



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

Financial report

for the period January 1 – December 31, 2006

International Micro-Loan Fund “IMON”
Financial statements for the period January 1 - December 31, 2006

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

REPORT OF THE INDEPENDENT AUDITORS

Introduction

We have audited the accompanying balance sheet of International Micro-Loan Fund “IMON” (hereafter: “IMON”) as of December 31, 2006, the related income and cash flow statements and the statement of changes in equity for the year then ended (hereafter: ‘the financial statements’). These financial statements set out on pages 8 to 34 are the responsibility of the IMON’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

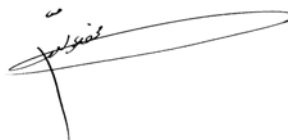
In our opinion the financial statements give a true and fair view of the financial position of International Micro-Loan Fund “IMON” as of December 31, 2006 and of the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

March 30, 2007

Finconsult Ltd
Dushanbe
Tajikistan



Firouz Afrouz
General Director



Mohammad Reza Ravae
Audit Manager

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GENERAL INFORMATION

In accordance with the new law of Tajikistan “About Microfinance Institutions” and in accordance with the Founders Agreement dated November 17, 2004, Mercy Corps and the National Association of Business Women of Tajikistan have jointly established an International Micro-Loan Fund “IMON”, of which they are equal partners and co-founders. IMON is a Micro-Loan Fund (“MLF”) organized and existing under the Law on Micro-Finance Organizations passed on May 16, 2004. Pursuant to the chapter on social funds in the civil code of Tajikistan, IMON’s governing bodies are its Board of Trustees and its Board of Directors. IMON is also governed by a Charter dated November 17, 2004 as it may be amended from time to time.

The purpose of IMON is to assist in the mitigation and reduction of poverty and its associated problems, to solve social or educational problems, and to contribute to the general enhancement of the quality of life in Tajikistan, by supporting social, charitable, cultural, educational, and other socially useful initiatives, and by supporting the creation of employment and the development of entrepreneurship and small and medium sized businesses, and by providing access to financial services to the people in Tajikistan.

As at December 31, 2006 “IMON” provided the following loan products:

Product	Interest rate	Up-front fee	Amount	Step increase in loan amount	Maximum loan amount	Grace period	Term	Collateral
<u>Business lending</u>								
Group TJS denominated	42% annual declining balance	1.5%	TJS 120 – TJS 2,000	TJS 1,000	TJS 6,000	1 month	2-9 months	Group solidarity
Group USD denominated	34% annual declining balance	1.5%	USD 35 – USD 600	USD 300	USD 1,800	1 month	2-9 months	Group solidarity
Individual TJS denominated	42% annual declining balance	1%	TJS 1,500 – TJS 30,000	None	TJS 30,000	1 month	3-12 months	Real estate, movables, guarantees
Individual USD denominated	34% annual declining balance	1%	USD 500 – USD 10,000	None	USD 10,000	1 month	3-24 months	
<u>Agricultural lending</u>								
Group TJS denominated	42% annual declining balance	1.5%	TJS 120 – TJS 2,000	TJS 1,000	TJS 6,000	5 months	2-9 months	Group solidarity
Group USD denominated	34% annual declining balance	1.5%	USD 35 – USD 600	USD 300	USD 1,800	5 months	2-9 months	
Group TJS denominated “Hosilot”	36% annual declining balance	1.5%	TJS 120 – TJS 2,000	None	TJS 2,000	2 months	2-6 months	
Individual TJS denominated	42% annual declining balance	1%	TJS 1,500 – TJS 22,000	None	TJS 22,000	6 months	3-12 months	Real estate, movables, guarantees, equipment, household supplies, cattle
Individual USD denominated	34% annual declining balance	1%	USD 500 – USD 7,000	None	USD 7,000	6 months	3-24 months	Real estate, movables, guarantees
Individual TJS /USD denominated “Hosilot”	42% annual declining balance	1%	TJS 120 – TJS 2,000/USD 40-500	None	TJS 2,000/USD 500	2 months	2-6 months	Group solidarity

