



# ANNUAL REPORT

as of 31.12.2005



# INVEST

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MICRO

## MISSION

MICROINVEST provides advisory services and financial tools to create and develop micro and small enterprises and cooperatives in order to stimulate private initiative, increase the socio-economic potential of the country and raise the living standard of its citizens.

# INVEST



## 2 General manager's message

It is our great pleasure to present information on MICROINVEST (MI) and its accomplishments in the 2005 annual report. It was prepared for all interested in development finance and SMEs in the Republic of Moldova, where entrepreneurship is crucial for economic development and poverty reduction. MI is a young institution with very good track record, created to make a difference, to work on overlooked niches and spur competition.

MI achieved 260% growth in assets and 246% growth in gross portfolio in 2005 as compared to 2004. The net portfolio represented 72% in 2005 as compared to 74% in 2004 of total assets and the credit risk was spread over different sectors, products, terms and geographic regions. The portfolio was diversified over 1288 active contracts with an average loan of USD 2079, and was qualitative with a PAR30 of 1.15%. All issued loans contributed to minimum two new jobs per loan, and thus created 2576 new jobs in total.

Having had historical experience and partnership with Savings and Credit Association (SCAs), we started to lend to SCAs. The SCAs portfolio represented 14.61% of total gross portfolio at the end of the year (Please see page 17). It is noteworthy that the number of final beneficiaries was 2171, including 883 small scale entrepreneurs, who were members of 7 SCAs.

The net profit after taxes and donations\* was USD 551 805, which was 123% higher compared to 2004, although the net profit before taxes and donations was still negative. With 38 full time staff members, from which 22 loan officers were spread over 8 regional sales outlets, MI increased productivity to USD 121 726 per loan officer compared to USD 41 873 in 2004. Nevertheless we have spare capacity and tremendous potential.

In 2005 MI staff received training on bad debt collection and client service by professional experts in order to improve, develop and maintain one of the competitive advantages of best SMEs finance service. MI supported the National Business Plan Competitions for Youth in order to demonstrate its social responsibility orientation. In the regional offices' towns we installed one banner to promote our brand and image.

In 2005 we improved and decentralized our MIS, providing the majority of our outlets with real time connections to information in order to speed up the lending and reporting process. We are glad to mention that the back office infrastructure is ready for more investments and that we have the expertise and capabilities to succeed nationally.

2005 was a year of challenge and change. Nevertheless through dedication and commitment we established fruitful partnerships with lenders such as NOVIB, SEDEF, ETIMOS and equity investor SIDI. Good results without contribution and effort are impossible; therefore, we really appreciate the commitment of the Board and the involvement of our staff.

Sincerely,  
  
Artur Munteanu  
General Manager

\* Based on IFRS and audited financial statements



# General information

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MICROINVEST S.R.L („the Company”) was established on 29 April 2003 as a micro-financing limited liability company, with Soros Foundation Moldova the sole shareholder. In December 2005 a new shareholder Solidarite Internationale pour le Developpement et l'Investissement (hereinafter „SIDI”) was appointed, as a result of which the Company has changed its name to Joint Venture Micro Finance Company MICROINVEST LLC („JV MFO MICROINVEST LLC”) and changed its shareholding structure as follows: Soros Foundation Moldova holding 90% of Company's shares and „SIDI” holding the remaining 10% of Company's shares.

The Company operates through its head office located in Chisinau and 8 representative offices (7 representative offices as of 31 December 2004) located throughout the Republic of Moldova.

The activity of the Company focuses on lending to micro, small and medium size enterprises. The Company obtains the necessary funds for its activity from donors and lenders.

MICROINVEST pursues a “closer-to-clients” strategy by positioning its branches in the focal points of entrepreneurial activity such as open-air markets, mini-bus stations, shopping malls, and downtown areas.

The number of employees as of 31 December 2005 was 53 (in 2004: 37), out of which 15 were part-time and 38 were full-time employees, including 22 loan officers. As of 31 December 2004, the Company had 37 employees, out of which 6 were part-time and 31 full-time, including 19 loan officers.

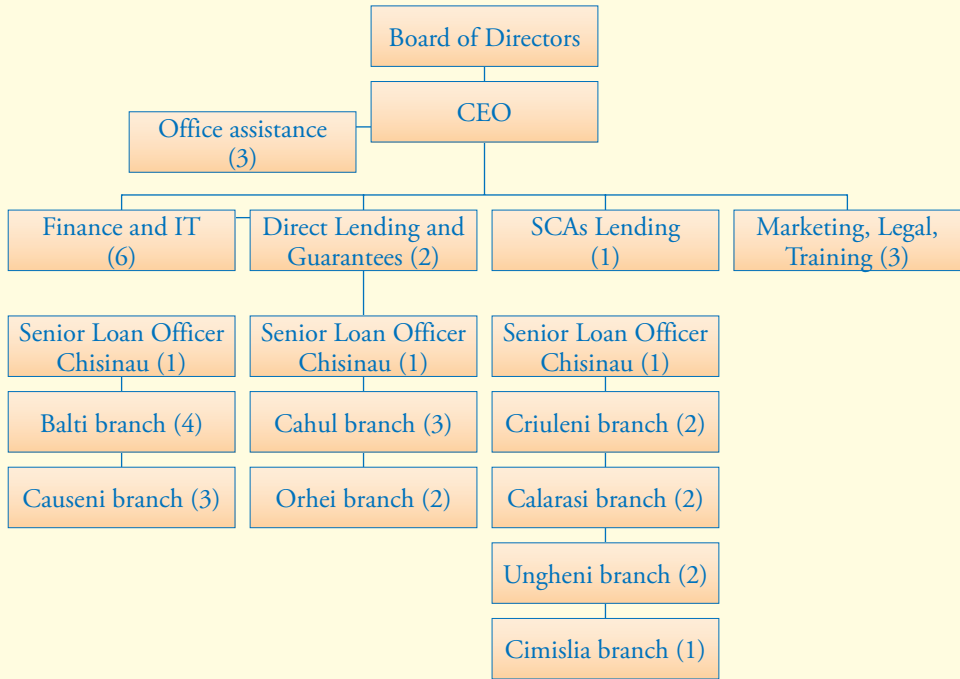
The Company's staff was trained by Microfinance Center (MFC) headquartered in Warsaw, Poland and benefited from consulting by the Open Society Institute (OSI) in New York. To continue its qualitative growth, MICROINVEST developed and introduced an in-house training program for its personnel.

