

**Micro-credit program Mercy Corps  
as implemented by the National Association  
of Business Women of Tajikistan  
(‘NABWT’)  
Financial report for the year  
ended December 31, 2003**

**Micro credit program Mercy Corps as implemented by the  
National Association of Business Women of Tajikistan ('NABWT')  
Year ended December 31, 2003**

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To the board of directors of  
the National Association of Business Women of Tajikistan

## Report of the independent auditors

### *Introduction*

We have audited the accompanying balance sheet of the micro-credit program of Mercy Corps as implemented by the National Association of Business Women of Tajikistan (hereafter: 'the Program') as of December 31, 2003 and the related income and cash flow statements for the year then ended (hereafter: 'the financial report'). This financial report set out on pages 6 to 28 is the responsibility of the management of the Program. Our responsibility is to express an opinion on this financial report 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 report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### *Opinion*

In our opinion the financial report gives a true and fair view of the financial position of the Program as of December 31, 2003 and of the results of its operations and its cash flows for the year then ended in accordance with the Program's accounting principles as stated in the notes to this financial report.

August 3, 2004

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**General information**

**Operations**

The National Association of Business Women of Tajikistan ('NABWT') was established in 1995. Starting 1999 NABWT is engaged by Mercy Corps to act as an implementing agency for their micro-credit program. Mutual rights and obligations are formalized in a Memorandum of Understanding that is renewed each year.

According to the Memorandum of Understanding relating to 2003 (entered into January 1, 2003) the loan capital and the cash on hand shall remain the property of Mercy Corps. NABWT shall provide stewardship and custodial care of the loan portfolio and all assets provided through Mercy Corps under the terms and conditions of the Memorandum of Understanding.

**Micro-credit program**

NABWT acts as an implementing agency for the micro-credit program of Mercy Corps in Tajikistan. Loans are made available to groups and individuals through the branch locations of NABWT in Khudjand, Dushanbe and Shaartuz, Tajikistan.

As at December 31, 2003 NABWT provided the following loan products:

	<b>Interest rate</b>	<b>Up-front fee</b>	<b>Amount</b>	<b>Term</b>	<b>Savings/collateral</b>
Soghd: Group 1	3.5%-4.5% per month Flat basis in somoni	none	\$40-\$750	3-4 months	None
Soghd: Group 2	3% per month, declining balance, dollar denominated	1%	\$100-\$1,000	3-6 months	None
Dushanbe & Khatlon: Group 1	4.5% per month, declining in somoni	2%	\$40-\$750	3-4 months	None
Dushanbe: Group 2	3.5% per month, declining, dollar denominated	1-5%	\$300-\$1,000	3-6 months	Collateral valued at 150% of loan amount
Individual	22% annually, declining, dollar denominated	1-4%	\$750-\$5,000	3-18 months	Collateral valued at 120% of loan amount
Individual	3.5% per month, declining balance, dollar denominated	1-3%	\$1,000-\$5,000	6-12 months	Collateral valued at 120% of loan amount
Individual loan for employees	22% annually, declining, dollar denominated	0%	0-\$1,200	Up to 24 months	For loan more than \$1,000 the Program needs collateral valued at 120% of loan

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As at December 31, 2002 NABWT provided the following loan products:

	<b>Interest rate</b>	<b>Up-front fee</b>	<b>Amount</b>	<b>Term</b>	<b>Savings/collateral</b>
Soghd: Group	3.8%-4.5% per month Flat basis in somoni	none	\$75-\$500	3-6 months	Savings mandatory in Isfara and Kanibadam
Soghd: Mid-level group	3% per month, declining balance, dollar denominated	1%	\$150-\$1,000	3-6 months	None
Soghd: Individual	22% annually, on declining balance, dollar denominated	1-3%	\$1,000-\$5,000	6-18 months	Collateral valued at 120% of loan
Dushanbe & Khatlon: Group	4.5% per month, declining in somoni	2%	\$100-\$500 (increase by \$50-\$100 each cycle)	3-6 months	Guarantee fund charged as 5% of loan amount up- front
Dushanbe: Mid-level group	3.5% per month, declining, dollar denominated	1.5%	\$300-\$1,000	3-6 months	Collateral valued at 150% of loan amount
Dushanbe: Individual	3.5% per month, declining balance, dollar denominated	1-3%	\$1,000-\$5,000	6-12 months	Collateral valued at 150% of loan amount
Khatlon: Individual	22% annually, declining balance, dollar denominated	none	\$500-\$5,000	6-18 months	Collateral 130% of loan amount (real estate)