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Individual TJS “Zakhira”	42% annual declining balance	1%	TJS 120 – TJS 5,000	None	TJS 5,000	6 months	3-12 months	Real estate, movables, guarantees, equipment, household supplies, cattle
<i>Consumer lending</i>								
Individual USD denominated	36-38% annual declining balance	Up to 1%	USD 100 – USD 1,000	None	USD 1,000	None	2-18 months	Guarantee, movables
<i>Leasing</i>								
Business TJS denominated	42% annual declining balance	None	TJS 1,500 – TJS 30,000	None	TJS 30,000	3 months	3-12 months	Leased assets
Business USD denominated	34% annual declining balance	None	USD 500 – USD 10,000	None	USD 10,000	3 months	3-24 months	Leased assets
Agricultural TJS denominated	42% annual declining balance	None	TJS 1,500 – TJS 22,000	None	TJS 22,000	3 months	3-12 months	Leased assets
Agricultural USD denominated	34% annual declining balance	None	USD 500 – USD 7,000	None	USD 7,000	3 months	3-24 months	Leased assets

BOARD OF TRUSTEES

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

James M. White	Chairman
Kathleen M. Graham	Secretary
William Harrington	Member
Pamela A. Eser	Member
Nabijon Yuldashev	Member

BOARD OF DIRECTORS

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

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

NUMBER OF AUTHORIZED OFFICES AND REGISTERED ADDRESS

As at December 31, 2006 the activities of “IMON” were carried out by 5 branches and 20 sub offices:

Soghd region

Khudjand branch	96 Orzhonikidze street	Khudjand
Kanibadam sub-office	129 Lenin Street	Kanibadam
Isfara sub-office	10 Lenin Street	Isfara
Vorukh sub-office	Pravda Street	Vorukh jamoat

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Penjikent sub-office	85 Rudaki Street	Penjikent
Spitamen sub-office	29 Lenina Street	Spitamen
Dj.Rasulov sub-office	64 Lenina Street	Dj. Gulakandoz
Asht sub-office	Somoni Street, Supermarket	Asht
Istaravshan branch	79 Gagarina Street	Istaravshan
Shakhristan sub-office	11 Istaravshan Street	Shjakhristan
Zafarabad sub-office	8 Somoni Street	Zafarabad

Regions of Republican Subordination

Dushanbe branch	3 pr. Rudaki 94/4	Dushanbe
Dushanbe sub-office	100 N. Karabaeva street	Dushanbe
Hissar sub-office	7 Somoni street	Hissar
Tursun-Zade sub-office	51 Khairullaev Street	Tursun-Zade
Rudaki sub-office	14 Turdieva Street	Somonien
Vakhdad sub-office	14 Borbad Street	Vakhdad
Shahrinav sub-office	7 Somoni Street	Shahrinav

Khatlon Region

Khatlon branche	35 Somony Street	Shaartuz
Djilikul sub-office	14 Lenin Street	Djilikul
Panj sub-office	Lenin Street, shop	Panj
Kumsangir sub-office	v. Dusty, hotel Izzat	v. Dusty
Kabodien sub-office	Lenin Street, hotel Orom	Kabodien
Kurgan Tube branch	25A Vakhdad ave	Kurgan Tube
Kolkhozabad sub-office	4 Tugalang Street	Kolkhozabad

The head office is located at 157 Kamoli Khujandi Street, 735700 Khujand, Tajikistan.

IMON’S STRATEGIC PLAN FOR 2007

Institutional Development

Complete transformation of IMON into a registered commercial entity.

