

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

Consolidated Financial Statements

December 31, 2005

(with comparative totals for 2004)

(With Independent Auditors' Report Thereon)

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

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KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Directors
Opportunity International, Inc.:

We have audited the accompanying consolidated statement of financial position of Opportunity International, Inc. and affiliates (Opportunity) as of December 31, 2005, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended. These consolidated financial statements are the responsibility of Opportunity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Opportunity's 2004 consolidated financial statements and, in our report dated May 26, 2005, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Opportunity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Opportunity International, Inc. and affiliates as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 21, 2006

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

Consolidated Statement of Financial Position

December 31, 2005

(with comparative totals for 2004)

Assets	2005				2004
	Charitable funds	Banking funds	Eliminations	Total	
Current assets:					
Cash and cash equivalents	\$ 7,818,596	25,217,791	—	33,036,387	11,327,663
Restricted cash and investments:					
Cornerstone Fund	4,363,049	—	—	4,363,049	3,694,789
Loan Guarantee Fund	9,141,719	—	—	9,141,719	—
Other	382,896	—	—	382,896	973,646
Pledges receivable, net (note 3)	5,383,055	—	—	5,383,055	4,331,141
Investments, at fair value (note 4)	732,240	—	—	732,240	372,364
Notes receivable, net (note 5)	3,476,730	—	(816,186)	2,660,544	2,203,053
Loans receivable, net (note 6)	—	61,215,659	—	61,215,659	41,770,073
Other receivables	1,672,433	—	—	1,672,433	1,686,727
Donor advised assets	319,519	—	—	319,519	328,296
Prepaid expenses	161,285	1,554,194	(100,359)	1,615,120	1,025,695
Investment in microfinance institutions (note 4)	3,320,051	—	(46)	3,320,005	2,196,316
Building, furniture and equipment, net (note 2)	52,618	4,188,582	—	4,241,200	3,682,617
Total assets	\$ 36,824,191	92,176,226	(916,591)	128,083,826	73,592,380
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 1,800,856	1,789,631	(279,099)	3,311,388	2,873,819
Notes payable (note 8)	11,474,800	26,721,335	(637,446)	37,558,689	20,474,750
Deferred revenue	37,500	1,204,724	—	1,242,224	1,733,360
Deposits from customers (note 7)	—	31,869,163	(83,228)	31,785,935	8,445,952
Total liabilities	13,313,156	61,584,853	(999,773)	73,898,236	33,527,881
Minority interest	—	4,037,573	(46)	4,037,527	3,370,647
Commitments and contingencies (notes 8, 9, and 10)					
Net assets (note 2):					
Unrestricted	7,504,465	26,553,800	83,228	34,141,493	24,064,256
Temporarily restricted	11,283,789	—	—	11,283,789	8,547,995
Permanently restricted	4,722,781	—	—	4,722,781	4,081,601
Total net assets	23,511,035	26,553,800	83,228	50,148,063	36,693,852
Total liabilities and net assets	\$ 36,824,191	92,176,226	(916,591)	128,083,826	73,592,380

See accompanying notes to consolidated financial statements.

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

Consolidated Statement of Activities

Year ended December 31, 2005
(with comparative totals for 2004)

	2005						2004 Total	
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total	Total		
	Charitable funds	Banking funds	Eliminations	Total				
Operating activities:								
Charitable support, gains, and losses:								
Private contributions	\$ 9,689,049	—	—	9,689,049	13,978,240	641,180	24,308,469	16,118,344
Government grants	5,914,400	—	—	5,914,400	—	—	5,914,400	10,209,105
Other	132,465	—	(118,171)	14,294	—	—	14,294	12,121
Gain on investments, net (note 4)	520,579	—	(285,987)	234,592	—	—	234,592	117,493
Net assets released from restrictions (note 2)	11,242,446	—	—	11,242,446	(11,242,446)	—	—	—
Total charitable support, gains, and losses	27,498,939	—	(404,158)	27,094,781	2,735,794	641,180	30,471,755	26,457,063
Banking revenue:								
Loan interest income	—	12,697,633	—	12,697,633	—	—	12,697,633	7,921,151
Other fees and income	—	1,983,442	—	1,983,442	—	—	1,983,442	1,738,211
Total support and revenue	27,498,939	14,681,075	(404,158)	41,775,856	2,735,794	641,180	45,152,830	36,116,425
Expenses:								
Charitable expenses:								
Program services:								
Grants for revolving loans	3,316,077	—	—	3,316,077	—	—	3,316,077	1,727,453
Grants for partner lending operations and training	1,082,577	—	—	1,082,577	—	—	1,082,577	3,862,896
Development of partner organizations	6,266,310	—	—	6,266,310	—	—	6,266,310	6,052,450
Total program services	10,664,964	—	—	10,664,964	—	—	10,664,964	11,642,799
Supporting services:								
Fundraising	4,455,200	—	—	4,455,200	—	—	4,455,200	4,431,291
Management and general	1,705,860	—	—	1,705,860	—	—	1,705,860	1,436,892
Total supporting services	6,161,060	—	—	6,161,060	—	—	6,161,060	5,868,183
Total charitable expenses	16,826,024	—	—	16,826,024	—	—	16,826,024	17,510,982
Banking expenses:								
Interest	—	1,891,389	—	1,891,389	—	—	1,891,389	1,020,632
Provision for loan losses	—	1,089,837	—	1,089,837	—	—	1,089,837	1,144,062
Operating expenses	—	9,228,359	(404,158)	8,824,201	—	—	8,824,201	5,206,965
Total banking expenses	—	12,209,585	(404,158)	11,805,427	—	—	11,805,427	7,371,659
Total expenses	16,826,024	12,209,585	(404,158)	28,631,451	—	—	28,631,451	24,882,641
Increase in net assets from operating activities	10,672,915	2,471,490	—	13,144,405	2,735,794	641,180	16,521,379	11,233,784
Nonoperating activities:								
Stock donation from affiliated organization (note 1(ii))	—	—	—	—	—	—	—	1,803,355
Foreign currency translation gain/(loss)	499,574	(3,240,081)	—	(2,740,507)	—	—	(2,740,507)	1,056,221
Minority interest in net income of consolidated subsidiaries	—	(326,661)	—	(326,661)	—	—	(326,661)	(239,431)
Increase (decrease) in net assets for nonoperating activities	499,574	(3,566,742)	—	(3,067,168)	—	—	(3,067,168)	2,620,145
Investment in banking activities	(4,270,007)	4,270,007	—	—	—	—	—	—
Total increase in net assets	6,902,482	3,174,755	—	10,077,237	2,735,794	641,180	13,454,211	13,853,929
Net assets:								
Beginning of year	601,983	23,379,045	83,228	24,064,256	8,547,995	4,081,601	36,693,852	22,839,923
End of year	\$ 7,504,465	26,553,800	83,228	34,141,493	11,283,789	4,722,781	50,148,063	36,693,852

See accompanying notes to consolidated financial statements.