The registered office of the Company is located at Puskin street 16, Chisinau, Republic of Moldova.

# INVEST



## MICROINVEST structure



# MICRO



## MICROINVEST Board Members

| Name                | Position on Board | Background   | Current position  | Board member since |
|---------------------|-------------------|--|---|--------------------|
| Victor Ursu         | President         | PhD in Physics. 10-year experience in economic development and microfinance  | Executive director, Soros Foundation Moldova  | 2003               |
| Alexandru Muravschi | Member            | PhD in Economics. Former Minister of Economy. Over 10 years of experience in policy, SMEs development and agriculture. | Private Farmers Assistance Program. Chief of Policy and Advocacy Department. Moldova. | 2003               |
| Igor Padure         | Member            | PhD in Mathematics. MPA, Harvard University, Kennedy School. Over 10 years in microfinance.                            | Moldova Microfinance Alliance. Founder of MICROINVEST. Moldova.                       | 2003               |
| Liliana Cazacu      | Member            | Economist. Over 8 years of managerial experience in agro-food industry.  | CEO, Natur Bravo, fruit processing company. Moldova.                                  | 2005               |
| Neal Delaurentis    | Member            | Economist. Over 10 years in SMEs development and microfinance.   | Open Society Institute. Vice-Director Economic Development Program, OSI, NY.          | 2005               |
| Alka Couet          | Member            | Experienced in Microfinance in Eastern Europe and Latin America.   | SIDI, Responsable géographique. France.   | 2005               |
| Artur Munteanu      | Member            | MBA, University of Hull, the UK. Over 8 years experience in microfinance.  | CEO, MICROINVEST, Moldova.  | 2003               |

### MICROINVEST Management Team

Artur Munteanu – Chief Executive Officer, MBA, over 8 years experience in microfinance.

Veronica Mirzac – Chief Financial Officer, over 6 years experience in microfinance.

Tudor Lupasco – Chief Loan Officer, over 10 years experience in rural banking and microfinance.

# INVEST



## Investment sectors

MICROINVEST targets micro and small enterprises from the urban and rural areas, from agricultural and non-agricultural sectors engaged in production, processing, building businesses, services, trading, handicraft and tourism.



# MICRO





## Investment sectors

MICROINVEST targets the niche of those who: intend to start up a business, have vision of an entrepreneur, enjoy a trustworthy reputation, have skills, are willing and able to invest their own resources.



# INVEST



## 8 Products & services

### Direct lending:

**Amount:** up to 20 000 USD  
**Term:** up to 7 years  
**Guarantee:** co-signer(s), 125 %  
**Interest rate:** 2% a month

### Group lending:

**Amount:** up to 1 000 USD  
**Term:** up to 1 year  
**Guarantee:** solidarity group guarantee  
**Interest rate:** 2% a month

### SCA lending:

**Amount:** up to 100 000 USD  
**Term:** up to 1 year  
**Interest rate:** 19.5% annual  
**Guarantee:** portfolio assignment and a bank deposit of 10% of the SCA's assets

### Community venture capital:

**Amount:** equity and debt up to 50 000 USD  
**Guarantee:** no collateral  
**Term:** 5-year payback period  
**Interest rate:** IRR no lower 25%

### Financial guarantees:

**Amount:** up to 50% of the bank loan  
**Bank loan amount** not larger than 20 000 USD  
**Interest rate:** 4–7% per year

MICROINVEST provides free financial planning (projected cash-flows, income statement and balance sheets) to all its clients.

# MICRO





## Cool outside bar

Located across the street from the regional government offices and the regional accounting building in the heart of the southern town of Cimislia, the location of the Poiana de Argint restaurant and bar contributes to its huge lunch crowds and financial success. Five years after opening Poiana's doors, owner and young entrepreneur, Aliona Bancova, 30, looked to MICROINVEST for a loan when she decided to update the kitchen and remodel the interior. Her \$10 000, 12-month loan, was used to modernize the kitchen and build a separate, private party room to seat 20. The changes drove even more business to her door, so in late 2005, she took a second, 3-year loan for \$20 000 to build and landscape a courtyard for outdoor seating which will be operational by summer of 2006.



## Popcorn!

Victor Rogojin wanted to grow his company from a kernel of an idea into a major manufacturing venture. His company was the only producer of pre-popped packaged popcorn in northern Moldova, yet he felt his popcorn packets had additional profit potential. The company manufactured and packaged the popcorn in 180 gram bags that retailed for 3 MDL. Unfortunately, consumers considered popcorn a single-serving snack, usually sold by street vendors at 1MDL a bag, not a product for bulk purchase. To realize a popcorn kernel's fluffy, white potential, it must be heated to a temperature above 45 °C and Mr. Rogojin's company wasn't reaching the popping point until he received consulting and a loan from MICROINVEST. In October of 2005 the credit experts in the Balti office helped Mr. Rogojin to identify the cause of his diminished sales (consumers' perception of popcorn and preferred packaging sizes) and to create a new marketing strategy. Together they found solutions to packaging and material cost issues. The result: Mr. Rogojin applied for a loan of 17,000 MDL (\$1300USD) to purchase new 60 gram bag packaging materials and currently sells the smaller, 1 MDL bags, in almost every grocery store in northern Moldova.

INVEST



## 10 MICROINVEST clients



### Farming vegetables

Nina Vozian of Onițani, together with her family of four, makes a living raising pigs and growing vegetables. Starting in spring, she makes the trip into the city before sunrise every day to offer the farmers' market's first wave of shoppers her peppers, cucumbers, watermelons, potatoes and pumpkins. The scale and profitability of her business took a dramatic leap in May of 2004, when she used her first loan for 8,000 MDL (\$620) for a term of 8 months, to construct an irrigation system. In December 2004, she took a second loan of 35,000 MDL (\$2713) for 12 months to build a 500m<sup>2</sup> greenhouse. It has enabled her to bring her spring crops to market earlier at considerably higher prices. In July of this year she received a third loan in the amount of 115,000 MDL (\$8915) for a term of 36 months. It is financing construction of another animal shelter and the purchase of a microbus that will serve as the new means of transportation to the produce market. She thanks MICROINVEST for giving her the opportunity to grow.