Operations

Increase Activities in Existing Markets and Improve Current Products

- Develop and refine marketing strategy and plan;
- Conduct market analysis;
- Ongoing training for loan officers on promoting loan products and better marketing;
- Introduce MEDA agricultural lending in Khatlon and Dushanbe regions;
- Expand leasing product to Dushanbe and Khatlon Branches;
- Diversify Loan Portfolio with dollar denominated loans along with Somoni loans

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Expand Operations Geographically

- Address geographic expansion goals (Mastchoh, Ganchi, Ayni, Rogun, Faizabad, Pakhtabad, Jomi, Huroson, Yavan, Dangara);
- Identify new office locations within identified districts;
- Prepare marketing plans for each area;
- Upgrade systems and procedures for the entire organization

Introduce New Products

- Loans to meet the consumer needs of households, focusing on the lower income sectors of the population;
- Deposits – develop retail deposit products for client base;
- Agricultural loans - introduction of agricultural loans in Central and Khatlon Region;

IMON is also going to further develop and strengthen the following areas:

- Financial management
- Accounting system
- Internal Audit and Internal Control System
- Institutional Infrastructure
- Human Resource Management
- Management Information System
- Marketing and Product Development

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FINANCIAL STATEMENTS

Income statement

	Notes	Jan 1 – Dec 31, 2006	July 1 – Dec 31, 2005
		TJS	TJS
Interest and similar income	3	6,987,792	2,244,711
Interest expense and similar charges	3	(730,117)	(58,140)
Net interest income		6,257,675	2,186,571
Fee and commission income	4	743,494	277,646
Fee and commission expense	4	(189,502)	69,975
Net fee and commission income		553,992	207,671
Net foreign exchange result	5	(488,966)	(117,422)
Net trading income	5	23,511	-
Other operating income	6	117,147	32,550
Operating income		6,463,359	2,309,370
General and administrative expenses	7	3,169,731	1,160,163
Impairment (gains)/losses on loans	9	447,857	407,075
Operating expenses		3,617,588	1,567,238
Net operating result before grant income		2,845,771	742,132
Grant income	10	59,824	142,571
Net profit for the period		2,905,595	884,703
Income tax	11	826,494	320,846
Net profit/(loss) after income tax		2,079,101	563,857

The accompanying notes on pages 12 to 34 are an integral part of these financial statements.

Signed on behalf of the management and Board of Directors on March 30, 2007:

Sanavbar Sharipova
Chief Executive Officer of “IMON”

Rakhimjon Melikbaev
Finance Manager of “IMON”

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Balance sheet

	<u>Notes</u>	<u>Dec 31, 2006</u>	<u>Dec 31, 2005</u>
		TJS	TJS
ASSETS			
Cash and cash equivalents	12	1,074,944	906,122
Placements with commercial banks	13	66,495	200,000
Loans and advances to customers	14	24,986,004	11,698,036
Property and equipment	15	743,530	588,663
Other assets	16	434,267	234,978
Total assets		27,305,240	13,627,799
LIABILITIES			
Funds received from other agencies	17	-	55,293
Other liabilities	19	765,077	401,190
Due to other financial institutions	18	20,166,142	8,954,814
Long-term subordinated debt	18	2,480,336	2,480,336
Total due to other financial institutions		22,646,478	11,435,150
Total liabilities		23,411,555	11,891,633
EQUITY			
Mercy Corps contribution	20	635,664	635,664
NABWT contribution	20	615,063	536,645
Retained earnings	21	2,642,958	563,857
Total equity		3,893,685	1,736,166
Total equity and subordinated debt		6,374,021	4,216,502
Total equity and liabilities		27,305,240	13,627,799

The accompanying notes on pages 12 to 34 are an integral part of these financial statements.