**Board of Directors**

The Board of Directors of NABWT comprises the following persons:

Yuldashev Nabijon	Chairman
Nazimova Muhabbat	Member
Sadikova Dilorom	Member
Samadova Munira	Member
Latipov Almos	Member

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## Management Board

The Management Board of NABWT comprises the following persons:

Sanavbar Sharipova	Executive Director
Rakhim Melikbaev	Financial Director Head Office
Abduvakhidov Bakhtier	Manager Micro Finance Program
Gulov Shamsiddin	Director of the Dushanbe branch
Rustamova Nuriniso <sup>1)</sup>	Director of the Dushanbe branch
Makhkamova Gulbakhor	Director of the Soghd branch
Valiev Amonullo	Director of the Khatlon branch

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<sup>1)</sup> Until May 2003

## Number of authorized offices and registered address

As at December 31, 2003 the activities of the Program were distributed over 3 branches:

### *Soghd branch*

Khudjand office	27 Hakim Karim Street	Khudjand
Kanibadam field office	129 Lenin Street	Kanibadam
Isfara field office	10 Lenin Street	Isfara
Istaravshan field office	115 Lenin Street	Istaravshan

### *Dushanbe branch*

Dushanbe office	3 pr. Rudaki 94/4	Dushanbe
Hissar field office	60-years of Hissar	Hissar
Tursun-Zade field office	94 Khairullaev Street	Tursun-Zade

### *Khatlon branch*

Shaartuz office	35 Somony Street	Shaartuz region
Djilikul field office	Lenin Street, Population Employment Department	Djilikul
Kolkhozabad field office	4 Tugalag Street	Kolkhozabad

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**Financial report**

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**Income statement**

	<u>Notes</u>	<u>2003</u>	<u>2002</u>
		TJS	TJS
Interest and similar income	4	1,909,601	1,504,597
Interest expenses and similar charges	4	(116,527)	(3,934)
<b>Net interest income</b>		<u>1,793,074</u>	<u>1,500,663</u>
Other operating income	5	2,607	3,200
Foreign exchange result on loans due to Mercy Corps	6	209,111	113,281
<b>Operating income</b>		<u>2,004,792</u>	<u>1,617,144</u>
General and administrative expenses	7	1,217,971	1,036,137
Impairment (gains)/losses on loans	9	(13,047)	42,446
<b>Operating expenses</b>		<u>1,204,924</u>	<u>1,078,583</u>
<b>Net operating result before grant income</b>		<u>799,868</u>	<u>538,561</u>
Grant income	10	95,336	140,122
<b>Net profit (before allocation to Mercy Corps)</b>		<u>895,204</u>	<u>678,683</u>
Allocated to Mercy Corps		708,981	686,629
<b>Net profit/(loss) (after allocation to Mercy Corps)</b>		<u>186,223</u>	<u>(7,946)</u>

The accompanying notes are an integral part of this financial report.

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**Balance sheet**

	<u>Notes</u>	<u>Dec 31, 2003</u>	<u>Dec 31, 2002</u>
		TJS	TJS
<b>Assets</b>			
Cash and cash equivalents	12	395,967	440,303
Loans and advances to customers	13	3,764,459	3,092,243
Property and equipment	14	232,515	78,847
Other assets	15	61,736	33,399
		<hr/>	<hr/>
Total assets		4,454,677	3,644,792
		<hr/>	<hr/>
<b>Liabilities</b>			
Customer demand and time deposits	16	12,820	106,888
Funds received from other agencies	17	103,267	90,995
Other liabilities	18	66,354	69,877
		<hr/>	<hr/>
Total liabilities		182,441	267,760
		<hr/>	<hr/>
<b>Surplus of assets and liabilities</b>			
Capital employed by Mercy Corps	19	4,066,965	3,357,984
Retained earnings	20	205,271	19,048
		<hr/>	<hr/>
Total surplus of assets and liabilities		4,272,236	3,377,032
		<hr/>	<hr/>
Total surplus and liabilities		4,454,677	3,644,792
		<hr/>	<hr/>

The accompanying notes are an integral part of this financial report.

