## KIVA USER FUNDS, LLC
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May 31, 2012

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INDEPENDENT AUDITOR’S REPORT

To the Board of Directors
Kiva User Funds, LLC
San Francisco, California

We have audited the accompanying balance sheet of Kiva User Funds, LLC (“KUF”) as of May 31, 2012. This financial statement is the responsibility of KUF’s management. Our responsibility is to express an opinion on this financial statement based on our audit.

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 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 provide a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Kiva User Funds, LLC as of May 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

SingerLewak LLP
San Jose, California
October 26, 2012
## KIVA USER FUNDS, LLC

### BALANCE SHEET AS OF

**May 31, 2012**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$41,134,798</td>
</tr>
<tr>
<td>Accounts receivable from users</td>
<td>$33,846</td>
</tr>
<tr>
<td>Loans receivable</td>
<td>$35,483,885</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$76,652,529</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable to lenders</td>
<td>$96,362</td>
</tr>
<tr>
<td>Due to Kiva Microfunds</td>
<td>$700,120</td>
</tr>
<tr>
<td>Unsettled loan transactions</td>
<td>$45,004,947</td>
</tr>
<tr>
<td>Funds held on behalf of users</td>
<td>$27,450,915</td>
</tr>
<tr>
<td>Unredeemed Kiva Cards</td>
<td>$3,400,185</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$76,652,529</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of this financial statement.
NOTE 1 – ORGANIZATION AND OPERATIONS

Organization and Nature of Activities
Kiva User Funds, LLC (referred hereinafter as “KUF”) is a California Limited Liability Company (“LLC”) whose sole member is Kiva Microfunds (“Kiva”). Founded in November 2005, Kiva is the major nonprofit internet platform in the United States that offers lenders opportunities to support economic development and entrepreneurship, mostly in developing countries, through partnerships with local institutions. As part of its efforts to alleviate poverty and create more economic opportunity by connecting people through lending, Kiva facilitates the collection and transfer of philanthropic capital, funded by its lenders, to approximately 139 active microfinance institutions (“MFIs”) and other socially-minded organizations and enterprises (such as entities providing agricultural inputs or portable, sanitary toilets for urban slums) around the world to fund interest-bearing loans to entrepreneurs and other borrowers in their communities.

Nature of Operations
KUF was established to hold user funds in several pooled accounts for the benefit of the applicable users who have transactional credits (e.g. funds deposited by a lender to make a microloan or repayments made to a lender by a borrower). The lending activities that take place on Kiva’s website are transacted through the KUF accounts in order to maintain a separation between the two entities’ holdings and ensure that funds belonging to Kiva’s users are distinct from funds that are designated for Kiva’s operations.

Kiva screens, rates, and monitors each field partner on its platform and assigns it a risk rating for lenders to consider in their funding decisions (non microfinance institutions are generally not similarly rated, as such organizations vary significantly and Kiva does not believe a common benchmark applies). As of May 31, 2012, approximately 770,700 Kiva lenders had funded approximately $313 million for 410,000 microloans across 66 countries.

Funds of Kiva’s users are held in FBO (“for the benefit of”) bank accounts at Wells Fargo Bank. KUF maintains the FBO accounts, which are held separate and apart from the operational funds accounts of Kiva. Kiva performs administrative functions and record-keeping duties that reflect individual user balances and transactions (such as microloans made or repayments received) relating to Kiva users’ participation utilizing the Kiva platform, and accounts for the users’ corresponding funds held in, or transacted via, the FBO accounts.

Kiva allows lenders to register for an online account to select and fund loans to borrowers, primarily in developing countries, who are seeking money to support their small business (microenterprise) operations or other needs (e.g. school tuition). Kiva aggregates funds from lenders and forwards them to field partners, which make and manage loans to the borrowers and transmit the borrowers’ repayments to Kiva, which in turn distributes the lenders’ shares of the funds received back to the lenders.
NOTE 1 – ORGANIZATION AND OPERATIONS (Continued)