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

Consolidated Statement of Cash Flows

Year ended December 31, 2005
(with comparative amounts for 2004)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 13,454,211	13,853,929
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	801,760	452,022
Realized loss on investments	19,934	36,544
Unrealized (gain) loss on investments	248,910	(15,154)
Foreign currency translation (gain) loss	3,240,081	(1,056,221)
Equity in (earnings) loss of investment in microfinance institutions	(14,150)	57,503
Minority interest in gain of consolidated subsidiaries	338,295	239,431
Provision for loan losses	1,089,837	1,144,062
Changes in assets and liabilities:		
Pledges and other receivables	(1,028,843)	(103,271)
Prepaid expenses	(589,425)	137,156
Accounts payable and accrued liabilities	437,569	128,132
Deferred revenue	(491,137)	(8,166,899)
Net cash provided by operating activities	<u>17,507,042</u>	<u>6,707,234</u>
Cash flows from investing activities:		
Loan origination and principal collections, net	(20,435,054)	(15,080,196)
Purchase of investments	(1,738,213)	(1,486,658)
Sale of investments	633,714	(861,845)
Purchase of restricted cash and investments	(9,219,229)	6,336,271
Purchase of building, furniture, and equipment	(1,592,254)	(2,764,264)
Advances on notes receivable	(457,491)	(537,053)
Net cash used in investing activities	<u>(32,808,527)</u>	<u>(14,393,745)</u>
Cash flows from financing activities:		
Proceeds from notes payable	19,301,238	10,038,429
Principal payments of notes payable	(4,531,394)	(1,020,736)
Deposits from customers	23,339,983	4,442,209
Net cash provided by financing activities	<u>38,109,827</u>	<u>13,459,902</u>
Effect of exchange rate changes on cash	<u>(1,099,618)</u>	<u>(912,029)</u>
Net increase in cash and cash equivalents	21,708,724	4,861,362
Cash and cash equivalents at beginning of year	<u>11,327,663</u>	<u>6,466,301</u>
Cash and cash equivalents at end of year	<u>\$ 33,036,387</u>	<u>11,327,663</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 2,092,670	1,139,136
Supplemental disclosure of noncash transactions:		
Conversion of notes receivable into investment in subsidiary	\$ 627,260	1,117,631

See accompanying notes to consolidated financial statements.

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

Consolidated Statement of Functional Expenses

Year ended December 31, 2005
(with comparative totals for 2004)

	2005							2004
	Charitable funds				Banking	Eliminations	Total	Total
	Program services	Fundraising	Management and general	Total	funds			
Grants for Opportunity International Network (note 1)	\$ 3,527,008	—	—	3,527,008	—	—	3,527,008	4,899,436
Grants for partner organizations for operations	1,082,577	—	—	1,082,577	—	—	1,082,577	3,138,168
Grants to partner organizations for loan funds	3,316,077	—	—	3,316,077	—	—	3,316,077	2,452,181
Salaries and benefits	1,075,859	2,865,354	650,814	4,592,027	4,863,828	—	9,455,855	7,409,193
Provision for loan loss	—	—	—	—	1,089,837	—	1,089,837	1,144,062
Rent and utilities	—	9,849	243,060	252,909	1,139,521	—	1,392,430	1,144,714
Travel and hosting	157,158	1,014,178	119,141	1,290,477	434,996	—	1,725,473	1,340,375
Professional fees	798,583	293,503	318,806	1,410,892	912,043	—	2,322,935	1,470,977
Miscellaneous expense	28,001	51,550	13,789	93,340	857,443	(404,158)	546,625	438,976
Interest expense	175,217	—	74,114	249,331	1,891,389	—	2,140,720	1,113,883
Telephone	11,582	54,710	22,599	88,891	213,615	—	302,506	178,424
Foreign exchange (gain) loss	—	—	—	—	(343,003)	—	(343,003)	(1,063,452)
Depreciation expense	—	—	29,153	29,153	772,607	—	801,760	446,503
Board meetings and conferences	866	10,853	78,333	90,052	—	—	90,052	106,391
Printing and copying	7,940	22,911	—	30,851	—	—	30,851	58,447
Supplies and office equipment	3,036	28,893	101,309	133,238	123,873	—	257,111	212,320
Income tax expense	—	—	—	—	183,749	—	183,749	158,786
Postage and shipping	2,523	30,219	11,174	43,916	—	—	43,916	37,160
Training	1,854	28,028	30,106	59,988	9,043	—	69,031	45,042
Promotional materials	438,265	44,333	—	482,598	5,757	—	488,355	89,043
Insurance	38,418	819	13,462	52,699	54,887	—	107,586	62,013
Total expenses	\$ 10,664,964	4,455,200	1,705,860	16,826,024	12,209,585	(404,158)	28,631,451	24,882,642

See accompanying notes to consolidated financial statements.

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2005

(with comparative totals for 2004)

(1) Organization

Opportunity International, Inc., d/b/a/ Opportunity International – US, (Opportunity) is a tax-exempt, publicly supported Christian-based corporation whose purpose is to create employment and improve income for the poor by assisting in the establishment of small and micro businesses in developing countries. Opportunity's programs are financed through direct solicitation of funds from individuals, corporations, foundations, churches, and government grants.