Signed and authorized on behalf of the Management Board on August 3, 2004:

NABWT,

Mercy Corps,

Sanavbar Sharipova  
Executive Director

Gary R. Burniske  
Country Director

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**Statement of changes in surplus of assets and liabilities**

	<b>Capital employed by Mercy Corps</b>	<b>Retained earnings</b>	<b>Total surplus of assets and liabilities</b>
	TJS	TJS	TJS
<b>Balance at December 31, 2001</b>	2,671,355	26,994	2,698,349
Net result for the year	686,629	(7,946)	678,683
<b>Balance at December 31, 2002</b>	3,357,984	19,048	3,377,032
Net result for the year	708,981	186,223	895,204
<b>Balance at December 31, 2003</b>	4,066,965	205,271	4,272,236

Since the program does not represent a legal entity the surplus of assets and liabilities can not be considered as equity but in fact is legally owned by Mercy Corps.

The accompanying notes are an integral part of this financial report.

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**Statement of cash flows**

	<u>Notes</u>	<u>2003</u>	<u>2002</u>
		TJS	TJS
<b>Net result</b>		186,223	(7,946)
Depreciation		28,299	21,639
Cash flows from operating profits before changes in operating assets and liabilities		214,522	13,693
<i>Changes in operating assets and liabilities</i>			
Net (increase)/decrease in loans and advances to customers		(672,216)	(929,633)
Net (increase)/decrease in other assets		(28,337)	1,303
Net increase/(decrease) in liabilities to customers demand and time deposits		(94,068)	-
Net increase/(decrease) in other liabilities		(3,523)	76,022
<b>Net cash used in operating activities</b>		(583,622)	(838,615)
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(186,786)	(22,060)
Proceeds from sales of property and equipment		4,819	30,126
<b>Net cash (used in)/from investing activities</b>		(181,967)	8,066
<b>Cash flow from financing activities</b>			
Net increase/(decrease) in capital employed by Mercy corps		708,981	686,629
Net increase/(decrease) in funds received from other agencies		12,272	(160,845)
<b>Net cash from financing activities</b>		721,253	525,784
<b>Net decrease in cash and cash equivalents</b>		(44,336)	(304,765)
Cash and cash equivalents at beginning of year		440,303	745,068
Cash and cash equivalents at end of year	12	395,967	440,303

The accompanying notes are an integral part of this financial report.

# **Micro-credit program Mercy Corps as implemented by the National Association of Business Women of Tajikistan ('NABWT') Year ended December 31, 2003**

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## **Notes to the financial report**

### **1 Memorandum of Understanding (MoU) between Mercy Corps and the National Association of Business Women in Tajikistan**

The Agreement ('2003 Agreement') is entered into on January 1, 2003, by and between Mercy Corps, an international non-governmental organization, located at 13 Pushkin Street, Dushanbe, Tajikistan, and the National Association of Business Women of Tajikistan ('NABWT'), a registered non-governmental organization in the Republic of Tajikistan, located in Khujand, Tajikistan. The 2003 Agreement has been updated with an amendment dated November 14, 2003.

An overview of some elements of the MoU is as follows:

#### *1.1 Project description*

NABWT administers a micro-credit program ('Program') to provide funds needed by poor and vulnerable people in Tajikistan. Loans are made to small groups, mid-level groups, and individuals through the branch locations of NABWT in Khujand, Dushanbe, and Shaartuz, Tajikistan.

Certain funds have been made available to Mercy Corps through a grant from the people of the United States of America, through the U.S. Department of Agriculture, the Bureau of Population, Refugees and Migration of the U.S. Department of State and the U.S. Agency for International Development. These funds and the proceeds thereof (including but not limited to payments of principal, interest, fees and costs in connection with loans made from grant funds) are collectively referred to herein as 'Grant Funds'. These Grant Funds are now owned by Mercy Corps.