Nature of Operations (Continued)
Individuals are eligible to become lenders on Kiva’s platform by providing basic information, including their name and e-mail address. Once lenders have registered, Kiva automatically generates a profile page; however, lenders may choose to remain anonymous. Through the platform website, lenders can review the loan requests and select the borrowers they are interested in funding. Lenders can fund as little as $25 and as much as the entire amount of the loan. Requested loan amounts vary geographically, generally ranging from $1,200 to $10,000. Kiva relies on the local field partner organization to screen and evaluate borrowers and set loan amounts and terms. Additionally, the local institutions work with the borrowers to collect their stories, pictures, and loan details and upload the information to Kiva’s website for potential lenders to view. When lenders select the borrowers they want to fund on Kiva’s platform, they generally do not make loans directly to the borrowers. Rather, the loan proceeds typically replenish the intermediary institutions for the loans that they distributed to borrowers when they were needed. Often, the loans are disbursed to the borrower before the loan details are posted on Kiva’s website for lenders to view and fund. Even though Kiva lenders provide loan funds free of interest, the intermediary field partner institutions typically charge the borrowers interest on their loans to help cover the institutions’ operating costs. As of May 2012, the average portfolio yield among Kiva’s MFI partners was about 36 percent. As the intermediary institutions collect the scheduled repayments from borrowers, they retain the interest payments and any other fees they charge to help finance their operations, and transfer the amount of principal payments to Kiva, which credits lenders’ accounts for their share of the corresponding loans. If a borrower fails to make a scheduled payment, the field partner notifies Kiva and lenders could potentially receive a late or partial payment or receive no payment. The repayment rate for all of its loans from all Kiva’s partners as of May 31, 2012, was approximately 98 percent.

Kiva lenders do not earn interest on the loans they fund. Instead, Kiva emphasizes the potential social and economic benefits that lenders may help achieve, through their support of microfinance and entrepreneurship. To the extent that the funds from lenders provide Kiva’s field partners the capital to finance loans that they would not have otherwise made, the platform’s activities may increase the supply of credit for individual borrowers who might not have access to traditional banking services in their home countries. (See Diagram A below for the flow of the process.)
NOTE 1 – ORGANIZATION AND OPERATIONS (Continued)

Nature of Operations (Continued)
Lenders on Kiva’s platform face credit risk—the possibility that they will lose their principal if borrowers or Kiva’s field partners fail to repay the loans. Kiva and its field partners do not guarantee lenders’ loans, so the lenders assume the risk that borrowers may not repay. In addition, lenders face risks because they rely on Kiva’s field partners to screen borrowers, service their loans, and transmit payments to Kiva. As a result, even if borrowers repay their loans, lenders may not be repaid due to a field partner’s bankruptcy, fraud, or poor operations which are then generally disclosed on Kiva’s website. Similarly, lenders face operational risks associated with their reliance on Kiva to screen and monitor its intermediary partners and effectively maintain its platform for servicing the loans and transmitting payments to lenders. Kiva also discloses on its website that lenders face potential currency risks and country-specific risks.

Kiva’s field partners may choose to pass on to lenders a share of the foreign currency risks associated with their receiving loan payments in local currency and needing to repay loans to Kiva in U.S. dollars. Also, broader risks of economic or political disruption or natural disaster in borrowers’ home countries can affect repayments to lenders.

As a 501(c)(3) nonprofit tax-exempt organization, Kiva is subject to federal and state charity regulations and IRS financial reporting requirements. For example, to obtain and maintain its exemptions from federal and state income taxes and its ability to receive tax-deductible donations, Kiva must be organized and operated exclusively for charitable or other exempt purposes and must comply with federal limitations on lobbying activities. Although Kiva is exempt from income taxation, the IRS and California’s Franchise Tax Board require charitable organizations to file annual informational returns of their income and expenses. Also, under California law, Kiva must prepare and have audited annual financial statements. While Kiva must disclose its annual returns and financial statements to the public on request, federal and state charities regulations do not require it to disclose information about its platform or the risks involved for lenders. The IRS can examine Kiva’s returns for compliance with requirements for federal income tax-exemption, and Kiva could be subject to enforcement action by the IRS or the California Attorney General if it is not in compliance with the relevant requirements. Kiva is not subject to further federal or state supervision or examination of its operations or activities.
NOTE 1 – ORGANIZATION AND OPERATIONS (Continued)