Signed on behalf of the management and Board of Directors on March 30, 2007:

Sanavbar Sharipova
Chief Executive Officer of “IMON”

Rakhimjon Melikbaev
Finance Manager of “IMON”

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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 Jan 2006		635,664	536,645	563,857	1,736,166
Contribution	20		78,418		78,418
Result for the year	22			2,079,101	2,079,101
Balance at 31 Dec 2006		635,664	615,063	2,642,958	3,893,685

The accompanying notes on pages 12 to 34 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	Jan 1 - Dec 31, 2006	July 1 - Dec 31, 2005
Net result		2,079,101	563,857
Depreciation		109,309	42,038
Cash flow from operating profit before changes in operating assets and liabilities		2,188,410	605,895
Changes in operating assets and liabilities:			
Net (increase)/decrease in loans and advances to customers		(13,287,968)	(3,862,188)
Net (increase)/decrease in other assets		(199,289)	(187,854)
Net (increase)/decrease in placements with commercial banks		133,505	(200,000)
Net increase/(decrease) in other liabilities		308,594	4,436,270
Net cash from operating activities		(10,856,748)	792,123
Cash flow from financing activities			
Purchase of property and equipment	15	(264,175)	(94,056)
Net cash (used in)/from financing activities		(264,175)	(94,056)
Cash flow from investing activities			
Net increase/(decrease) in NABWT contribution		78,418	-
Long term liabilities		11,211,327	(107,106)
Net cash from investing activities		11,289,745	(107,106)
Net increase in cash and cash equivalents		168,822	590,961
Cash and cash equivalents at beginning of year	12	906,122	315,161
Cash and cash equivalents at end of year	12	1,074,944	906,122

The accompanying notes on pages 12 to 34 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.

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

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying IMON’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 IMON’s functional and presentation currency.

(b) Transactions and balances

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

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

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	<u>Dec 31, 2006</u>	<u>Dec 31, 2005</u>
	TJS	TJS
1 US dollar =	3.4265	3.1993
10 Russian ruble =	1.3013	1.1113
1 Euro =	4.5137	3.7832
1 Canadian dollar =	2.9526	2.7419

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, IMON 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

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

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1.6 Financial assets

IMON 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 IMON 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 IMON 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 IMON 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

IMON 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.

IMON 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 IMON 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

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characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

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

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

1.9 Fixed assets

Fixed assets are stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to IMON 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 IMON, 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 IMON 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

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

1.13 Provision for loan impairment

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

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related provision for impairments; subsequent recoveries are credited to the provision for loan losses in the income statement.

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

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

The following provision rates have been used historically by IMON:

Normally performing loans, other than agricultural	2%
Normally performing agricultural loans	10%
Loans 1 - 30 days in arrears	10%
Loans 31 – 60 days in arrears	30%
Loans 61 – 90 days in arrears	50%
Loans > 90 days in arrears	100%

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

1.14 Deferred income taxes

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

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

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

1.15 Borrowings

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

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2 Use of financial instruments

2.1 Strategy in using financial instruments

By its nature IMON’s activities are principally related to the use of financial instruments. IMON 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 the form of microloans.

2.2 Credit risk

IMON takes on exposure to credit risk, which is the risk that a borrower will be unable to pay amounts in full when due. IMON 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 Directors of IMON. 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

IMON 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

IMON 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 IMON’s assets, which are denominated in currencies other than the Tajik Somoni, as shown in the currency analyses table below:

Currency analysis

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

all amounts are expressed in TJS

	TJS	USD	EURO	Total
Assets				
Cash and cash equivalents	426,540	648,404	-	1,074,944
Placements with commercial banks	-	66,495	-	66,495
Loans and advances to customers	13,371,866	11,614,138	-	24,986,004
Property and equipment	743,530	-	-	743,530
Other assets	434,267	-	-	434,267
Total assets	14,976,203	12,329,037	-	27,305,240

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Liabilities

Funds received from other agencies	-	-	-	-
Due to other financial institutions	2,996,832	16,576,887	592,423	20,166,142
Subordinated debt	2,480,336	-	-	2,480,336
Other liabilities	610,229	154,848	-	765,077
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	6,087,397	16,731,735	592,423	23,411,555
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets -/- liabilities	8,888,806	(4,402,698)	(592,423)	3,893,685

