at 1 July 2005		635,664	536,645	-	1,172,309
Result for the year				563,857	563,857
Balance at 31 December 2005		635,664	536,645	563,857	1,736,166

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

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Statement of cash flows

Cashflow statement		
<i>(all amounts expressed in TJS)</i>	Notes	July 1 - Dec 31, 2005
Net result		563,857
Depreciation		42,038
Cash flows from operating profits before changes in operating assets and liabilities		605,895
Changes in operating assets and liabilities:		
Net (increase)/decrease in loans and advances to customers		(3,862,188)
Net (increase)/decrease in other assets		(187,854)
Net (increase)/decrease in placements with commercial banks		(200,000)
Net increase/(decrease) in other liabilities		4,436,270
Net cash from operating activities		792,123
Cash flows from investing activities		
Purchase of property and equipment		(94,056)
Long term liabilities		(107,106)
Net cash (used in)/from investing activities		(201,162)
Net increase in cash and cash equivalents		590,961
Cash and cash equivalents at beginning of year	12	315,161
Cash and cash equivalents at end of year	12	906,122

The notes on pages 10 to 28 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 applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 the Republic of 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, 2005 and July 1, 2005 the principal exchange rates were:

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	<u>Dec 31, 2005</u>	<u>July 1, 2005</u>
	TJS	TJS
1 US dollar =	3.1993	3.1160
10 Russian ruble =	1.1113	1.0888
1 Euro =	3,7832	3.7598
1 Canadian dollar=	2,7419	2.5359

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 received a number of 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.

1.6 Financial assets

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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.

(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

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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 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*

Equipment is stated at historical cost less depreciation. Depreciation is calculated on the declining balance method.

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:

%

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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 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 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.

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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.

1.14 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.

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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 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, 2005 is as follows:

all amounts are expressed in TJS

	TJS	USD	EURO	Total
Assets				
Cash and cash equivalents	644,977	261,145	-	906,122
Placements with commercial banks	200,000	-	-	200,000
Loans and advances to customers	11,425,109	272,927	-	11,698,036
Property and equipment	588,663	-	-	588,663
Other assets	234,978	-	-	234,978
Total assets	13,093,727	534,072	-	13,627,799

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Liabilities				
Funds received from other agencies	55,293	-	-	55,293
Other liabilities	401,190	-	-	401,190
Due to other financial institutions	3,930,127	7,339,508	165,515	11,435,150
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	4,386,610	7,339,508	165,515	11,891,633
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets -/- liabilities	8,707,117	(6,805,436)	(165,515)	1,736,166
	<hr/>	<hr/>	<hr/>	<hr/>

The Fund tries to mitigate the currency risk, to avoid significant currency mismatches, by increasing the number of issued loans denominated in US Dollars. As of February 28, 2006 the fund’s outstanding portfolio of US Dollar denominated loans amounted to TJS 1,387,499.

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.

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, 2005 is as follows:

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	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	906,122					906,122
Placements with commercial banks		200,000				200,000
Loans and advances to customers	4,522	9,206,788	1,793,210	693,516		11,698,036
Property and equipment					588,663	588,663
Other assets		234,978				234,978
Total assets	910,644	9,641,766	1,793,210	693,516	588,663	13,627,799
Liabilities						
Funds received from other agencies		55,293				55,293
Other liabilities		401,190				401,190
Due to other financial institutions	4,384,141			7,051,009		11,435,150
Total liabilities	4,384,141	456,453	-	7,051,009	-	11,891,633
Net liquidity gap	(3,473,497)	9,185,283	1,793,210	(6,357,493)	588,663	1,736,166

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 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 and similar income

	July 1 – Dec 31, 2005
	TJS
Interest and similar income	
Loans and advances	2,239,443
Placements with commercial banks	5,268
Total interest income	<u>2,244,711</u>
Interest expense and similar charges	
Interest expense	<u>58,140</u>
Total interest expenses	<u>58,140</u>

Interest income from placements with commercial banks mostly represents interest received on interest bearing deposits with commercial banks. See note 14 to the balance sheet.

Interest expense represents interest accrued on EBRD loan. See note 18 to the balance sheet.

All income arises within the Republic of Tajikistan.

4 Net fee and commission income

	July 1 – Dec 31, 2005
	TJS
Fee and commission income	
Commission income	277,646
Total fee and commission income	<u>277,646</u>
Fee and commission expenses	
Commission expenses	31,845
Service fee expenses	38,130
Total fee and commission expenses	<u>69,975</u>

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5 Foreign exchange result

	July 1 – Dec 31, 2005
	TJS
Foreign exchange gains/(loss)	(117,422)

6 Other operating income

Other income consists mainly of penalties charged to customers.