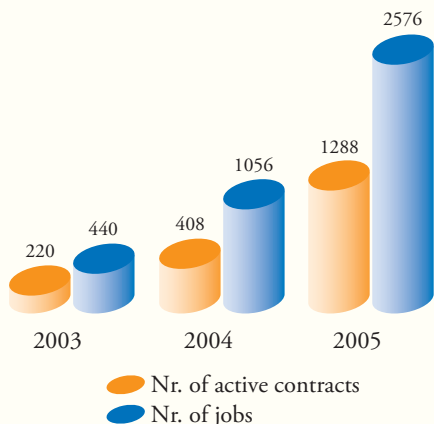
### A poultry story

Running his own family business in domestic animal growing, as a primary source of family income and a way of putting to practice the knowledge obtained from agro-business courses, became a strong ambition for Mr. Burlacu, 32, from Ratus, Telenesti region. But, due to the lacking capital resources needed to start his business, the realization of his ambition had to be put off for sometime. This situation led him to make a hard decision. A decision, to which thousands of moldovans have come down to, to leave his family in search of a job and better earnings abroad. With the money thus earned, he started his poultry raising business in 2003, which has intensively grown ever since. With a loan of 80 000 MDL for 12 months borrowed from MICROINVEST in 2005, he built a 360 m<sup>2</sup> coop to expand his business' productive capacity. This allowed him to raise over 18 000 Broiler chickens, which were sold at the local and regional shops and markets. The loan was reimbursed ahead of repayment schedule, while the profit earned let him build auxiliary facilities to better manage his growing business.

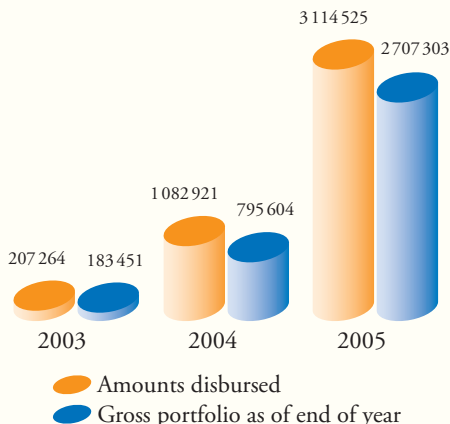
# MICRO



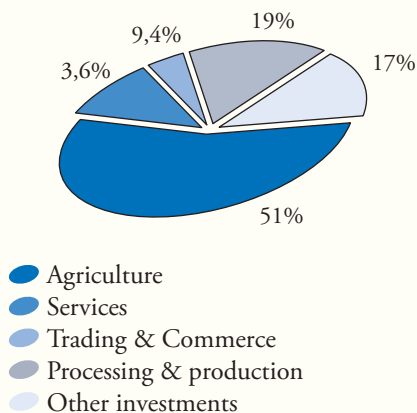
### Number of active contracts and number of jobs created



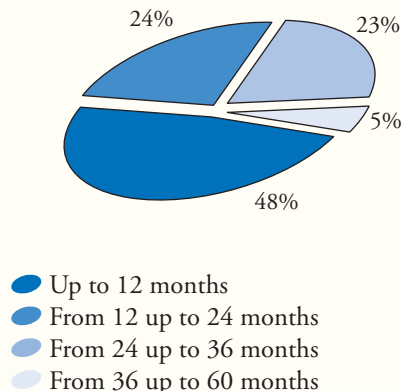
### Amounts disbursed vs. gross portfolio, \$



### Gross portfolio by sector, %

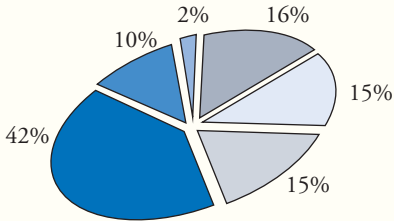


### Gross portfolio by term, \$



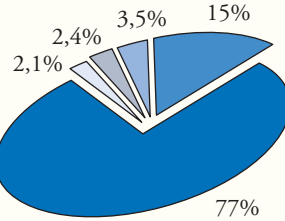
## 12 Results & accomplishments

**Distribution  
by type of client, %**



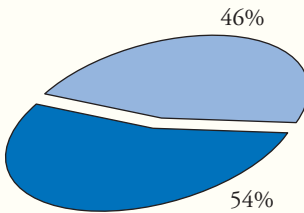
- Sole proprietors
- Agricultural individual enterprises
- Cooperatives
- Individual enterprises
- LLC
- SCA

**Gross portfolio  
by product, \$**



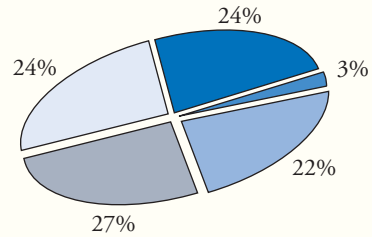
- Direct lending
- SCA lending
- Venture capital
- Employees loans
- Group lending

**Client distribution  
by gender, %**



- Men
- Women

**Gross portfolio  
by amount category, %**



- <1 091 USD
- 1 091–2 182 USD
- 2 182–5 455 USD
- 5 455–10 910 USD
- >10 910 USD

MICRO



## AUDITORS' REPORT

### To the Shareholder of JV MFO Microinvest LLC

1. We have audited the accompanying balance sheet of JV MFO Microinvest LLC ("the Company") as of 31 December 2005 and the related statements of income, cash flow and changes in shareholder's equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

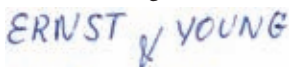
3. In our opinion, the financial statements referred to in paragraph 1. above present fairly, in all material respects, the financial position of the Company as of 31 December 2005 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

4. Without qualifying our opinion we draw attention to the following:

a) As indicated in Note 23, legislation in the Republic of Moldova is still evolving and is subject to interpretation. As a result, additional liabilities may arise that are not currently foreseen. Management considers that the Company has paid or accrued for all taxes and other payments due to the State, that are applicable, in the financial statements as at 31 December 2005 and for the period then ended.

b) As stated in Note 10 to the financial statements, in accordance with the loan agreement signed on 30 October 2003, the Company has to use the loan proceeds for micro financing of ASPA clients (Alliance for Agricultural Market Support), recommended by the Lender, in the form of special purpose loans bearing an interest rate of 18%–19% p.a. and bank guarantees issued to clients obtaining credits from commercial banks up to 50% of the credit amount. Given that the Lender has selected just few borrowers to benefit from Agroinform loan and that the Company has to pay interest on loan received in accordance with the loan agreement, the Company has used the loan proceeds to extend loans to borrowers, other than those recommended by the Lender, at market interest rates. The management of the Company does not believe that this will result in the loan being reimbursed before maturity or in additional penalties.