Mercy Corps' administration of the Grant Funds and its other humanitarian programs are carried out in Tajikistan under the terms of the Bilateral Agreement dated September 13, 1993, entered into by the government of the United States of America and the government of the Republic of Tajikistan.

#### *1.2 Ownership and utilization of the Grant Funds*

Mercy Corps shall allow NABWT to utilize the Grant Funds for the purpose of implementing the Program. The Grant Funds (as they may be utilized as the loan capital, the loans and all proceeds thereof shall remain the property of Mercy Corps throughout the term of the 2003 Agreement. NABWT shall provide stewardship and custodial care of the loan capital and the loans.

# **Micro-credit program Mercy Corps as implemented by the National Association of Business Women of Tajikistan ('NABWT') Year ended December 31, 2003**

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## *1.3 Authorization*

Mercy Corps has authorized the executive director and the branch directors of NABWT (and their designees with Mercy Corps prior written approval) to sign all documentation associated with the loans (including, but not limited to promissory notes, loan agreements, collateral agreements, guarantees, extensions and modifications) on behalf of Mercy Corps. Furthermore, Mercy Corps has authorized NABWT to use the Mercy Corps name and logo for the following uses only: rental and loan contracts, loan application forms, and employee identification documents.

## *1.4 Administration of the Program*

- Loans shall be made on behalf of Mercy Corps utilizing loan capital and the proceeds thereof to poor and vulnerable people in Tajikistan in accordance with the terms of the 2003 Agreement.
- NABWT shall adhere to all policies and procedures as described in the NABWT operational manuals (including, but not limited to administration, financial, and credit manuals), copies of which are attached hereto as Appendix A. NABWT agrees at all times to adhere to and implement sound lending policies, procedures and credit practices.
- Any and all payments received with respect to the loans shall be deposited in a bank account in the name of Mercy Corps ('Bank Account').
- Mercy Corps shall facilitate the use by NABWT of the Bank Account for deposits and disbursements with respect to the loans. The Bank Account shall be used only for transactions relating to the loans. All loan capital and proceeds thereof shall be maintained on deposit in the Bank Account, except to the extent that disbursements to fund loans are made.
- NABWT shall use the commercial rate of the bank for their exchange offices for determining a US dollar value for all transactions relating to the implementation of the project.
- NABWT shall make expenditures only in accordance with the NABWT 2003 budget. NABWT shall work to achieve targets set in its 2003 business plan. If significant changes to its budget or business plan are contemplated, NABWT must inform Mercy Corps in writing of such changes, explain the deviation, and obtain Mercy Corps' written approval before instituting any such changes.

## *1.5 Records and reporting*

- NABWT shall provide a monthly financial report (including the electronic copy of cash journals, a copy of the cash count, a copy of the bank statement for the NABWT account, and cash and bank reconciliation), in a form acceptable to Mercy Corps to the Mercy Corps Dushanbe office by the 10<sup>th</sup> of each month.
- NABWT shall produce and maintain a portfolio report, an aging report, and a budget report on a monthly basis and all financial reports consisting of a balance sheet and income statement on a quarterly basis.

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- Mercy Corps shall provide NABWT with copies of bank statements with respect to the Bank Account as reasonably requested by NABWT.
- NABWT shall maintain records and accounts containing current information and documentation which, inter alia, shall include:
  - a) Copies of the 2003 Agreement and all revisions thereto.
  - b) Payment vouchers with respect to each Loan disbursement clearly showing the name of the payee, the relevant loan agreement, the purpose and date of the disbursement, and evidencing all payments made and with all pertinent supporting documentation attached.
  - c) Vouchers evidencing the receipt of all remittances, cash or any other form of credit with respect to the loans.
  - d) Periodic analyses of actual expenditures against line items in the 2003 budget.
  - e) Records of all financial commitments entered into by NABWT during the term of the 2003 Agreement.

*1.6 Operating expenses of the Program*

NABWT shall pay for any and all operating expenses of the Program including, but not limited to, employee salaries, payroll taxes, and social protection fund taxes imposed pursuant to the laws of the Republic of Tajikistan.