7 General and administrative expenses

	July 1 – Dec 31, 2005
	TJS
Staff costs	708,857
Professional services	49,732
External audit fee	45,444
VAT	10,810
Depreciation	42,038
Repair, maintenance and other facilities	49,584
Communication	28,110
Transport	61,162
Rent	85,950
Stationery	25,690
Advertisements	22,882
Other expenses	29,904
Total General and administrative expenses	1,160,163

Out of TJS 1,160,163 administrative expenses TJS 142,571 was spent from grant funds received by the Fund from various donors and TJS 1,017,592 from Fund’s income. See note 10 to the income statement.

8 Staff costs

	July 1 – Dec 31, 2005
	TJS
Wages and salaries	494,859
Incentive fees	34,575
Social security contribution	132,489
Travel costs	24,867
Staff trainings	21,333
Other	734
Total staff costs	708,857

The average number of persons employed by the Fund during the year was 147.

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9 Impairment losses on loans and advances

	July 1 – Dec 31, 2005
	TJS
Impairment on loans and advances to customers	407,075
Release of provision	-
Collected previously written off loans	-
Total impairment losses on loans and advances	(407,075)

10 Grant income

	July 1 – Dec 31, 2005
	TJS
German Agro-Action (GAA)	11,633
Mennonite Economic Development Associates of Canada (MEDA)	7,171
Swedish International Development Cooperation (SIDA)	78,006
Consultative Group to Assist the Poor (CGAP)	38,385
United Nations International Children’s Emergency Fund (UNICEF)	3,942
National Association of Business Women of Tajikistan (NABWT)	3,434
Total grant income	142,571

See note 7 to the income statement.

11 Income tax

	July 1 – Dec 31, 2005
	TJS
Current tax	(314,868)
Deferred tax	(5,978)
Total income tax	(320,846)

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

	Dec 31, 2005	July 1, 2005
	TJS	TJS
Cash in TJS	51,766	-
Bank in TJS	593,211	315,161
Cash in USD	-	-
Bank in USD	261,145	-
	<u>906,122</u>	<u>315,161</u>

13 Placements with commercial banks

Placements with commercial banks represent short-term interest bearing deposit in a local commercial bank in TJS.

14 Loans and advances to customers

	December 31, 2005	July 1, 2005
Loans outstanding	12,101,951	7,835,848
Provision for impairment	(403,915)	-
	<u>11,698,036</u>	<u>7,835,848</u>

14.1 Analysis by sector

	December 31, 2005	July 1, 2005
	TJS	TJS
Individual trade	8,478,710	5,203,676
Agriculture other than livestock	800,351	875,287
Livestock	1,043,743	809,802
Individual production	803,490	400,701
Services	975,657	546,382
	<u>12,101,951</u>	<u>7,835,848</u>

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14.2 *Analysis by type of collateral*

	December 31, July 1, 2005	
	2005	2005
	TJS	TJS
Real estate	4,412,585	1,737,716
Solidarity group	7,242,243	5,670,188
Guarantee	248,966	276,980
Without collateral (Loans to staff)	198,157	150,964
	12,101,951	7,835,848

Real estate includes leased equipment for the amount of TJS 28,353 as of December 31, 2005.

14.3 *Geographical analysis*

As of December 31, 2005 the geographic spread of IMON's loan portfolio within Tajikistan is as follows:

	December 31, July 1, 2005	
	2005	2005
	TJS	TJS
Khodjand	7,208,196	4,746,584
Dushanbe	2,805,180	1,305,845
Shaartuz	2,088,575	1,783,420
	12,101,951	7,835,848

14.4 *Arrears*

The amounts of loans in arrears are analysed as follows:

	Principal in arrears	
	Dec 31, 2005	July 1, 2005
	TJS	TJS
Up to 30 days	1,271	38,284
30 – 60 days	-	26,609
60 – 90 days	-	1,728
>90 days	56,238	27,837
	57,509	94,458

Arrears include all amounts of loan principal due but not collected.

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14.5 Provisions

The movements in provisions for losses are as follows:

	Dec 31, 2005	July 1, 2005
	TJS	TJS
Balance at July 1, 2005	-	-
Impairment losses	407,075	-
Bad debts written off	(3,160)	-
Balance at 31 December, 2005	403,915	-

14.6 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, 2005 the fund had prolonged loans for the total amount of TJS 8,905.