Ernst & Young SRL



24 March 2006

Chisinau, Republic of Moldova



JV MFO Microinvest LLC  
BALANCE SHEET  
As of 31 December 2005

|   | Notes | 2005<br>MDL       | 2005<br>USD      | 2004<br>MDL       | 2004<br>USD      |
|---|-------|-------------------|------------------|-------------------|------------------|
| <b>ASSETS</b>                                     |       |                   |                  |                   |                  |
| Cash and cash equivalents                         | 3     | 3,543,308         | 276,130          | 2,673,821         | 214,592          |
| Financial assets held to maturity                 | 4     | 8,542,492         | 665,717          | 248,987           | 19,983           |
| Loans and advances to customers, net              | 5     | 34,740,114        | 2,707,303        | 9,913,231         | 795,604          |
| Investments                                       | 6     | 6,480             | 504              | 6,480             | 520              |
| Other assets                                      | 7     | 330,262           | 25,738           | 136,024           | 10,917           |
| Intangible assets                                 | 9     | 61,024            | 4,755            | 6,385             | 512              |
| Property and equipment                            | 9     | 1,161,678         | 90,531           | 419,196           | 33,643           |
| <b>Total assets</b>                               |       | <b>48,385,358</b> | <b>3,770,678</b> | <b>13,404,124</b> | <b>1,075,771</b> |
| <b>LIABILITIES</b>                                |       |                   |                  |                   |                  |
| Interest-bearing loans and borrowings             | 10    | 31,694,420        | 2,469,953        | 3,133,019         | 251,446          |
| Grants for projects in process                    | 11    | 652,048           | 50,814           | 630,930           | 50,636           |
| Due to founders                                   | 12    | 5,400             | 421              | 3,788,628         | 304,063          |
| Other liabilities                                 | 13    | 922,490           | 71,888           | 530,554           | 42,581           |
| Deferred revenue                                  | 14    | 370,283           | 28,856           | –                 | –                |
| Deferred tax liability                            | 8     | 1,576,004         | 122,818          | 633,880           | 50,872           |
| <b>Total liabilities</b>                          |       | <b>35,220,645</b> | <b>2,744,750</b> | <b>8,717,011</b>  | <b>699,598</b>   |
| <b>SHAREHOLDERS' EQUITY</b>                       |       |                   |                  |                   |                  |
| Share capital                                     | 15    | 2,772,994         | 216,100          | 1,248,312         | 100,186          |
| Retained earnings                                 | 17    | 10,391,719        | 809,828          | 3,438,801         | 275,987          |
| <b>Total shareholders' equity</b>                 |       | <b>13,164,713</b> | <b>1,025,928</b> | <b>4,687,113</b>  | <b>376,173</b>   |
| <b>Total liabilities and shareholders' equity</b> |       | <b>48,385,358</b> | <b>3,770,678</b> | <b>13,404,124</b> | <b>1,075,771</b> |

The accompanying notes are an integral part of these financial statements.  
The financial statements were authorized for issue on 24 March 2006:

General Manager  
Mr. Artur Munteanu



Chief Financial Officer  
Mrs. Veronica Mirzac






JV MFO Microinvest LLC  
 INCOME STATEMENT  
 For the Year Ended 31 December 2005

|  | Notes | 2005<br>MDL      | 2005<br>USD    | 2004<br>MDL      | 2004<br>USD    |
|--|-------|------------------|----------------|------------------|----------------|
| Interest income  | 18    | 4,974,240        | 394,772        | 1,773,722        | 143,874        |
| Interest expense   | 19    | (1,063,041)      | (84,366)       | (182,478)        | (14,802)       |
| <b>Net interest income</b>                                 |       | <b>3,911,199</b> | <b>310,406</b> | <b>1,591,244</b> | <b>129,072</b> |
| Other operating income                                     | 20    | 10,085,512       | 800,418        | 5,641,259        | 457,586        |
| General and administrative expenses                        | 21    | (5,569,325)      | (442,001)      | (3,367,134)      | (273,122)      |
| Foreign exchange gains                                     |       | 827              | 67             | 88,324           | 7,164          |
| <b>Profit before provision<br/>for impairment of loans</b> |       | <b>8,428,213</b> | <b>668,890</b> | <b>3,953,693</b> | <b>320,700</b> |
| Provision for impairment of loans                          | 5     | (253,900)        | (20,151)       | (186,478)        | (15,126)       |
| <b>Profit before income tax</b>                            |       | <b>8,174,313</b> | <b>648,739</b> | <b>3,767,215</b> | <b>305,574</b> |
| Income tax   | 8     | (1,221,395)      | (96,934)       | (727,403)        | (59,003)       |
| <b>Net profit for the year</b>                             |       | <b>6,952,918</b> | <b>551,805</b> | <b>3,039,812</b> | <b>246,571</b> |

The accompanying notes are an integral part of these financial statements.

The financial statements were authorized for issue on 24 March 2006:

General Manager  
 Mr. Artur Munteanu



Chief Financial Officer  
 Mrs. Veronica Mirzac




## 5. Loans and advances to customers, net

Analysis by type of loans:

|                                 | 2005<br>MDL       | 2005<br>USD      | 2004<br>MDL      | 2004<br>USD    |
|---------------------------------|-------------------|------------------|------------------|----------------|
| Venture capital                 | 1,213,645         | 94,580           | 1,213,646        | 97,403         |
| Direct loans                    | 26,606,716        | 2,073,466        | 8,483,910        | 680,892        |
| Group guaranteed loans          | 712,576           | 55,531           | 85,174           | 6,836          |
| Credits to savings associations | 5,019,869         | 391,199          | –                | –              |
| Employees loans                 | 811,154           | 63,213           | 145,862          | 11,706         |
|                                 | <b>34,363,960</b> | <b>2,677,989</b> | <b>9,928,592</b> | <b>796,837</b> |
| Add: interest receivable        | 906,302           | 70,628           | 254,859          | 20,454         |
| Less: commission not amortized  | (41,218)          | (3,212)          | (2,903)          | (233)          |
| Less: provision for impairment  | (488,930)         | (38,102)         | (267,317)        | (21,454)       |
|                                 | <b>34,740,114</b> | <b>2,707,303</b> | <b>9,913,231</b> | <b>795,604</b> |

The loans of MDL 4,938,375 (USD 384,848) are assigned as collateral for a loan of MDL 4,938,375 (USD 384,848) granted by NOVIB Netherlands (see Note 10).