The amount of total assets and total liabilities analyzed by currency at December 31, 2005 is as follows:

all amounts are expressed in TJS

	TJS	USD	EURO	Total
	<hr/>	<hr/>	<hr/>	<hr/>
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
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	13,093,727	534,072	-	13,627,799
	<hr/>	<hr/>	<hr/>	<hr/>
Liabilities				
Funds received from other agencies	55,293	-	-	55,293
Other liabilities	401,190	-	-	401,190
Due to other financial institutions	1,449,791	7,339,508	165,515	8,954,814
Subordinated debt	2,480,336	-	-	2,480,336
	<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

IMON 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 1, 2007 IMON's outstanding portfolio of US Dollar denominated loans amounted to TJS 13,001,708 - 49% of the total outstanding loan portfolio. (February 28, 2006: TJS 1,387,499 – 11,5% of the total outstanding loan portfolio).

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2.5 *Interest rate risk*

IMON 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 IMON may be unable to satisfy current and future financial commitments.

IMON is exposed to calls on its available cash resources from maturing loans received by IMON and loan draw downs. IMON 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 reasonably.

Maturity analysis

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

December 31, 2006	Demand (including arrears)	Up to 6 months	From 6 months to 1 year	Over 1 year	No specified maturity	Total
	TJS	TJS	TJS	TJS	TJS	TJS
Assets						
Cash and cash equivalents	1,074,944	-	-	-	-	1,074,944
Placements with commercial banks	-	66,495	-	-	-	66,495
Loans and advances to customers	81,658	7,672,215	10,317,344	6,914,787	-	24,986,004
Property and equipment	-	-	-	-	743,530	743,530
Other assets	-	434,267	-	-	-	434,267
Total assets	1,156,602	8,172,977	10,317,344	6,914,787	743,530	27,305,240
Liabilities						
Funds received from other agencies	-	-	-	-	-	-
Due to other financial institutions	102,762	3,081,201	2,227,225	14,754,954	-	20,166,142
Subordinated debt	-	-	-	2,480,336	-	2,480,336
Other liabilities	-	765,077	-	-	-	765,077
Total liabilities	102,762	3,846,278	2,227,225	17,235,290	-	23,411,555
Net liquidity gap	1,053,840	4,326,699	8,090,119	(10,320,503)	743,530	3,893,685

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31 December, 2005	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	-	-	4,570,673	-	8,954,814
Subordinated debt	-	-	-	2,480,336	-	2,480,336
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 IMON’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

	Jan 1 – Dec 31, 2006	July 1 – Dec 31, 2005
	TJS	TJS
Interest and similar income		
Loans and advances	6,981,989	2,239,443
Placements with commercial banks	5,803	5,268
Total interest income	<u>6,987,792</u>	<u>2,244,711</u>
Interest expense and similar charges		
Interest expense	730,117	58,140
Total interest expenses	<u>730,117</u>	<u>58,140</u>

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

4 Net fee and commission income

	Jan 1 – Dec 31, 2006	July 1 – Dec 31, 2005
	TJS	TJS
Fee and commission income		
Commission income	743,494	277,646
Total fee and commission income	<u>743,494</u>	<u>277,646</u>
Fee and commission expenses		
Commission expenses	84,806	31,845
Service fee expenses	104,696	38,130
Total fee and commission expenses	<u>189,502</u>	<u>69,975</u>

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5 Foreign exchange result

	Jan 1 – Dec 31, 2006	July 1 – Dec 31, 2005
	TJS	TJS
Net foreign exchange gains/(loss)	(488,966)	(117,422)
Net trading gain/(loss)	23,511	

6 Other operating income

Other income consists mainly of penalties charged to customers.