NABWT shall submit a cash request in a form acceptable to Mercy Corps for a grant for NABWT's monthly operating expenses. Such cash request shall be submitted to Mercy Corps by the 15<sup>th</sup> of the month preceding the month it is required.

Mercy Corps shall make grants to NABWT for NABWT's monthly operating expenses as documented in the cash request and the monthly financial report unless NABWT is in material default of its obligations under the 2003 Agreement and such default has not been cured within 30 days after receipt of notice thereof from Mercy Corps.

NABWT shall establish and maintain an operating bank account separate and independent from Mercy Corps, and provide Mercy Corps with the banking information in order to facilitate wire transfers from Mercy Corps to NABWT.

Mercy Corps shall not be liable for any operating expenses or other expenses incurred by NABWT in connection with the Program or otherwise.

*1.7 NABWT's covenants*

NABWT shall at all times:

- a) Ensure that overdue loans (on which payments are 30 days or more overdue) do not exceed 5% of all outstanding loans.
- b) Ensure that loans that have been written off as uncollectible do not exceed 5% of all outstanding loans.

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In the MoU of 2004 the following has been included additionally: "Mercy Corps shall have a permanent seat on the NABWT's Board of Directors with voting rights, including but not limited to the right to veto certain matters (such as resolutions regarding merger, dissolution, reorganization, insolvency/bankruptcy), as long as NABWT is utilizing the loan capital in connection with the Program."

## **2 Summary of significant accounting policies**

Significant accounting policies applied in the accompanying financial report are summarized below.

### *2.1 General*

This financial report is not the financial report of NABWT but reflects the financial position of the micro-credit program of Mercy Corps, Tajikistan. NABWT is a non-governmental organization (NGO). Its activities solely comprise of the implementation of micro-credit programs on behalf of Mercy Corps and other donors.

### *2.2 Comparatives*

The Program has reclassified its surplus of assets and liabilities into two separate components being capital employed by Mercy Corps and retained earnings. By presenting it in this way NABWT provides a better insight in the actual position with Mercy Corps. As the greater part of the retained earnings of the Program belong to Mercy Corps it has been decided by management of the Program to present it separately. The impact on the surplus of assets and liabilities and the result of this reclassification is TJS nil.

Furthermore, the Program has separately recorded the FX results which have been made on the outstanding capital employed balances of Mercy Corps. At first, this is a result of the Program which at year-end is allocated to Mercy Corps. The net impact on the result and surplus of assets and liabilities of the Program is TJS nil.

### *2.3 Basis of accounting*

The financial report is prepared in accordance with the Program's accounting standards under the historical cost convention as modified by the fair valuation of available-for-sale securities, financial assets and liabilities held-for-trading and all derivative contracts, if any.

The preparation of this financial report requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial report and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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## 2.4 Reporting currency

The Program has chosen the Tajik somoni as its reporting currency. Although the grants and most of the loans are denominated in USD, management of the Program is of the opinion that it is more meaningful to use the Tajik somoni as its measurement and reporting currency.

## 2.5 Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into somoni at the rate of exchange established by the National Bank of the Republic of Tajikistan at the date of the financial report. Foreign currency assets and liabilities are principally held in US dollars.

Foreign currency transactions are translated into somoni at 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 of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses.

The exchange rates used for the financial report are the official exchange rates as issued by the National Bank of Tajikistan. The exchange rates as established by the National Bank of Tajikistan are equal to the market rate. As of December 31, 2003 and December 31, 2002 the principal exchange rates are:

	<u>Dec 31, 2003</u>	<u>Dec 31, 2002</u>
	TJS	TJS
1 US dollar =	2.95650	3.08100
10 Russian rouble =	1.01090	0.09818
1 euro =	3.66810	3.30100
1 pound sterling =	5.25100	4.85930

## 2.6 Interest income and expense

Interest income and expense are recognized in the income statement for all interest-bearing instruments on an accruals basis using the effective yield method based on the actual purchase price.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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### *2.7 Fee and commission income*

Fees and commissions are generally recognized on an accruals basis, which is based on when the service has been provided. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction.