## 5. Loans and advances to customers, net *(continued)*

Venture capital represents loans granted to the Company's investees. As of 31 December 2005 there were two investees, which obtained loans from the Company: S.C. Vinj-Stil S.R.L. and Montes-Group S.R.L. in the amount of MDL 528,600 (USD 41,194) and MDL 685,046 (USD 53,386) respectively, bearing 25% annual interest, with maturity in 2009 and 2006 respectively. As of 31 December 2004 the outstanding loan balance of S.C. Vinj-Stil S.R.L. was MDL 528,600 (USD 42,424) and of Montes-Group S.R.L. was MDL 659,046 (USD 52,893).

Direct loans represent loans granted to borrowers under commercial terms, with an average interest rate in 2005 of 24.85% p.a. (in 2004: 23.97% p.a.).

Group guaranteed loans represent loans granted to members of informal credit groups created in various regions of the Republic of Moldova and as such their repayment and further extension of other loans are highly depending on the performance of all group members. The average interest rate on such loans in 2005 was 24% (in 2004: 24% p.a.).

Loans to savings associations are loans extended to members of formalized savings and credit association throughout the Republic. The average interest rate on such loans in 2005 was 18.72% p.a. (in 2004: no such loans were granted).

Employee loans represent loans granted by the Company to its employees under 17%–18% annual interest rate, for a period of 3–5 years, repayable in equal installments on a monthly basis.

As of 31 December 2005 the loan portfolio of the Company consisted of 8 venture capital loans granted to two enterprises (in 2004: 8), 1,289 direct loans (in 2004: 350), 213 group guaranteed loans (in 2004: 50), 9 loans to savings associations (none in 2004) and 10 employee loans (in 2004: 3).

Apart from above mentioned loans, as of 31 December 2005 the Company has outstanding issued guarantees to 8 enterprises of MDL 561,000 (USD 43,719), of which 3 guarantees of MDL 261,000 (USD 20,340) are guarantees in favor of Moldova Agroindbank and 5 guarantees of MDL 300,000 (USD 23,379) in favor of Banca de Finante si Comert. Guarantees issued in favor of Moldova Agroindbank are backed by a deposit of MDL 246,000 (USD 19,171).

In 2004 the Company issued only 6 guarantees of MDL 456,000 (USD 36,597), of which 3 guarantees of MDL 261,000 (USD 20,947) in favor of Moldova Agroindbank and another 3 guarantees of MDL 196,000 (USD 15,730) in favor of Banca de Finante si Comert. All guarantees issued by the Company bear an annual guarantee fee of 4% for the first year and 5.16%–3.96% p.a. for subsequent years.



## 5. Loans and advances to customers, net (continued)

Analysis of loans and advances to customers by type of industry:

|                                | 2005<br>MDL       | 2005<br>USD      | 2004<br>MDL      | 2004<br>USD    |
|--------------------------------|-------------------|------------------|------------------|----------------|
| Agriculture                    | 17,534,108        | 1,366,436        | 3,285,857        | 263,712        |
| Production                     | 3,260,505         | 254,092          | 1,458,951        | 117,091        |
| Trade                          | 6,449,778         | 502,632          | 1,996,645        | 160,244        |
| Services                       | 3,794,729         | 295,724          | 1,631,899        | 130,971        |
| Food and beverages             | 2,013,058         | 156,878          | 948,149          | 76,095         |
| Real estate                    | –                 | –                | 342,023          | 27,451         |
| Employees loans                | 811,154           | 63,213           | 145,862          | 11,706         |
| Consumer                       | –                 | –                | 119,206          | 9,567          |
| Other                          | 500,628           | 39,014           | –                | –              |
|                                | <b>34,363,960</b> | <b>2,677,989</b> | <b>9,928,592</b> | <b>796,837</b> |
| Add: interest receivable       | 906,302           | 70,628           | 254,859          | 20,454         |
| Less: commission not amortized | (41,218)          | (3,212)          | (2,903)          | (233)          |
| Less: provision for impairment | (488,930)         | (38,102)         | (267,317)        | (21,454)       |
|                                | <b>34,740,114</b> | <b>2,707,303</b> | <b>9,913,231</b> | <b>795,604</b> |

Analysis of loans and advances to customers by original maturity:

|                                | 2005<br>MDL       | 2005<br>USD      | 2004<br>MDL      | 2004<br>USD    |
|--------------------------------|-------------------|------------------|------------------|----------------|
| Up to 3 months                 |                   |                  | 513,238          | 41,191         |
| From 3 up to 6 months          | 11,178            | 870              | 764,569          | 61,362         |
| From 6 up to 12 months         | 2,388,055         | 186,102          | 3,964,555        | 318,182        |
| From 1 up to 5 years           | 31,964,727        | 2,491,017        | 4,686,230        | 376,102        |
|                                | <b>34,363,960</b> | <b>2,677,989</b> | <b>9,928,592</b> | <b>796,837</b> |
| Add: interest receivable       | 906,302           | 70,628           | 254,859          | 20,454         |
| Less: commission not amortized | (41,218)          | (3,212)          | (2,903)          | (233)          |
| Less: provision for impairment | (488,930)         | (38,102)         | (267,317)        | (21,454)       |
|                                | <b>34,740,114</b> | <b>2,707,303</b> | <b>9,913,231</b> | <b>795,604</b> |



## 5. Loans and advances to customers, net (continued)

The movement in the provision for impairment is presented below:

|  | 2005<br>MDL    | 2005<br>USD   | 2004<br>MDL    | 2004<br>USD   |
|--|----------------|---------------|----------------|---------------|
| Balance as at 1 January                | 267,317        | 21,454        | 80,839         | 6,115         |
| Charge for the year                    | 253,900        | 20,151        | 186,478        | 15,126        |
| Written off loans                      | (53,884)       | (4,276)       | –              | –             |
| Recovered loans previously written-off | 21,597         | 1,714         | –              | –             |
| Translation difference                 | –              | (941)         | –              | 213           |
| <b>Balance as at 31 December</b>       | <b>488,930</b> | <b>38,102</b> | <b>267,317</b> | <b>21,454</b> |