Opportunity fulfills its mission through nongovernmental organization partners in developing countries. A partner organization is an implementer of microenterprise development within the Opportunity network. Funds are disbursed to partner organizations to capitalize various local commercial start-up ventures and to fund their own operations. While partner organizations are critical in assisting Opportunity to achieve its purpose, they are not legally affiliated with Opportunity (with the exception of the five microfinance institutions that incorporated as for-profit microfinance institutions, as discussed below) and, accordingly, their accounts are not included in these consolidated financial statements.

Similarly, entities within the Opportunity support network, including Opportunity International – Australia; Opportunity International – U.K.; Opportunity International – Germany; and Opportunity International – Canada, raise funds in their respective countries and operate independently of Opportunity. Their accounts are not included in these consolidated financial statements.

Effective January 1, 1998, all affiliated partner organizations of Opportunity signed a membership agreement formalizing the Opportunity International Network (Network). The Network was established to coordinate a common strategy among all partners, to develop an accreditation process for participating partners, and to manage standardization and quality throughout the Network member organizations. The Network operates a service organization that provides training, consulting, and other services to member organizations. The Network Services Organization accounts are not included in these financial statements.

Opportunity provides a portion of the funding for the Network's operations, along with providing accounting and management services. These services are considered Opportunity's dues for Network membership. Total costs incurred by Opportunity, included in development of partner organizations on the consolidated statement of activities, related to the Network are \$3,527,008 for the year ended December 31, 2005 and \$4,899,436 for the year ended December 31, 2004.

Program services expense in the accompanying charitable activities section of the statement of activities includes grants made to the Network Services Organization and disbursements for program services made to its partner organizations. The partner organizations are not required to pay these grants back to Opportunity. Program services are as follows:

- a. Grants for revolving loans – amounts disbursed to partner organizations, which, in turn, provide small commercial loans to borrowers/entrepreneurs.
- b. Grants for partner lending operations and training – amounts disbursed to partner organizations for their operating costs, as well as management and business training and technical assistance to the borrower/entrepreneur.

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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(with comparative totals for 2004)

- c. Development of partner organizations – amounts expended by Opportunity and Opportunity's Network Services Divisions to support partner organization growth and maturation.

Effective June 19, 2000, Opportunity incorporated Opportunity Transformation Investments (OTI), which is intended to invest in and hold ownership positions in microfinance institutions as they convert from nongovernmental organizations to commercial microfinance lending institutions. OTI's board of directors is controlled by Opportunity. Accordingly, OTI and its majority owned banks have been consolidated in these financial statements. All interentity transactions have been eliminated in consolidation. The acquired interests in the five microfinance organizations are as follows:

- i) In April 2002, Opportunity Bank A.D., Podgorica (OI-Montenegro) was capitalized with an initial investment of \$2,658,000 of which OTI invested \$1,993,500 to acquire 75% of all outstanding shares of common stock of OI-Montenegro. The results of operations of OI-Montenegro are included in the consolidated financial statements of OTI beginning on April 24, 2002. On December 27, 2002, 3,000 shares of preferred stock were purchased by OTI for the amount of \$2,880,682. These shares are nonvoting and noncumulative. The shares are entitled to dividends prior to any dividends being paid on any outstanding common stock. OTI purchased an additional 750 shares of common stock during 2004 in order to maintain its 75% ownership position.
- ii) In May 2002, OTI completed the acquisition of Partneri Shqiptar ne Mikrokredi Sh.A. (OI-Albania) for \$1,564,700. The acquisition, which was recorded under the purchase method of accounting, involved the purchase of 53% of all outstanding shares of common stock of OI-Albania. In January 2004, OTI was gifted 19,258 shares of stock from a fellow stockholder, Opportunity Microcredit Fund (OMF), its UK counterpart, which resulted in OTI owning 99.5% of OI-Albania. During 2005 OTI made additional investments in OI-Albania amounting to \$688,939 increasing its ownership position slightly to 99.6%.
- iii) In July 2002, Opportunity International Stock Savings Bank, Novi Sad (OI-Serbia) was capitalized with an initial investment of \$1,100,000 from OTI to acquire all outstanding shares of common stock of OI-Serbia. In December 2002, additional common stock was sold for \$1,000,000, of which an investment was made by OTI in the amount of \$200,000. This resulted in OTI's ownership percentage increasing to 62% at December 31, 2002. In December 2003, OTI made an additional investment in OI-Serbia increasing its ownership percentage to 77%. During 2004, OTI made a \$5.7 million investment in OI-Serbia bringing its ownership percentage up to 93.6%. OTI made an additional investment of \$2.4 million in December 2005. The OI Serbia Holding Company increased its ownership in OI Serbia which slightly diluted OTI's ownership percentage from the 93.6% at the end of 2004 to that of 93.2%.
- iv) In February 2003, Oportunidad Mircofinanzas sa de cv (OI-Mexico) was capitalized with an initial investment of \$4,558 for 99% ownership in OI-Mexico by OTI; Opportunity owns the other 1%. Subsequently, OTI made an additional investment of \$353,067 in December 2003. OTI made an additional investment of \$625,000 during 2004 bringing its total investment up to almost \$1 million or 99%. During 2005 OTI advanced funds to OI-Mexico in exchange for a note receivable which is expected to be converted to equity in 2006.

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2005

(with comparative totals for 2004)

- v) In February 2005, Banco Oportunidade de Mocambique, SARL (OI-Mozambique) was capitalized with an initial investment of \$1,220,900 for 58.7% ownership in OI-Mozambique. The results of operations of OI-Mozambique were included in the consolidated financial statements of OTI beginning on February 16, 2005.

The Opportunity Loan Guarantee Fund I, LLC (the Loan Guarantee Fund) was established on January 11, 2005 for the purpose of supporting microfinance institutions in developing countries to increase the availability of loans and related microfinance services to the poor by establishing and operating the fund to provide collateral support or similar means to enable microfinance institutions to borrow or otherwise acquire funds and to provide direct loans or similar means to enable microfinance institutions; and to engage in any and all activities desirable, necessary or incidental to the foregoing, or other activities intended to support microfinance institutions. Opportunity is the sole member of the Loan Guarantee Fund.