7 General and administrative expenses

	Jan 1 – Dec 31, 2006	July 1 – Dec 31, 2005
	TJS	TJS
Staff costs	1,879,094	708,857
Professional services	59,382	49,732
External audit fee	58,251	45,444
VAT	19,787	10,810
Other taxes	172,148	-
Depreciation	109,309	42,038
Repair, maintenance and other facilities	151,349	49,584
Communication	80,510	28,110
Transport	132,186	61,162
Rent	289,372	85,950
Stationery	72,036	25,690
Advertisements	43,921	22,882
Loss on sale or disposition of premises, furniture and equipment	17,172	-
Other expenses	85,214	29,904
Total General and administrative expenses	3,169,731	1,160,163

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8 Staff costs

	Jan 1 – Dec 31, 2006	July 1 – Dec 31, 2005
	TJS	TJS
Wages and salaries	1,269,259	494,859
Incentive fees (bonuses)	160,519	34,575
Social security contribution	352,998	132,489
Travel costs	61,238	24,867
Staff trainings	33,636	21,333
Other	1,444	734
Total staff costs	1,879,094	708,857

The average number of persons employed by IMON during the year was 168 (2005: 147).

9 Impairment losses on loans and advances

	Jan 1 – Dec 31, 2006	July 1 – Dec 31, 2005
	TJS	TJS
Impairment on loans and advances to customers	447,857	407,075
Release of provision	-	-
Collected previously written off loans	-	-
Total impairment losses on loans and advances	447,857	407,075

10 Grant income

	Jan 1 – Dec 31, 2006	July 1 – Dec 31, 2005
	TJS	TJS
German Agro-Action (GAA)	-	11,633
Mennonite Economic Development Associates of Canada (MEDA)	4,376	7,171
Swedish International Development Cooperation (SIDA)	16,090	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)	39,358	3,434
Total grant income	59,824	142,571

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11 Income tax

	Jan 1 – Dec 31, 2006	July 1 – Dec 31, 2005
	TJS	TJS
Current tax	908,955	314,868
Deferred tax	(82,461)	5,978
Total income tax	826,494	320,846

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

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

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

International Micro-Loan Fund “IMON”
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NOTES TO THE BALANCE SHEET

12 Cash and cash equivalents

	Dec 31, 2006	Dec 31, 2005
	TJS	TJS
Cash in TJS	1,677	51,766
Bank in TJS (in commercial banks)	424,863	593,211
Cash in USD	1	-
Bank in USD (in commercial banks)	648,403	261,145
	<u>1,074,944</u>	<u>906,122</u>

13 Placements with commercial banks

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

14 Loans and advances to customers

	Dec 31, 2006	Dec 1, 2005
Loans outstanding	25,766,326	12,101,951
Provision for impairment	(780,322)	(403,915)
	<u>24,986,004</u>	<u>11,698,036</u>

14.1 Analysis by sector

	Dec 31, 2006	Dec 31, 2005
	TJS	TJS
Individual trade	16,760,992	8,478,710
Agriculture other than livestock	1,754,715	800,351
Livestock	3,618,413	1,043,743
Individual production	1,565,533	803,490
Services	2,066,673	975,657
	<u>25,766,326</u>	<u>12,101,951</u>

International Micro-Loan Fund “IMON”
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14.2 Analysis by type of collateral

	<u>Dec 31, 2006</u>	<u>Dec 31, 2005</u>
	TJS	TJS
Real estate	10,948,796	4,412,585
Solidarity group	14,349,760	7,242,243
Guarantee	190,794	248,966
Without collateral (Loans to staff)	276,976	198,157
	<u>25,766,326</u>	<u>12,101,951</u>

Real estate includes leased equipment for the amount of TJS 63,447 as of December 31, 2006.