### *2.8 Grants*

Grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Program will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

### *2.9 Originated loans*

All loans and advances are recognized when cash is advanced to borrowers. Loans originated by the Program by providing money directly to the borrower at draw-down are categorized as 'loans' and are carried at amortized cost, which is defined as the fair value of the cash consideration given to originate those loans as is determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

### *2.10 Provision for loan impairment*

An allowance for loan impairment is established if there is objective evidence that the Program will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

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

In determining the overall level of the provisions required, 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.

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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.

### *2.11 Computer development costs*

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Program and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Expenditure, which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives, not exceeding a period of 3 years.

### *2.12 Property and equipment*

All property and equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful life as follows:

	%
Furniture and equipment	10.0
Vehicles	20.0
Computer equipment	20.0

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

### *2.13 Cash and cash equivalents*

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity as from the date of acquisition including amounts due from other banks.

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*2.14 Provisions*

Provisions are recognized when the Program has a current 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. Long-term provisions are not discounted.

*2.15 Pension obligations*

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

*2.16 Income taxes*

The loan portfolio and the income generated by Mercy Corps on the Program are tax exempt.

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## **3 Use of financial instruments**

In the normal course of business, the Program provides to its customers a variety of financial instruments. These financial instruments involve various degrees of risk as follows:

### *3.1 Credit risk*

In conducting business activities, the Program is exposed to the possibility that borrowers may default on their obligations to the Program. To minimize this risk the Program evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Program upon the extension of credit, is based on credit officer's credit evaluation of the client. Collateral held varies but may include real estate and cash (for example savings). The Program strives to maintain a credit risk profile that is diverse in terms of industry and borrower concentration.

### *3.2 Market risk*

In the normal course of business, the Program is exposed 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.

### *3.3 Currency risk*

The Program may invest in assets denominated in currencies other than its reporting currency, the Tajik somoni (TJS). Consequently, the Program 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 Program's assets, which are denominated in currencies other than the Tajik somoni.

### *3.4 Interest rate risk*

The Program 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.

### *3.5 Liquidity risk*

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

The Program is exposed to calls on its available cash resources from maturing loans received by the Program and loan draw-downs. The Program 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 as NABWT is relatively good at predicting what its needs may be and when.

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**Notes to the income statement**

**4 Net interest income**

	<b>2003</b>	<b>2002</b>
	TJS	TJS
<i>Interest and similar income</i>		
Interest on loans	1,555,804	1,127,497
Fees on loans	222,379	164,775
Penalty income on loans	42,267	37,544
Income from non financial services	89,151	3,200
FX income on loans	-	171,581
	<u>1,909,601</u>	<u>1,504,597</u>
<i>Interest expense and similar charges</i>		
Interest on savings	(4,156)	(3,934)
FX expenses on loans	(112,371)	-
	<u>(116,527)</u>	<u>(3,934)</u>

FX income and expenses from loans consist of income and expenses from increases/decreases in the exchange rate between US dollars and Tajik somoni.

This is caused by the fact that some somoni denominated loans have to be repaid in TJS against the historical USD-TJS exchange rate at the date of issue of the loans.

Substantially all income arises within the Republic of Tajikistan.

**5 Other operating income**

	<b>2003</b>	<b>2002</b>
	TJS	TJS
Training courses	-	3,200
Rent income	2,497	-
Interest income on the bank account	110	-
	<u>2,607</u>	<u>3,200</u>

Other operating income is generated by providing courses to external parties.

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**6 Foreign exchange result on loans due to Mercy Corps**

This relates to FX results, which the Program recorded on loans due to Mercy Corps.

**7 General and administrative expenses**

	<b>2003</b>	<b>2002</b>
	TJS	TJS
Staff costs (note 8)	634,388	519,394
Depreciation	28,299	21,639
Facilities	33,566	32,034
Communication	19,760	25,461
Transport	148,841	129,951
Rent	57,669	54,146
Stationery	18,550	25,027
Training of clients	3,841	12,868
Cost of bank charges	15,622	4,833
Audit fee (including tax)	65,043	66,000
Advertisements	2,015	3,119
Other expenses	174,460	129,804
Maintenance of fixed assets	15,917	11,861
	<u>1,217,971</u>	<u>1,036,137</u>

**8 Staff costs**

	<b>2003</b>	<b>2002</b>
	TJS	TJS
Wages and salaries (net)	438,593	376,460
Taxes and contribution on salary	117,375	85,189
Travel costs	35,797	37,234
Paid incentive fees	-	6,363
Other	42,623	14,148
	<u>634,388</u>	<u>519,394</u>

Salaries and employee benefits include bonuses and holiday allowances. The average number of persons employed by the Program during the year was 69 (2002: 70).