Nature of Operations (Continued)

Diagram A:

Source: US GAO Report: Person-to-Person Lending Regulatory Challenges Could Emerge as the Industry Grows (July 2011)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
The balance sheet of KUF has been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

Kiva Ownership Interest in KUF
Though Kiva is the sole member of KUF, Kiva has not consolidated KUF’s assets, liabilities or results of operations in these financial statements. Kiva does not retain the rights, obligations or benefits, typically afforded to a sole member of a LLC and, therefore, has elected to account for its investment in KUF on the equity basis. As of May 31, 2012, KUF’s equity balance is zero, and therefore there is no investment in KUF reflected within the statement of financial position of Kiva.
NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable from Users
All KUF user based transactions are required to be pre-funded in the form of a deposit by a lender. In some instances, these user deposits fail. When a failure occurs, a lender’s account balance will go negative requiring the lender to replenish their account creating a lender Account Receivable until the balance is repaid or written off. In cases where funds are not replenished, Kiva will recollect the amounts outstanding as loans are repaid to the lender or via donation reversals. In cases where this is not possible, amounts will be written off by Kiva.

Loans Receivable
Kiva distributes lender initiated fully funded loans held in KUF accounts through an intermediated channel via field partners. Loans receivable are partner centric transactions and are made up of the total amount outstanding from the lending relationship between Kiva and its partners. Payables and receivables are maintained on a partner by partner and loan by loan basis.

All loans become payable to Kiva’s partners when they are fully funded. On a monthly basis, these loans as well as billing and currency adjustments are aggregated for remittance purposes. All loans on Kiva’s website are denominated in US dollars; however, partners distribute loans in their local currency. Partners can choose to pass through currency loss to its lenders that is greater than 10% to protect themselves against catastrophic currency devaluations. Simultaneously, partners are responsible for collecting repayments from its borrowers and remitting a report to Kiva in regards to the status of all of its outstanding loans. Kiva uses a net billing process, aggregating the amount due to partners versus the amount of repayments received, to compute a total amount due to/from each partner.

No reserve or provision for uncollectible loans receivable is recorded by KUF as the risk of loan loss is borne by the lenders per the lender agreements with the users.

Accounts Payable to Lenders
Accounts payable to lenders is made up of the amounts users have requested to withdraw from KUF and are awaiting final payment processing. In the vast majority of cases, withdrawals are processed via PayPal.

Unsettled Loan Transactions
Kiva’s platform facilitates the purchase of loans in $25 increments for borrowers posted on its website. All lending on Kiva’s website involves the risk of principal loss to the lender. Kiva does not guarantee repayment.
NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unsettled Loan Transactions (Continued)
Unsettled loan transactions are lender centric and represent an intermediary stage between the funding of a loan, the expiration or refund of the purchased loan, as well as the redistribution of repayments to lenders. Loans become payable to Kiva’s field partners once the loan is fully funded. In the case when a loan is not fully funded within the stated purchase time, the loan will expire, thus returning funds back to the original lender. If a duplicate loan appears on the site, these loans will be refunded and returned to the lender. As loans are repaid by borrowers through the field partner channel, funds become payable to the lender through the settlement process.

Funds Held on Behalf of Users
Deposits are made into the KUF financial system via PayPal processed transactions, checks, Kiva Card gift product redemptions, and through third party matching, incentive, and free trial programs. All deposited/claimed funds are held on behalf of users to be used at their discretion. Deposited funds are temporarily housed in KUF’s PayPal account and are subsequently maintained in FBO savings accounts at Wells Fargo Bank to ensure accessibility and liquidity. Participants of Kiva’s web based platform use deposited funds to purchase loans, make donations to Kiva, purchase Kiva Cards (which transfer deposits to a gift recipient), and to reclaim deposited funds via withdrawal. Funds held on behalf of users are made up of three categories: individual lender accounts, managed lending accounts (fund pool accounts), and Kiva infused promotional lending accounts (Kiva pool accounts.)

Fair Value of Financial Instruments
KUF measures and discloses fair value measurements as required by the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification.