(2) Summary of Significant Accounting Policies

Basis of Presentation

Opportunity's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.

Going Concern

Serbia has a new Banks Act that requires OI-Serbia to convert from its current classification of "Other Financial Organization" to a bank or cease operations. OI-Serbia's management believes that the Bank is a going concern based on its plans to convert to a Bank. In accordance with it, as well as pursuant to the requirements of the new Law, the General Assembly made the decision to convert the Savings Bank into a Bank during the year ended December 31, 2005.

Charitable Activities – this category reports Opportunity's fundraising activities performed in the United States.

In order to ensure the observance of limitations and restrictions placed on the use of available resources, Opportunity maintains its accounts in accordance with the principles and practices of fund accounting. This is the procedure by which resources are classified into funds established according to their nature and purpose. For external reporting purposes, however, Opportunity's consolidated financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions.

Net assets and related activity are classified as unrestricted, temporarily restricted, and permanently restricted activities as follows:

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2005

(with comparative totals for 2004)

Unrestricted – net assets that are not subject to donor-imposed restrictions. Unrestricted net assets consist of the following as of December 31, 2005 and 2004:

	2005	2004
OI-United States	\$ 8,906,183	2,003,696
OI-Serbia capital and accumulated earnings	9,406,462	8,214,246
OI-Montenegro capital and accumulated earnings	7,908,270	7,732,999
OI-Albania capital and accumulated earnings	6,791,814	5,842,702
OI-Mexico capital and accumulated earnings	(157,803)	270,613
OI-Mozambique capital and accumulated earnings	1,286,567	—
Total	\$ 34,141,493	24,064,256

Temporarily Restricted – net assets that are subject to donor-imposed restrictions that will be met either by actions of Opportunity or the passage of time. Temporarily restricted net assets are available for the following purposes or periods as of December 31, 2005 and 2004:

	2005	2004
For periods after December 31	\$ 4,322,664	3,931,678
Opportunity Loan Guarantee Fund	—	1,689,742
Programs in Africa	5,901,179	1,406,514
Programs in Latin America and Mexico	787,311	424,623
Programs in Indonesia	145,751	64,610
Programs in India	33,683	64,000
Programs in Philippines	—	30,447
Other programs	93,201	936,381
Total	\$ 11,283,789	8,547,995

Net assets were released from donor restrictions during the years ended December 31, 2005 and 2004 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

	2005	2004
Collection of pledged amounts	\$ 1,101,626	1,940,453
Programs in Africa	4,850,823	3,456,234
Programs in Philippines	1,167,658	486,878
Programs in Latin America	1,385,773	436,136
Programs in Indonesia	250,225	73,493
Programs in India	37,135	2,800
Other programs	2,449,206	2,553,678
Total	\$ 11,242,446	8,949,672

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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(with comparative totals for 2004)

Permanently Restricted – net assets that are subject to donor-imposed restrictions to be maintained permanently by Opportunity. Generally, donors of these assets permit Opportunity to use all or part of the income earned on related investments for general or specific purposes. As of December 31, 2005 and 2004, permanently restricted net assets primarily consist of the Cornerstone fund, which was instituted in 2002 as a means of providing collateral for the existing lines of credit. There is also an endowment fund, from which any interest earned will support designated program services.

Banking Activities – this category reports the consolidated results of the commercial banks in which OTI has investments of greater than 50%. Assets and liabilities of foreign investments are translated at year-end exchange rates with the related translation adjustments reported as a change in unrestricted net assets. Income statement accounts are translated at the average exchange rate during the period. Nonmonetary assets and liabilities are translated at historical exchange rates. Minority investors own portions of the five microfinance institutions that OTI has majority interest in: OI-Serbia, OI-Montenegro, OI-Albania, OI-Mexico, and OI-Mozambique. The outside investors' shares are shown in Opportunity's consolidated financial statements as minority interest. Through December 2005 exchange rates fluctuated such that foreign assets increased in value by approximately \$5,303,000 subsequent to year-end and foreign liabilities increased in value by approximately \$4,742,000 amounting to an increase in net assets of \$561,000.

Going Concern

Serbia has a new Banks Act that requires OI-Serbia to convert from its current classification of "Other Financial Organization" to a bank or cease operations. OI-Serbia's management believes that the Bank is a going concern based on its plans to convert to a Bank. In accordance with it, as well as pursuant to the requirements of the new Law, the General Assembly made the decision to convert the Savings Bank into a Bank. As at March 9, 2006, the Bank submitted its conversion plan to the National Bank of Serbia. The conversion plan was approved by the National Bank of Serbia on April 10, 2006. After the National Bank of Serbia's approval of the conversion plan, the Bank will submit a license application and the required supporting documentation by October 31, 2006.

Revenue and Expense

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

Private gifts, including unconditional pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful pledges receivable is provided based upon management's judgment considering such factors as prior collection history, type of contribution, and nature of fundraising activity. Contributions received with donor-imposed restrictions are reported as revenue of the unrestricted net asset class if those

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restrictions are met within the same year as received. Donor-restricted contributions received and whose restrictions were met within the same year were \$8,150,965 and \$5,617,455 in 2005 and 2004, respectively.

Revenue from governmental grant agreements is recognized as it is earned through expenditure in accordance with the agreement. Revenue from governmental grant agreements to operate and maintain loan portfolios over an extended period of time under specific conditions is recognized on a straight-line basis over the grant period until the conditions are fulfilled. Amounts received in advance of expenditure are recorded as deferred revenue until recognized over the grant period.

The consolidated results of the banks presented in these financial statements recognize fee and commission income for the services provided by the Company. Fee and commission income is recognized when the related service is performed. Loan fees are offset by the costs of originating such loans.

Opportunity records in-kind support for contributed equipment and contributed professional services. Contributed equipment and services are recorded at fair value. Opportunity recorded \$322,170 and \$446,099 as contribution revenue in the accompanying statement of activity and changes in net assets and the corresponding amount was included as equipment and services in the accompanying statements of financial position for 2005 and 2004, respectively.