The movement of the unamortized commission is presented below:

|                                  | 2005<br>MDL   | 2005<br>USD  | 2004<br>MDL  | 2004<br>USD |
|----------------------------------|---------------|--------------|--------------|-------------|
| Balance as at 1 January          | 2,903         | 233          | 24,224       | 1,832       |
| Collections                      | 69,132        | 5,487        | 16,050       | 1,302       |
| Income for the year              | (30,817)      | (2,446)      | (37,371)     | (3,031)     |
| Translation difference           | –             | (62)         | –            | 130         |
| <b>Balance as at 31 December</b> | <b>41,218</b> | <b>3,212</b> | <b>2,903</b> | <b>233</b>  |



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### 10. Interest-bearing loans and borrowings

|                                       | Maturity date | Interest rate % | Original currency | Amount granted in original currency | 2005 MDL          | 2005 USD         | 2004 MDL         | 2004 USD       |
|---------------------------------------|---------------|-----------------|-------------------|-------------------------------------|-------------------|------------------|------------------|----------------|
| Soros Economic Development Fund       | 31-Dec-10     | 2.0%            | EUR               | 175,000                             | 2,659,124         | 207,226          | -                | -              |
| NOVIB Netherlands                     | 12-Jul-10     | 6.0%            | EUR               | 325,000                             | 4,938,375         | 384,848          | -                | -              |
| Consorzio Etimos S.C.                 | 01-Nov-08     | 8.1%            | EUR               | 200,000                             | 3,039,000         | 236,830          | -                | -              |
| National Federation AGROinform        | 30-Oct-08     | 5.0%            | EUR               | 1,935,339                           | 1,935,339         | 150,822          | 1,935,339        | 155,324        |
| Banca de Finante si Comert            | 15-Aug-08     | 15.5%           | MDL               | 15,000,000                          | 15,000,000        | 1,168,954        | -                | -              |
| SIDI                                  | 01-Mar-08     | 6.0%            | EUR               | 50,000                              | 759,750           | 59,207           | -                | -              |
| Contact                               | 26-Jun-07     | 11.0%           | MDL               | 1,197,680                           | 1,197,680         | 93,335           | 1,197,680        | 96,122         |
| Deutsche Bank Microcredit Development | 20-May-06     | 2.0%            | USD               | 50,000                              | 641,600           | 50,000           | -                | -              |
| Banca de Finante si Comert            | 19-May-06     | 20.0%           | MDL               | 1,262,000                           | 1,262,000         | 98,348           | -                | -              |
|                                       |               |                 |                   |                                     | <b>31,432,868</b> | <b>2,449,570</b> | <b>3,133,019</b> | <b>251,446</b> |
| Add: interest payable                 |               |                 |                   |                                     | 261,552           | 20,383           | -                | -              |
|                                       |               |                 |                   |                                     | <b>31,694,420</b> | <b>2,469,953</b> | <b>3,133,019</b> | <b>251,446</b> |



*Soros Economic Development Fund*

|                          | 2005<br>MDL             | 2005<br>USD           | 2004<br>MDL | 2004<br>USD |
|--------------------------|-------------------------|-----------------------|-------------|-------------|
| As at 1 January          | –                       | –                     | –           | –           |
| Received during the year | 2,659,124               | 211,037               | –           | –           |
| Repaid during the year   | –                       | –                     | –           | –           |
| Translation difference   | –                       | (3,811)               | –           | –           |
|                          | <u>2,659,124</u>        | <u>207,226</u>        | –           | –           |
| Accrued interest         | 1,597                   | 124                   | –           | –           |
| <b>As at 31 December</b> | <u><u>2,660,721</u></u> | <u><u>207,350</u></u> | –           | –           |

The loan of EUR 175,000 was granted on 7 December 2005 as part of the Lending Program designed to promote community self-sustainability and to create employment opportunities for underprivileged members of Moldova's economically depressed communities. The loan was provided under 2% annual interest rate for a period of 5 years, repayable semi-annually on June 30 and December 31 each year. No collateral was required under this credit agreement.

*NOVIB Netherlands*

|                          | 2005<br>MDL             | 2005<br>USD           | 2004<br>MDL | 2004<br>USD |
|--------------------------|-------------------------|-----------------------|-------------|-------------|
| As at 1 January          | –                       | –                     | –           | –           |
| Received during the year | 4,938,375               | 391,925               | –           | –           |
| Repaid during the year   | –                       | –                     | –           | –           |
| Translation difference   | –                       | (7,077)               | –           | –           |
|                          | <u>4,938,375</u>        | <u>384,848</u>        | –           | –           |
| Accrued interest         | –                       | –                     | –           | –           |
| <b>As at 31 December</b> | <u><u>4,938,375</u></u> | <u><u>384,848</u></u> | –           | –           |

The loan agreement was signed on 18 July 2005 for a total amount of EUR 375,000 for a period of 5 years, under a fixed 6% annual interest rate. The loan proceeds are to be used for re-lending activities to micro and small entrepreneurs and enterprises in accordance with the Company's strategy and procedures. The loan is repayable in equal 5 semi-annual instalments. As collateral the Company has assigned its loan portfolio in favour of NOVIB Netherlands within the limit of outstanding loan (see Note 5).



*Consorzio Etimos S.C.*

|                          | 2005<br>MDL      | 2005<br>USD    | 2004<br>MDL | 2004<br>USD |
|--------------------------|------------------|----------------|-------------|-------------|
| As at 1 January          | –                | –              | –           | –           |
| Received during the year | 3,039,000        | 241,184        | –           | –           |
| Repaid during the year   | –                | –              | –           | –           |
| Translation difference   | –                | (4,354)        | –           | –           |
|                          | <b>3,039,000</b> | <b>236,830</b> | –           | –           |
| Accrued interest         | 35,069           | 2,734          | –           | –           |
| <b>As at 31 December</b> | <b>3,074,069</b> | <b>239,564</b> | –           | –           |

In 2005 the Company became the member of Etimos Consortium, a consortium that supports microfinance programmes by providing finance to microfinance institutions, banks, savings and credit co-operatives. The loan of EUR 200,000 was granted on 8 November 2005 for a period of 3 years, under an annual fixed interest rate of 8.1% p.a., being repayable in 6 equal semi-annual payments. As a collateral, the Company has provided a Guarantee issued by Soros Economic Development Fund of 50% of the loan value.