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**9 Impairment (gains)/losses on loans**

	<b>2003</b>	<b>2002</b>
	TJS	TJS
Impairment on loans and advances to customers	21,611	84,136
Release of provision	(9,178)	(41,509)
Collected previously written off loans	(25,480)	(181)
	<u>(13,047)</u>	<u>42,446</u>

**10 Grant income**

	<b>2003</b>	<b>2002</b>
	TJS	TJS
Donation Mercy Corps	-	140,122
Other	95,336	-
	<u>95,336</u>	<u>140,122</u>

Other relates to a grant of TJS 50,000 of CGAP for operational expenses and the remaining amount relates to a grant received from ACDI/VOCA.

**11 Taxation**

In order to facilitate the provision of humanitarian and technical assistance to benefit the people of Tajikistan, the government of Tajikistan has exempt the Program from taxation based on Article 1 of the agreement between the government of Tajikistan and the United States of America dated September 13, 1993.

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**Notes to balance sheet**

**12 Cash and cash equivalents**

	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
	TJS	TJS
Cash Mercy Corps in TJS	37,808	25,052
Bank Mercy Corps in TJS	233,248	156,554
	<hr/>	<hr/>
Subtotal Mercy Corps	271,056	181,606
Cash in TJS	15,108	111,960
Bank in TJS	24,076	51,421
Cash in USD	-	89,403
Bank in USD	85,727	5,913
	<hr/>	<hr/>
	395,967	440,303
	<hr/>	<hr/>

Including in cash is an amount of TJS 103,267 (2002: TJS 90,995), which is not at the free disposal of the Program. These amounts have been given as a grant to the Program and can be used to purchase fixed assets. Expenditures can only be made after the formal approval of the organization that has given these funds to the Program. See note 17.

**13 Loans and advances to customers**

*13.1 General*

The breakdown of the loan portfolio is as follows:

	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
	TJS	TJS
Loans outstanding	3,795,910	3,176,379
Provision for impairment on loans	(31,451)	(84,136))
	<hr/>	<hr/>
	3,764,459	3,092,243
	<hr/>	<hr/>

Loans are generally due within 6 months for groups and within 18 months for individuals. The Program is charging interest between 3.8% and 4.5% on a monthly basis for group lending and between 3.0% and 3.5% on a monthly basis for mid-level group lending.

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For individual loans in Khudjand and Shaartuz branch interest rate is set at 22% on a yearly basis, for individuals in Dushanbe interest rate is set at 3.5% per month. The calculation is based on the declining balance, annuity and flat-rate method.

*13.2 Analysis of loans outstanding by sector*

	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
	TJS	TJS
Individual trade	3,217,053	2,255,229
Agriculture	379,814	603,512
Individual production	96,171	285,874
Services	102,872	31,764
<b>Total</b>	<b>3,795,910</b>	<b>3,176,379</b>

*13.3 Geographical analysis of loans outstanding*

	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
	TJS	TJS
Khudjand	2,270,853	1,919,386
Dushanbe	769,162	623,333
Shaartuz	755,895	633,660
<b>Total</b>	<b>3,795,910</b>	<b>3,176,379</b>

*13.4 Analysis of loans outstanding by type of collateral*

	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
	TJS	TJS
Real estate	1,365,500	1,197,007
Solidarity group	2,377,317	1,872,484
Cash	-	106,888
Loans to staff	53,093	-
<b>Total</b>	<b>3,795,910</b>	<b>3,176,379</b>

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*13.5 Arrears*

	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
	TJS	TJS
1-30 days	28,480	27,049
31-60 days	16,660	8,022
61-90 days	5,611	7,979
> 90 days	27,269	44,143
<b>Total</b>	<b>78,020</b>	<b>87,193</b>