Financial Instruments

The notes and loans receivable and the loans payable in the accompanying consolidated financial statements are generated by the charitable activities of Opportunity. The terms of these instruments are not commensurate with current market terms in a commercial environment. As such, management believes that due to the nature of these financial instruments the book value approximates fair value.

Accrued Interest Receivable on Loans

Interest is accrued on loans when earned. Accrual of interest is ceased on loans when interest is more than six months delinquent. Interest accrued at the date a loan is placed on nonaccrual status is reversed and charged against income. Fee and commission income are recognized when earned.

Allowance for Loan Losses

Allowances have been established for probable loan losses. The provisions for losses charged to operations are based on management's judgment of current economic conditions, the value of the underlying collateral, and the credit risk of the loan portfolio. Management believes that these allowances are adequate for loan losses inherent in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowances may be necessary based on changes in economic conditions.

A loan is considered impaired when it is probable that all principal and interest amounts due will not be collected in accordance with the loan's contractual terms. Impairment is recognized by allocating a portion of the allowance for loan losses to such a loan to the extent that the recorded investment of

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an impaired loan exceeds its value. A loan's value is based on the loan's underlying collateral or the calculated present value of projected cash flows discounted at the contractual interest rate. Allocations on impaired loans are considered in relation to the overall adequacy of the allowance for loan losses and adjustments are made to the provision for loan losses as deemed necessary.

The recorded investment in impaired loans is periodically adjusted to reflect cash payments, revised estimates of future cash flows, and increases in the present value of expected future cash flows due to the passage of time. Cash payments representing interest income are reported as such. Other cash payments are reported as reductions in recorded investment. Increases or decreases due to changes in estimates of future payments and the passage of time are considered in relation to the overall adequacy of the allowance for loan losses.

Allocation of Expenses

Opportunity considers Network Services expenses as a component of its program expense. The amounts relate to dues paid to the Network, which, in turn, support the Network partners and the Opportunity program objectives. Certain costs are paid by Opportunity on behalf of the Network as part of Opportunity's annual dues and are included in program grant expense.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid, short-term investments.

Restricted Cash and Investments

Restricted cash and investments at December 31, 2005 and 2004, consisted of permanently restricted funds received for the Cornerstone Fund and the Endowment fund, and temporarily restricted investments of the Loan Guarantee Fund.

Investments

Investments in securities are reported at fair value based on quoted market prices for publicly traded securities and estimates provided by investment managers for nonmarketable investments in certain closely held companies. Donated investments are recorded at fair value at the date of the gift and based on Opportunity's investment policy are generally liquidated within 30 days.

Investments in Microfinance Institutions

Investments in microfinance institutions in which OTI holds less than 50% are recorded using the equity method of accounting. Accordingly, the initial investment is increased or decreased by Opportunity's proportionate share of income or loss.

Building, Furniture, and Equipment

Building, furniture, and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives ranging from three to 40 years. Accumulated depreciation on building, furniture, and equipment was approximately \$1,524,300 and \$1,012,000 at December 31, 2005 and 2004, respectively.

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Income Taxes

Opportunity and OTI have received determination letters from the Internal Revenue Service indicating that they are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no tax provision has been made in the accompanying financial statements for charitable activities.

The microfinance institutions included in these financial statements pay taxes in accordance with their respective countries' laws at rates from 9% to 27% of taxable income and current tax is recorded for these amounts. Income taxes for the overseas for-profit microfinance institutions are accounted for under the asset and liability method. Deferred taxes and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax carryforwards. Deferred tax assets and liabilities are measured using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make 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 statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Comparative Financial Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Opportunity's consolidated financial statements for the year ended December 31, 2004, from which the summarized information was derived.

(3) Pledges Receivable

Unconditional pledges receivable at December 31, 2005 are due to be received as follows:

Within one year	\$	1,257,169
One to five years		4,543,088
Less:		
Allowance on pledges receivable		(294,466)
Discounts to net present value		(122,736)
		<hr/>
Net unconditional pledges and grants receivable	\$	<u>5,383,055</u>

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The discount rate used in determining the net present value of unconditional pledges and grants receivable is 2.9% and 2.6% at December 31, 2005 and 2004, respectively. The discount rate approximates the average borrowing rate over the last 12 months. Amounts due at December 31, 2004 were net of an allowance of \$197,870 and a discount of \$122,736.

(4) Investments and Investments in Microfinance Institutions

Investments consist of the following as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Marketable stock	\$ 497,511	437,635
Venture capital stock	48,862	48,862
Certificate of deposit in the Philippines	450,000	—
Total investments	<u>996,373</u>	<u>486,497</u>
Less reserve provision	<u>(264,133)</u>	<u>(114,133)</u>
Investments at fair value	<u>\$ 732,240</u>	<u>372,364</u>

OTI holds varying interests (as noted below) in five microfinance institutions. Investment in microfinance institutions consists of the following as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
OI-Sinapi Aba Savings & Loan – Ghana (33%)	\$ 1,139,725	932,323
Opportunity International Bank – Malawi (27.1%)	1,011,020	577,210
Opportunity Microfinance Bank – Philippines (30%)	648,897	346,818
S.C. Opportunity Microcredit Romania S.R.L. (32%)	469,462	339,965
Zambuko Trust Limited – Zimbabwe (25%)	250,000	250,000
Development Finance Equity Partners (40%)	50,901	—
Subtotal	<u>3,570,005</u>	<u>2,446,316</u>
Less amounts reserved	<u>(250,000)</u>	<u>(250,000)</u>
Total investment in microfinance institutions	<u>\$ 3,320,005</u>	<u>2,196,316</u>

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Equity income (loss) from the investments in the microfinance institutions are included in other fees and income on the consolidated statements of activities, and consist of the following:

	<u>2005</u>	<u>2004</u>
Opportunity International Bank – Malawi	\$ (66,187)	(134,202)
S.C. Opportunity Microcredit Romania S.R.L.	129,497	72,081
Opportunity International-Sinapi Aba Savings & Loan – Ghana	7,402	2,323
Opportunity Microfinance Bank – Philippines	(57,921)	2,295
Development Finance Equity Partners, GMBH	<u>1,359</u>	<u>—</u>
Net equity income (loss) from microfinance institutions	\$ <u>14,150</u>	<u>(57,503)</u>