*National Federation AGROinform*

|                          | 2005<br>MDL      | 2005<br>USD    | 2004<br>MDL      | 2004<br>USD    |
|--------------------------|------------------|----------------|------------------|----------------|
| As at 1 January          | 1,935,339        | 155,324        | 784,105          | 59,312         |
| Received during the year | –                | –              | 1,151,234        | 93,381         |
| Repaid during the year   | –                | –              | –                | –              |
| Translation difference   | –                | (4,502)        | –                | 2,631          |
|                          | <b>1,935,339</b> | <b>150,822</b> | <b>1,935,339</b> | <b>155,324</b> |
| Accrued interest         | –                | –              | –                | –              |
| <b>As at 31 December</b> | <b>1,935,339</b> | <b>150,822</b> | <b>1,935,339</b> | <b>155,324</b> |

The loan in the amount of EUR 120,000 was granted on 30 October 2003 as part of a mutual co-operation agreement between the Company and the National Federation AGROinform (“the Lender”) for a period of 5 years. The loan bears an interest rate of 5% p.a. and is repayable in full at maturity. The Company calculates and pays the interest and principal in MDL, at the historical rate applicable as at the date of loan disbursement. Interest is payable on the 30th of December each year.

In accordance with the loan agreement signed on 30 October 2003, the Company has to use the loan proceeds for microfinancing of ASPA clients (Alliance for Agricultural Market





Support), recommended by the Lender, in the form of special purpose loans bearing an interest rate of 18%-19% p.a. and bank guarantees issued to clients obtaining credits from commercial banks up to 50% of the credit amount.

Given that the Lender has selected just few borrowers to benefit from Agroinform loan, the Company has used the loan proceeds to extend loans to borrowers, other than those recommended by the Lender, at market interest rates. The management of the Company does not believe that this will result in the loan being reimbursed before maturity or in additional penalties.

#### *Banca de Finante si Comert*

| Loan 1                   | 2005<br>MDL       | 2005<br>USD      | 2004<br>MDL | 2004<br>USD |
|--------------------------|-------------------|------------------|-------------|-------------|
| As at 1 January          | –                 | –                | –           | –           |
| Received during the year | 15,000,000        | 1,190,448        | –           | –           |
| Repaid during the year   | –                 | –                | –           | –           |
| Translation difference   |                   | (21,494)         | –           | –           |
|                          | <b>15,000,000</b> | <b>1,168,954</b> | –           | –           |
| Accrued interest         | 186,861           | 14,562           | –           | –           |
| <b>As at 31 December</b> | <b>15,186,861</b> | <b>1,183,516</b> | –           | –           |

The Company received on 16 August 2005 a loan from “Banca de Finante si Comert” S.A. (the “Bank”) of MDL 15,000,000, bearing an annual floating interest rate of 15.5% p.a. The loan is granted for a period of 3 years and is repayable in equal semi-annual installments on 15 February and 15 August each year. A deposit of EUR 500,000 held with the same bank serves as collateral for the loan (see Note 4).

| Loan 2                   | 2005<br>MDL      | 2005<br>USD   | 2004<br>MDL | 2004<br>USD |
|--------------------------|------------------|---------------|-------------|-------------|
| As at 1 January          | –                | –             | –           | –           |
| Received during the year | 1,262,000        | 100,156       | –           | –           |
| Repaid during the year   | –                | –             | –           | –           |
| Translation difference   | –                | (1,808)       | –           | –           |
|                          | <b>1,262,000</b> | <b>98,348</b> | –           | –           |
| Accrued interest         | 21,033           | 1,639         | –           | –           |
| <b>As at 31 December</b> | <b>1,283,033</b> | <b>99,987</b> | –           | –           |

On 20 May 2005 the Company received a loan from “Banca de Finante si Comert” S.A. of MDL 1,262,000, bearing an annual floating interest rate of 20% p.a., with a maturity of 1 year and repayable at maturity. The loan is secured by a deposit held with the same bank of USD 50,000 (see Note 4).



The loan agreements specify a covenant, whereby the Company has to inform the Bank on any additional loans obtained from other finance providers. Since all transactions are undertaken through this Bank, all additional loans are being communicated to the Bank as per credit agreement.

#### *SIDI*

|                          | 2005<br>MDL    | 2005<br>USD   | 2004<br>MDL | 2004<br>USD |
|--------------------------|----------------|---------------|-------------|-------------|
| As at 1 January          | –              | –             | –           | –           |
| Received during the year | 759,750        | 60,296        | –           | –           |
| Repaid during the year   | –              | –             | –           | –           |
| Translation difference   | –              | (1,089)       | –           | –           |
|                          | <b>759,750</b> | <b>59,207</b> | –           | –           |
| Accrued interest         | 15,317         | 1,193         | –           | –           |
| <b>As at 31 December</b> | <b>775,067</b> | <b>60,400</b> | –           | –           |

On 25 February 2005 the Company has signed a loan agreement with Solidarite Internationale pour le Developpement et l'Investissement (“SIDI”), whereby the latter invests EUR 100,000 in Microinvest by providing a loan of EUR 50,000 and investing the remainder of EUR 50,000 in the share capital of the Company. The loan has a maturity of 3 years, upon which two options are available to SIDI: the loan is either converted in additional shares upon discretion of the creditor or repaid in full according to the loan contract. It bears an interest of 6% p.a., payable on a semi-annual basis on 1 September and 1 March each year.