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15 Property and equipment

	Building under construction	Computers	Furniture & Vehicles Equipment	Intangibl e assets	Other	Total
	TJS	TJS	TJS	TJS	TJS	TJS
As at July 1, 2005						
Historical cost	17,172	210,179	93,705	108,602	61,576	536,645
Accumulated depreciation	-	-	-	-	-	-
Net book value	17,172	210,179	93,705	108,602	61,576	536,645
Movements 2005						
Additions	-	63,537	8,156	-	-	94,056
Disposals	-	-	-	-	-	-
Depreciation	-	(22,002)	(7,144)	(8,145)	(2,463)	(42,038)
As at December 31, 2005						
Historical cost	17,172	273,716	101,861	108,602	61,576	630,701
Accumulated depreciation	-	(22,002)	(7,144)	(8,145)	(2,463)	(42,038)
Net book value	17,172	251,714	94,717	100,457	59,113	588,663

All property and equipment for the amount of TJS 519,473 as of July 1, 2005 represents NABWT in-kind contribution to IMON.
Property and equipment is not insured.

16 Other assets

	Dec 31, 2005	July 1, 2005
	TJS	TJS
Due from other agencies	-	47,124
Accrued interest on loans	234,978	-
	234,978	47,124

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17 Funds received from other agencies

The Fund received a number of grants for operational expenses and trainings from various donors.

<i>(all amounts expressed in TJS)</i>	Notes	GAA	MEDA	SIDA	CGAP	UNICEF	NABWT	Total grants
Balance at 1 July 2005		-	102,249	16,571	-	787	42,792	162,399
<i>Grants received for operational expenses for trainings</i>		11,633 11,633	2,545 2,545	77,525 31,551	38,385 38,385	3,000	-	133,088
<i>Grants absorbed for operational expenses for trainings</i>	10	11,633 11,633	7,171 7,171	78,006 78,006	38,385 38,385	3,942	3,434 3,434	142,571
<i>Grants paid back for operational expenses for trainings</i>		-	97,623 97,623	-	-	-	-	97,623
Balance at 31 December 2005		-	-	16,090	-	(155)	39,358	55,293

18 Due to other financial institutions (loans)

Loans from other financial institutions are the borrowings, which the Fund takes for loan portfolio expansion. All loans, except a loan from EBRD, bear zero interest rate.

18.1 By financial institutions

	Dec 31, 2005	July 1, 2005
	TJS	TJS
European Bank for Reconstruction and Development (EBRD)	3,199,300	-
Mercy Corps	6,524,595	6,419,295
Mennonite Economic Development Associates of Canada (MEDA)	1,371,373	901,327
Businesses to Enhance Tajikistan's Economic Resources (BETER)	165,515	-
German Agro-Action (GAA)	78,418	78,418
Swedish International Development Cooperation (SIDA)	95,949	-
	<u>11,435,150</u>	<u>7,399,040</u>

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18.2 *By term*

	<u>Dec 31, 2005</u>	<u>July 1, 2005</u>
	TJS	TJS
Demand	4,384,141	4,017,377
Long-term	7,051,009	3,381,663
	<u>11,435,150</u>	<u>7,399,040</u>

18.3 *By currency*

	<u>Dec 31, 2005</u>	<u>July 1, 2005</u>
	TJS	TJS
Local currency	3,930,127	3,460,081
Foreign currency	7,505,023	3,938,959
	<u>11,435,150</u>	<u>7,399,040</u>

19 Other liabilities

	<u>Dec 31, 2005</u>	<u>July 1, 2005</u>
	TJS	TJS
Accrued interest payable	58,140	-
Audit fee payable	45,444	-
Excess payments received	-	1,030
Income tax payable	291,625	-
Differed taxes	5,978	-
Other liabilities	3	-
	<u>401,190</u>	<u>1,030</u>

20 Equity contributions

	<u>December 31, 2005</u>	<u>July 1, 2005</u>
	TJS	TJS
Mercy Corps	635,664	635,664
NABWT	536,645	536,645
	<u>1,172,309</u>	<u>1,172,309</u>

All NABWT contribution was in-kind (see note 15 to the balance sheet).

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Mercy Corps contribution for the total amount of TJS 635,664 (USD 204,000) represents the part of loan funds previously employed by Mercy Corps in NABWT microfinance programme.

21 Retained earnings

	December 31, 2005	July 1, 2005
	TJS	TJS
Opening balance	-	-
Distribution of result	563,857	-
Balance as at December 31	563,857	-

22 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of fund’s transactions is 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 198,157

23 Directors’ remuneration

A listing of the members of the Board of Trustees is shown on page 5 of the financial statements. During the period July 1 – December 31, 2005 the remuneration to their members is nil. The Board of Directors as shown on page 5 of the financial statements also received nil remuneration.

24 Commitments and contingencies

Undrawn loan commitments

The Fund has no undrawn loan commitments.

25 Post balance sheet events

On March 16, 2006 IMON signed a loan agreement with “Frontiers” Microcredit LTD for the amount of USD 500,000. On March 27, 2006 the management of IMON decided to restructure Istravshan and Kurgan-Tube field offices into branches.

No other 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.