Investment income from charitable activities for the years ended December 31, 2005 and 2004 consists of the following:

	<u>2005</u>	<u>2004</u>
Interest	\$ 471,105	96,549
Dividends	32,331	42,334
Realized loss on investments	(19,934)	(36,544)
Unrealized gain (loss) on investments	<u>(248,910)</u>	<u>15,154</u>
Return on investments, net	\$ <u>234,592</u>	<u>117,493</u>

(5) Notes Receivable

Notes receivable as of December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Eleven unsecured installment loans to nongovernmental partners	\$ 2,132,150	2,267,053
Two convertible notes to microfinance institutions	<u>898,394</u>	<u>306,000</u>
Sub-total notes receivable	3,030,544	2,573,053
Less allowance for uncollectable amounts	<u>(370,000)</u>	<u>(370,000)</u>
Total net notes receivable	\$ <u>2,660,544</u>	<u>2,203,053</u>

Four of the notes to related partner organizations bear no interest. Eight others assess interest below current market rates ranging between 1% and 6%.

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(6) Loans Receivable

Loans represent micro loans granted to individuals and private entrepreneurs by microfinance banks for the purpose of providing financing support to small enterprises. In addition, loans may be made for the purpose of purchasing real estate or financing agriculture activities. These loans are granted generally for periods between four months and five years at interest rates of between 5% and 36%. Certain loans may be collateralized by security such as cash or mortgages. Loans outstanding for the years ended December 31, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Loans receivable	\$ 63,045,732	43,397,217
Less loan loss allowance	(1,830,073)	(1,627,144)
Net loan portfolio	<u>\$ 61,215,659</u>	<u>41,770,073</u>

OTI's banks will often make loans to borrowers that would be unable to secure financing from commercial sources. The ability of each borrower to repay its respective bank depends on the entrepreneurial success of each borrower. In addition, payments to OTI banks depend on the economic and political environment of each locality in which loans are made.

OTI's banks account for their loans in accordance with the provisions of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures*. The objective of these statements is to eliminate the inconsistencies in the accounting for impaired and restructured loans by requiring, in general, that impaired loans be carried based on the present value of expected future cash flows discounted at the loan's effective interest rate. All loans have been evaluated for collectibility under the provisions of these statements.

A summary of the activity in the allowance for loan losses for the years ended December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Balance at beginning of year	\$ 1,627,144	758,358
Provision for loan losses	1,089,837	1,144,062
Loans receivable charged off	(886,908)	(275,276)
Balance at end of year	<u>\$ 1,830,073</u>	<u>1,627,144</u>

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The lending activities of OTI's banks' are primarily conducted within their respective country. The following is a summary of loans outstanding, net of the related allowance, by country as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
OI-Montenegro	\$ 38,309,417	27,346,669
OI-Albania	14,489,166	9,481,821
OI-Serbia	7,710,828	4,890,452
OI-Mexico	242,086	51,131
OI-Mozambique	464,162	—
Balance at end of year	<u>\$ 61,215,659</u>	<u>41,770,073</u>

The following is a summary of expected loan maturities as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Less than one month	\$ 7,128,006	3,892,385
From one to three months	7,651,646	6,383,306
From three to twelve months	23,444,656	19,898,186
From one to five years	22,991,351	11,085,910
Over five years	—	510,286
Balance at end of year	<u>\$ 61,215,659</u>	<u>41,770,073</u>

Loans to employees and officers of these banks totaled \$840,344 and \$631,007 at December 31, 2005 and 2004, respectively. In addition, OI-Montenegro leases office space for its primary corporate offices from one of its borrowers.

The commercial microfinance banks in which OTI holds an interest are exposed to a number of risks. The following outlines some of these risks:

Credit Risk

Credit risk is the risk of financial loss arising from the failure of a customer to settle financial obligations to the bank as they fall due. This is an inherent risk associated with the microfinance industry. The majority of loans are short-term in nature; about 62% of the loans fall due within one year as of December 31, 2005.

Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign currency exchange rates.

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Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. This is somewhat mitigated due to the relative short duration of the loans outstanding, most of which are due within one year.

Liquidity Risk

Liquidity risk is the risk that the banks will encounter difficulty in raising funds to meet the commitment associated with financial instruments. Each country has minimum capital requirements that the microfinance institutions must adhere to. Total cash on hand of the combined banks is \$25.2 million, which is 27% of total assets of the combined banks.

(7) Deposits from Customers

Customer deposits as of December 31, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
OI-Montenegro:		
Demand deposits	\$ 20,542,234	4,065,912
Short-term deposits	9,849,150	3,798,490
Long-term deposits	883,562	545,760
Total OI-Montenegro	<u>31,274,946</u>	<u>8,410,162</u>
OI-Mozambique:		
Demand deposits	210,006	—
Short-term deposits	9,878	—
Total OI-Mozambique	<u>219,884</u>	<u>—</u>
OI-Serbia:		
Demand deposits	66,129	35,790
Long-term deposits	224,976	—
Total OI-Serbia	<u>291,105</u>	<u>35,790</u>
Total deposits from customers	<u>\$ 31,785,935</u>	<u>8,445,952</u>

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(8) Notes Payable

Notes payable as of December 31, 2005 and 2004 include the following:

	2005	2004
Charitable notes payable:		
Note payable, 3% interest, maturity September, 2006	\$ 74,800	168,300
Note payable, 1% interest, maturity March, 2005	—	100,000
Note payable, 6% interest, maturity April, 2005	—	25,000
Note payable, 4.05% interest, maturity December, 2008	29,000	29,000
Note payable, 4.05% interest, maturity December, 2008	371,000	210,000
Note payable, 4.2% interest, maturity September, 2005	—	100,000
Note payable, 3.5% interest, maturity September, 2005	—	25,000
Note payable, 0% interest, maturity July, 2006	250,000	250,000
Note payable, 0% interest, maturity January, 2006	100,000	100,000
Note payable, 5.78% interest, maturity no earlier than March 13, 2006, no later than September 13, 2008 (See note 8)	300,000	300,000
Note payable, 5.78% interest, maturity no earlier than March 13, 2006, no later than September 13, 2008 (See note 8)	200,000	200,000
Note payable, 5.75% interest, maturity December, 2006 (See note 8)	—	700,000
Note payable, 2% interest, maturity April, 2010	1,000,000	—
	2,324,800	2,207,300
Total charitable notes payable		