*13.6 Provision for impairment losses*

	<b>2003</b>	<b>2002</b>
	TJS	TJS
Opening balance January 1	84,136	68,200
Impairment (gains)/losses on loans	(13,047)	42,446
Bad debts written off	(39,638)	(26,510)
<b>Balance at December 31</b>	<b>31,451</b>	<b>84,136</b>

**14 Property and equipment**

	<b>Land &amp; buildings</b>	<b>Furniture &amp; equipment</b>	<b>Vehicles</b>	<b>Total</b>
	TJS	TJS	TJS	TJS
<b>As at December 31, 2002</b>				
Cost	50,829	80,367	-	131,196
Accumulated depreciation	(14,074)	(38,275)	-	(52,349)
<b>Net book value</b>	<b>36,755</b>	<b>42,092</b>	<b>-</b>	<b>78,847</b>
<b>Movements</b>				
Additions	53,710	114,068	19,008	186,786
Disposals	(26,685)	-	-	(26,685)
Disposals reversal accumulated depreciation	21,866	-	-	21,866
Depreciation	(8,664)	(19,616)	(19)	(28,299)
	<b>40,227</b>	<b>94,452</b>	<b>18,989</b>	<b>153,668</b>

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	Land & buildings	Furniture & equipment	Vehicles	Total
	TJS	TJS	TJS	TJS
<b>As at December 31, 2003</b>				
Cost	77,854	194,435	19,008	291,297
Accumulated depreciation	(872)	(57,891)	(19)	(58,782)
Net book value	76,982	136,544	18,989	232,515

Property and equipment is not insured.

**15 Other assets**

	Dec 31, 2003	Dec 31, 2002
	TJS	TJS
Accrued interest on loans	37,719	30,912
Payment in advance	906	1,653
Social security funds	-	616
Advances to employees	7,436	213
Other	15,675	5
	61,736	33,399

**16 Customer demand and time deposits**

Deposits relate to mandatory savings from clients, who receive loan capital of the Program. The maturity of the deposits is less than one year. The interest rate varies between 0-5%.

**17 Funds received from other agencies**

The Program has received some funds, which can be used to purchase fixed assets. The amount has been received in cash, each expenditure has to be approved by the financier after which the asset can be purchased. The total unused amount is therefore in fact blocked and can only be used after the approval of the financing Program.

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**18 Other liabilities**

	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
	TJS	TJS
Audit fee payable	65,043	66,000
Communication expenses	-	2,218
Excess payments received	1,311	868
Rent	-	595
Other	-	196
	<u>66,354</u>	<u>69,877</u>

**19 Capital employed by Mercy Corps**

The movement in the grant reserves is as follows:

	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
	TJS	TJS
Loan capital	3,795,909	3,176,378
Mercy Corps cash on hand	271,056	181,606
Total capital employed by Mercy Corps	<u>4,066,965</u>	<u>3,357,984</u>

	<b>2003</b>	<b>2002</b>
	TJS	TJS
Opening balance	3,357,984	2,671,355
Distribution of results	708,981	686,629
Total capital employed by Mercy Corps	<u>4,066,965</u>	<u>3,357,984</u>

**20 Retained earnings**

	<b>2003</b>	<b>2002</b>
	TJS	TJS
Opening balance	19,048	26,994
Distribution of results	186,223	(7,946)
Closing balance	<u>205,271</u>	<u>19,048</u>

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**21 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.

The financial report comprises the following balances concerning related parties:

	<u>Net amount</u>	
	<b>Dec 31, 2003</b>	<b>Dec 31, 2002</b>
Capital employed by Mercy Corps	4,066,965	3,357,984

**22 Directors' remuneration**

A listing of the members of the Management Board is shown on page 5. For year ended December 31, 2003 the total remuneration of the management amounts to TJS 77,594 (2002: TJS 61,183). The Board of Directors as shown on page 4 has not received any remuneration in 2003 (2002: TJS nil).

**23 Commitments and contingencies**

*23.1 Undrawn loan commitments*

The Program has no undrawn loan commitments.

*23.2 Other contingencies*

There are no other contingencies.

**24 Post-balance sheet events**

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