#### *“CONTACT” National Center for NGO assistance and information*

|                          | 2005<br>MDL      | 2005<br>USD   | 2004<br>MDL      | 2004<br>USD   |
|--------------------------|------------------|---------------|------------------|---------------|
| As at 1 January          | 1,197,680        | 96,122        | –                | –             |
| Received during the year | –                | –             | 1,197,680        | 97,149        |
| Repaid during the year   | –                | –             | –                | –             |
| Translation difference   | –                | (2,787)       | –                | (1,027)       |
|                          | <b>1,197,680</b> | <b>93,335</b> | <b>1,197,680</b> | <b>96,122</b> |
| Accrued interest         | –                | –             | –                | –             |
| <b>As at 31 December</b> | <b>1,197,680</b> | <b>93,335</b> | <b>1,197,680</b> | <b>96,122</b> |

The loan agreement was signed on 26 March 2004, whereby the Company obtained a loan in the amount of USD 100,000 for a period of 36 months for the purpose of re-lending at an interest rate of 24% p.a. to non-agricultural enterprises in the regions selected by the lender (center Contact), mainly in the north, center and south of the Republic.



The Company calculates and pays the interest and principal in MDL, as translated at the historical rate at the date of loan disbursement. Interest is payable on the 30th of December each year, the principal is repayable in full at maturity.

#### *Deutsche Bank Microcredit Development Fund*

|                          | 2005<br>MDL    | 2005<br>USD   | 2004<br>MDL | 2004<br>USD |
|--------------------------|----------------|---------------|-------------|-------------|
| As at 1 January          | –              | –             | –           | –           |
| Received during the year | 641,600        | 50,919        | –           | –           |
| Repaid during the year   | –              | –             | –           | –           |
| Translation difference   | –              | (919)         | –           | –           |
|                          | <b>641,600</b> | <b>50,000</b> | –           | –           |
| Accrued interest         | 1,675          | 131           | –           | –           |
| <b>As at 31 December</b> | <b>643,275</b> | <b>50,131</b> | –           | –           |

On 29 April 2005 the Company has signed a loan agreement with Deutsche Bank Microcredit Development Fund for a total of USD 50,000. The loan is deemed as subordinated debt (subordinated only to the Senior Loan obtained from Banca de Finante si Comert in the amount of MDL 1,262,000) and was provided to assist in accessing funds from other lenders and to increase the Company's borrowing capacity. The loan was provided for one year under an interest rate of 2% p.a. and is to be kept in a separate bank account. A special deposit for this amount was maintained by the Company with Banca de Finante si Comert (see Note 4).

## 11. Grants for projects in process

The Company obtains grants from a number of donors, which are either used for re-lending or for covering operating expenses. All utilized grants are recognized in the period in which the related expenses were incurred or sub-loans were granted by the Company. The grants for project in process are recognized as liabilities to donors. The movement in grants is presented below:

|  | 2005<br>MDL    | 2005<br>USD   | 2004<br>MDL    | 2004<br>USD   |
|--|----------------|---------------|----------------|---------------|
| Grants for projects in process at 1 January          | 630,930        | 50,636        | 341,781        | 25,853        |
| Grants received during the year                      | 2,387,551      | 189,484       | 4,654,734      | 377,566       |
| Grants used for re-lending                           | (1,557,930)    | (123,642)     | (2,995,662)    | (242,991)     |
| Grants used to cover operating expenses              | (808,503)      | (64,166)      | (1,369,923)    | (111,120)     |
| Translation difference                               | -              | (1,498)       | -              | 1,328         |
| <b>Grants for projects in process at 31 December</b> | <b>652,048</b> | <b>50,814</b> | <b>630,930</b> | <b>50,636</b> |



## Forecast key information

|   | 2007      | 2008      | 2009       | 2010       |
|---|-----------|-----------|------------|------------|
| Number of active loans:                 | 3503      | 4216      | 4352       | 4320       |
| Gross portfolio outstanding:            | 6 506 688 | 9 109 363 | 12 158 572 | 14 022 055 |
| Average balance of loans outstanding:   | 1 857     | 2 161     | 2 794      | 3 246      |
| Number of employees, end of period:     | 46        | 46        | 48         | 50         |
| Number of loan officers, end of period: | 29        | 31        | 32         | 32         |
| Number of field offices                 | 9         | 9         | 9          | 9          |

*Note: amounts are expressed in USD*

# MICRO



## MICROINVEST partners



SEDF Soros Economic Development Fund



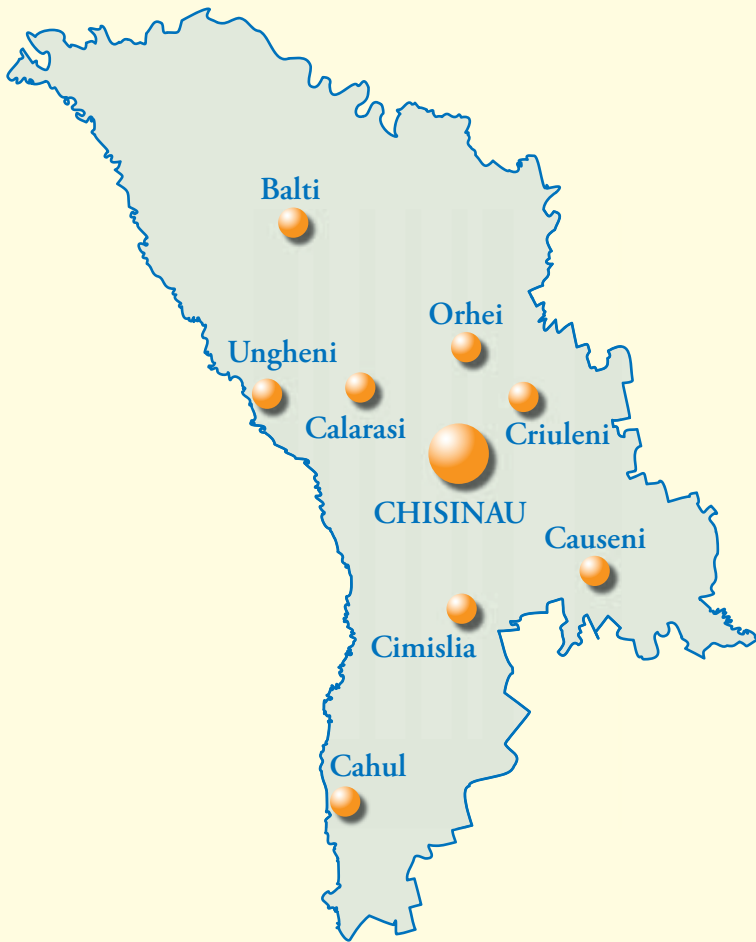
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# INVEST



# MICROINVEST branch network



MICRO



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