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	<u>2005</u>	<u>2004</u>
Loan Guarantee Fund notes payable:		
Note payable, 2% interest, maturity September, 2007	\$ 500,000	—
Note payable, 2% interest, maturity September, 2007	100,000	—
Note payable, 1.5% interest, maturity September, 2007	500,000	—
Note payable, 2% interest, maturity September, 2007	500,000	—
Note payable, 2% interest, maturity September, 2007	100,000	—
Note payable, 2% interest, maturity September, 2007	1,000,000	—
Note payable, 1.75% interest, maturity September, 2007	100,000	—
Note payable, 2% interest, maturity September, 2008	25,000	—
Note payable, 2% interest, maturity September, 2008	1,000,000	—
Note payable, 2.25% interest, maturity September, 2008	100,000	—
Note payable, 1.5% interest, maturity September, 2008	100,000	—
Note payable, 2.25% interest, maturity September, 2008	100,000	—
Note payable, 2% interest, maturity September, 2008	1,000,000	—
Note payable, 2.25% interest, maturity September, 2008	500,000	—
Note payable, 2.5% interest, maturity September, 2009	25,000	—
Note payable, 2% interest, maturity September, 2009	1,000,000	—
Note payable, 2.5% interest, maturity September, 2009	100,000	—
Note payable, 2% interest, maturity September, 2009	100,000	—
Note payable, 2.75% interest, maturity September, 2010	100,000	—
Note payable, 2.75% interest, maturity September, 2010	25,000	—
Note payable, 2.75% interest, maturity September, 2010	200,000	—
Note payable, 2.65% interest, maturity September, 2010	500,000	—
Note payable, 2% interest, maturity September, 2010	150,000	—
Note payable, 2.75% interest, maturity September, 2010	25,000	—
Note payable, 3% interest, maturity September, 2011	400,000	—
Note payable, 3% interest, maturity September, 2011	100,000	—
Note payable, 3% interest, maturity September, 2011	100,000	—
Note payable, 3.25% interest, maturity September, 2012	400,000	—
Note payable, 3.25% interest, maturity September, 2012	200,000	—
Note payable, 3% interest, maturity September, 2012	100,000	—
Total loan guarantee fund notes payable	<u>9,150,000</u>	<u>—</u>
Total notes payable	<u>11,474,800</u>	<u>2,207,300</u>

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	<u>2005</u>	<u>2004</u>
Banking notes payable:		
OI-Montenegro:		
Note payable, 8% interest, maturity June 2006	\$ 888,300	2,046,600
Note payable, 7.6% or 6 month Euribor + 5.2% interest, maturity May 2007	1,184,400	—
Note payable, 6 month Euribor + 3.75% interest, maturity December 2007	3,434,760	4,093,200
Note payable, 4.65% – 4.84% interest maturity December 2008	1,192,691	1,964,736
Note payable, 6 month Euribor + 4.9% interest, maturity April 2009	3,109,050	—
Note payable, 4.65% – 4.84% interest, maturity June 2009	1,102,676	1,791,457
Note payable, 4.5 year swap rate + 4.17% interest, maturity October 2009	2,368,800	—
Note payable, 3% interest, maturity June 2010	4,480,585	4,447,944
Subtotal OI-Montenegro	<u>17,761,262</u>	<u>14,343,937</u>
OI-Albania:		
Note payable, 9% interest, maturity October 2005	—	355,681
Note payable, 1% interest + Euribor, maturity February 2006	497,685	92,478
Note payable, 2% interest, maturity April 2006	105,134	104,313
Note payable, 5.5% interest + Euribor, maturity September 2006	93,319	248,970
Note payable, 7% interest, maturity January 2006	223,950	213,400
Note payable, 6 month Euribor + 7% interest, maturity June 2006	311,047	208,625
Note payable, 10% interest, maturity December 2006	180,071	207,646
Note payable, 10% interest, maturity April 2007	5,075	6,700
Note payable, 8% interest, maturity April 2007	30,450	265,737
Note payable, lower of Euribor + 5.7% and 8.1% interest, maturity May 2007	746,512	—
Note payable, 7% interest + Euribor, maturity August 2007	62,209	101,227
Note payable, T-bill + 3% interest, maturity November 2008	1,536,456	—
Note payable, 11.97% interest first year and 12-month T-bill rate + 4% in years thereafter, maturity May 2009	491,534	—
Note payable, T-bill + 3.5% interest, maturity June 2009	1,008,736	1,440,728
Note payable, 4.5 year Euro swap rate + 5.17% interest, maturity October 2010	2,439,644	—
Subtotal OI-Albania	<u>7,731,822</u>	<u>3,245,505</u>
OI-Serbia:		
Note payable, 6% interest, maturity June 2010	590,805	678,008
Subtotal OI-Serbia	<u>590,805</u>	<u>678,008</u>
Total banking notes payable	<u>26,083,889</u>	<u>18,267,450</u>
Total notes payable	\$ <u>37,558,689</u>	<u>20,474,750</u>

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Aggregate maturities of notes payable as of December 31, 2005 are as follows:

2006	\$	3,224,306
2007		8,263,406
2008		6,544,952
2009		11,745,440
2010		6,455,585
Thereafter		<u>1,325,000</u>
Total notes payable	\$	<u><u>37,558,689</u></u>

(9) Lines of Credit

Opportunity has entered into line-of-credit arrangements with two banks providing for borrowings up to approximately \$5,600,000. One line totaling \$2,000,000 is guaranteed by a Board member's private foundation and matured on July 15, 2006, with interest at the prime rate (4.25% at December 31, 2005) minus a fraction of a point. The other line totaling approximately \$3,600,000 has an interest rate based on LIBOR (London Interbank Offered Rate) (4.8% at December 31, 2005) plus a fraction of a point. The assets of the Cornerstone Fund provide collateral for this line. As of December 31, 2005 and 2004, there was no balance outstanding under these lines of credit.