14.3 Geographical analysis

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

	<u>Dec 31, 2006</u>	<u>Dec 31, 2005</u>
	TJS	TJS
Soghd	14,449,956	7,208,196
Regions of Republican Subordination	6,432,600	2,805,180
Khatlon	4,883,770	2,088,575
	<u>25,766,326</u>	<u>12,101,951</u>

14.4 Arrears

The amounts of loans in arrears are analysed as follows:

	<u>Outstanding principal</u>	
	<u>Dec 31, 2006</u>	<u>Dec 31, 2005</u>
	TJS	TJS
Up to 30 days	74,390	1,271
30 – 60 days	6,779	-
60 – 90 days	19,922	-
>90 days	21,006	56,238
	<u>122,097</u>	<u>57,509</u>

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14.5 Provisions

The movements in provisions for losses are as follows:

	Dec 31, 2006	Dec 31, 2005
	TJS	TJS
Balance at January 1, 2006	403,915	-
Impairment losses	447,857	407,075
Bad debts written off	(71,450)	(3,160)
Balance at 31 December, 2006	780,322	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, 2006 IMON had prolonged loans for the total amount of TJS 871 (2005: TJS 8,905).

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15 Property and equipment

2006	Building under construction	Computers	Furniture & Equipment	Vehicles	Intangible assets	Other	Total
	TJS	TJS	TJS	TJS	TJS	TJS	TJS
As at January 1, 2006							
Historical cost	17,172	273,716	101,861	108,602	61,576	67,774	630,701
Accumulated depreciation	-	(22,002)	(7,144)	(8,145)	(2,463)	(2,284)	(42,038)
Net book value	17,172	251,714	94,717	100,457	59,113	65,490	588,663
Movements 2006							
Additions	-	115,412	68,526	77,061	4,304	16,995	282,298
Disposals	(17,172)	(673)	(794)	-	(137)	-	(18,776)
Reversal of accum. depr.	-	473	44	-	137	-	654
Depreciation	-	(56,889)	(13,260)	(24,153)	(5,035)	(9,972)	(109,309)
As at December 31, 2006							
Historical cost	-	388,455	169,593	185,663	65,743	84,769	894,223
Accumulated depreciation	-	(78,418)	(20,360)	(32,298)	(7,361)	(12,256)	(150,693)
Net book value	-	310,037	149,233	153,365	58,382	72,513	743,530
2005							
	Building under construction	Computers	Furniture & Equipment	Vehicles	Intangible assets	Other	Total
	TJS	TJS	TJS	TJS	TJS	TJS	TJS
As at July 1, 2005 (Restated)							
Historical cost	17,172	210,179	93,705	108,602	61,576	45,411	536,645
Accumulated depreciation	-	-	-	-	-	-	-
Net book value	17,172	210,179	93,705	108,602	61,576	45,411	536,645
Movements 2005							
Additions	-	63,537	8,156	-	-	22,363	94,056
Disposals	-	-	-	-	-	-	-
Depreciation	-	(22,002)	(7,144)	(8,145)	(2,463)	(2,284)	(42,038)
As at December 31, 2005							
Historical cost	17,172	273,716	101,861	108,602	61,576	67,774	630,701
Accumulated depreciation	-	(22,002)	(7,144)	(8,145)	(2,463)	(2,284)	(42,038)
Net book value	17,172	251,714	94,717	100,457	59,113	65,490	588,663

All property and equipment for the amount of TJS 519,473 as of December 31, 2006 represents NABWT in-kind contribution to IMON.

Property and equipment is not insured.

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16 Other assets

	<u>Dec 31, 2006</u>	<u>Dec 31, 2005</u>
	TJS	TJS
Accrued interest on loans	428,364	234,978
Prepayments	5,903	-
	<u>434,267</u>	<u>234,978</u>

17 Funds received from other agencies

IMON 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 January 2006		-	-	16,090	-	(155)	39,358	55,293
<i>Grants received for operational expenses</i>		-	4,376	-	-	155	-	4,531
For trainings		-	4,376	-	-	155	-	4,531
<i>Grants absorbed for operational expenses</i>		-	-	-	-	-	-	-
For trainings	10	-	-	-	-	-	-	-
Balance at 31 December 2006		-	-	-	-	-	-	-

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<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 and subordinated debt)

Loans from other financial institutions are borrowings which IMON takes for loan portfolio expansion.