Additionally, during 2003 Opportunity entered into a \$2 million revolving line of credit arrangement with Oikocredit, Ecumenical Development Cooperative Society U.A. with a duration period not to exceed 7 years. The interest rate on the line is 5.78% and 5.75% per annum as of December 31, 2005 and 2004, respectively, adjusted annually up to a ceiling of 9.5%. Borrowings outstanding were \$500,000 and \$1,200,000 as of December 31, 2005 and 2004, respectively. The U.S. Agency for International Development (USAID) has guaranteed this note up to 50% of the outstanding borrowings.

(10) U.S. Agency for International Development (USAID) Agreements

Opportunity entered into funding agreements with USAID over various periods for microenterprise development purposes in overseas countries as follows:

<u>Program</u>	<u>Total grant</u>	<u>Funds received through December 31, 2005</u>	<u>Estimated completion date</u>
Montenegro 2001	\$ 7,000,000	7,000,000	September 2005
Malawi	2,160,918	2,018,100	February 2006
Bulgaria	4,000,000	3,724,734	April 2006
Serbia 2003	9,966,025	9,221,357	September 2006
Albania	6,390,000	5,514,875	December 2007
OVC	5,090,089	1,536,405	February 2009

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(11) Commitments and Contingencies

Lease Obligations

Opportunity leases office space in Illinois and California under operating leases, which expire in the years 2009 and 2006, respectively. Lease expense for the years ended December 31, 2005 and 2004 was approximately \$274,418 and \$255,200, respectively. Future minimum operating lease payments as of December 31, 2005 are as follows:

2006	\$	307,743
2007		257,460
2008		259,636
2009		<u>187,504</u>
Total	\$	<u><u>1,012,343</u></u>

The banks lease office space in the various countries in which they are located under operating leases. Lease expense for the years ended December 31, 2005 and 2004 was approximately \$635,014 and \$471,200, respectively. Future minimum operating lease payments as of December 31, 2005 are as follows:

2006	\$	589,070
2007		479,830
2008		436,923
2009		259,010
Thereafter		<u>869,350</u>
Total	\$	<u><u>2,634,183</u></u>

Government Grants

The amount of U.S. Government grant revenue reflected in the consolidated financial statements is subject to review and possible adjustment by granting agencies. Amounts recovered from the U.S. Government include indirect costs based upon calculated overhead rates, which are subject to possible increases or decreases under audit by the granting agencies. The amount of costs that may be disallowed by the granting agencies cannot be determined at this time. It is the opinion of management that unallowable costs, if any, will be insignificant.

Certain of the grant agreements with the U.S. Government have fiscal matching requirements to satisfy the conditions of the grant. Opportunity contractually passes those fiscal matching requirements through to its nongovernmental organizational partners. Opportunity management believes its nongovernmental organizational partners have satisfied those matching requirements.

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Reserve and Regulatory Capital Requirements

OTI's foreign for-profit microfinance companies are subject to certain regulatory capital requirements that they must maintain. OI-Montenegro is required by the Central Bank of Montenegro to maintain an obligatory reserve in the amount of 50% of the average balance of its deposit related liabilities. OI-Serbia and OI-Montenegro are required to maintain a minimum capital adequacy ratio of 8% established by the National Bank of Serbia and the Central Bank of the Republic of Montenegro, respectively. As of December 31, 2005 and 2004, these regulatory capital requirements had been met.

Pursuant to the Law on Banks and Other Financial Institutions saving banks registered in Serbia are required to maintain a monetary portion of their capital as at December 31, 2005 at a minimum amount of \$2 million euros. The Bank complies with the National Bank of Serbia's capital requirement.

Guarantees

The Opportunity Loan Guarantee Fund I, LLC was established for the purpose of supporting microfinance institutions in developing countries to increase the availability of loans and related microfinance services to the poor by establishing and operating the fund to provide collateral support or similar means to enable microfinance institutions to borrow or otherwise acquire funds. The Fund has entered into collateral support agreements with two members of the Opportunity International Network in order that they may obtain favorable bank financing. The net savings to the banks, as a result of the contingent obligation of the Fund to stand ready to perform in the event that the specified triggering events or conditions occur, was \$25,850, which has been recorded as a liability in the consolidated financial statements. The Fund received fees totaling \$45,000 and interest payments totaling \$168,750 during the year ended December 31, 2005 to provide the letters of credit. The Fund has stand by letters of credit outstanding in the amount of \$1,500,000. One stand by letter of credit expires in November, 2006 and the second one expires November, 2007. The Fund has not had to make any payments on the guarantees as of December 31, 2005.

(12) Employee Benefit Plan

All domestic and expatriate employees of Opportunity who have completed three months of service are eligible to participate in a defined contribution benefit plan (403(b) plan) sponsored by Opportunity. Participants are eligible to make individual contributions up to a limit determined by age and salary level. Benefit expense amounted to \$239,153 and \$207,168 for the years ended December 31, 2005 and 2004, respectively.

(13) Related-party Transactions

Included in program services in the statements of activities are grant expenses of \$7,899,812 and \$9,765,059 in 2005 and 2004, respectively, which relate to disbursements made by Opportunity to its affiliated partner organizations.

OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2005

(with comparative totals for 2004)

Certain key employees and board members affiliated with Opportunity and the microfinance institutions own portions of the minority interest in the microfinance banks. Each individual ownership position does not exceed 4.3% of the common stock outstanding in each respective microfinance bank.

(14) Subsequent Event

On March 9, 2006, OI-Serbia submitted its conversion plan to the National Bank of Serbia. The conversion plan was approved by the National Bank of Serbia on April 10, 2006. After the National Bank of Serbia's approval of the conversion plan, the Bank will submit a license application and the required supporting documentation by October 31, 2006.