18.1 By financial institutions (short-term and demand loans)

	Dec 31, 2006	Dec 31, 2005
	TJS	TJS
European Bank for Reconstruction and Development (EBRD)	1,713,250	-
Micro Lending Company “Frontiers”	856,625	-
Dexia Micro-Credit Fund	1,541,925	-
Impulse Microfinance Investment Fund NV	856,625	-
Mercy Corps	5,026,651	4,305,723
German Agro-Action (GAA)	-	78,418
Mennonite Economic Development Associates of Canada (MEDA)	2,656,832	
Agroinvestbank	340,000	-
	12,991,908	4,384,141

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18.2 *By financial institutions (long-term loans)*

	Dec 31, 2006	Dec 31, 2005
	TJS	TJS
Mercy Corps (subordinated debt)*	2,480,336	2,480,336
European Bank for Reconstruction and Development (EBRD)	4,283,125	3,199,300
Micro Lending Company “Frontiers”	321,234	-
Microcredit Enterprises LLC	1,713,250	-
Impulse Microfinance Investment Fund NV	856,625	-
Mennonite Economic Development Associates of Canada (MEDA)	-	1,371,373
	<u>9,654,570</u>	<u>7,051,009</u>

*Amount of subordinated debt is included in equity while calculating financial ratios.

18.3 *By term*

	Dec 31, 2006	Dec 31, 2005
	TJS	TJS
Demand	7,683,482	4,384,141
Short-term	5,308,426	-
Long-term	9,654,570	7,051,009
	<u>22,646,478</u>	<u>11,435,150</u>

18.4 *By currency*

	Dec 31, 2006	Dec 31, 2005
	TJS	TJS
Local currency	5,477,167	3,930,127
Foreign currency	17,169,311	7,505,023
	<u>22,646,478</u>	<u>11,435,150</u>

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19 Other liabilities

	Dec 31, 2006	Dec 31, 2005
	TJS	TJS
Accrued interest payable	130,742	58,140
Audit fee payable	29,491	45,444
Excess payments received	517	-
Income tax payable	620,325	291,625
VAT payable	16,471	-
Deferred taxes	(76,483)	5,978
Other professional fees payable	24,106	-
Other liabilities	19,908	3
	<u>765,077</u>	<u>401,190</u>

20 Equity contributions

	December 31, 2006	December 31, 2005
	TJS	TJS
Mercy Corps	635,664	635,664
NABWT	615,063	536,645
	<u>1,250,727</u>	<u>1,172,309</u>

NABWT initial contribution was in-kind (see note 15 to the balance sheet). On July 31, 2006 NABWT handed over the loan funds received from German Agro Action for the total amount of TJS 78,418 which was granted to NABWT.

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

21 Retained earnings

	2006	2005
	TJS	TJS
Opening balance	563,857	-
Result for the year	2,079,101	563,857
	<u>2,642,958</u>	<u>563,857</u>

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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.

According to the loan agreement between IMON and Mercy Corps dated June 30, 2005, IMON received a subordinated loan for USD 796,000 or TJS equivalent for amount of 2,480,336 as of July 1, 2005 as well as a foreign currency loan for USD 1.264.107,61.

A number of IMON’s transactions are entered into with related parties in the normal course of business. These include loans to employees. These transactions were carried out on commercial terms and conditions and at market rates, but with no collateral. The volumes of related party transactions, outstanding balances at the year-end is TJS 276,976 (2005: 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. In 2006 the remuneration to their members is nil (2005: nil). The Board of Directors as shown on page 5 of the financial statements also received nil remuneration (2005: nil).

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

Undrawn loan commitments

IMON has no undrawn loan commitments.

25 Subsequent events

In January and February 2007 IMON signed new loan agreements with Dexia Micro-Credit Fund for the total amount of USD 500,000 and Investment Company “Symbiotics” for the total amount of USD 500,000.

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