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability.
NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)
As a basis for considering such assumptions, the FASB establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Recently Adopted Accounting Pronouncement
In May 2011, the FASB issued ASU No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (“ASU No. 2011-04”), which amends ASC Topic 820, “Fair Value Measurement”. ASU No. 2011-04 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or International Financial Reporting Standards. ASU No. 2011-14 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU No. 2011-14 clarifies the FASB’s intent about the application of existing fair value measurements. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011, and is applied prospectively. The adoption of ASU No. 2011-04 will not have a material impact on its financial position.

NOTE 3 – FUND POOLS

Fund pools are aggregates of funding to be used for free trial or matching loan programs. There is generally a contract in place between Kiva and the corporation/foundation/individual which stipulates how funds will be lent out across the site based on specified dimensions. Additionally, these contracts will state how many rounds of loans the program will be eligible for and ways in which funds can be withdrawn by the partner.

There are two types of pools: the fund pool and the Kiva fund pool. The distinction between the two is that the Kiva fund pool is funded from a promotional marketing expense from Kiva, where funds will be used to offer promotional loans that can be utilized by users. All such funds will be used for this purpose on a revolving basis to users only. Users are not allowed to withdraw these funds. At May 31, 2012, the fund pool and Kiva fund pool balances available for lending were $1,048,473 and $221,291, respectively, and are included in Funds held on behalf of user on the accompanying balance sheet.
NOTE 4 – KIVA CARDS

Kiva Cards are a hybrid product (similar to retail "gift" cards) with a built-in feature that allows them to auto-convert into a donation to Kiva per the terms of use if they are not redeemed to support a microloan on the Kiva platform within 12 months of purchase. Kiva Cards provide a way for one individual to give Kiva Credit to another individual. Once the card is redeemed it is reclassified from “Unredeemed Kiva Cards” to “Kiva Credit”. With this credit, individuals can purchase a loan, purchase another Kiva Card, make a donation, or withdraw the funds from the Kiva system. At May 31, 2012, the Unredeemed Kiva Cards balance was $3,400,185.

NOTE 5 – DUE TO RELATED PARTY – KIVA MICROFUNDS

Kiva acts as the custodian of KUF’s web based platform, maintains FDIC insured depository accounts, collects all Kiva’s intended donations transacted through KUF’s account and interest earned in KUF accounts pursuant to the terms of use agreement to which all registered Kiva users agree to, and facilitate all wire transfers to and from field partners to disburse KUF initiated loans.

As such, the amount due to Kiva is made up of an accumulation of all donations, Kiva-Card auto-conversions, interest, and banking fees on a monthly basis. Once a month, a transfer is made to settle the prior month’s outstanding balance.

The net payable due to Kiva as of May 31, 2012 totaled $700,120.

NOTE 6 – CONCENTRATION OF CREDIT RISK

KUF maintains its cash balances with a high-credit, quality financial institution, as well as with an online payment processor. Kiva believes its credit policies do not result in significant adverse risk, and historically has not experienced significant credit-related losses. In addition, effective December 31, 2010 through December 31, 2012, the Federal Deposit Insurance Corporation (“FDIC”) is providing unlimited insurance coverage on non-interest-bearing accounts. At May 31, 2012, cash balances in excess of federal insurance limits were $31,000,907. However, these accounts are FBO accounts because they are held by KUF but are intended for other parties. As a result, funds held in these accounts are eligible for FDIC insurance, subject to other funds a given Kiva User may already have on deposit with the financial institution at which the FBO accounts are held.

Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments which potentially subject KUF to concentrations of credit risk consist primarily of cash.
NOTE 6 – CONCENTRATION OF CREDIT RISK (Continued)

The top ten (10) cash exposures KUF has in its portfolio for outstanding balances from MFI’s are as follows:

<table>
<thead>
<tr>
<th>Cash Exposure</th>
<th>As of May 31, 2012</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palestine for Credit &amp; Development (FATEN)</td>
<td>$1,300,119</td>
<td>2.96%</td>
</tr>
<tr>
<td>IMON International</td>
<td>1,151,305</td>
<td>2.62%</td>
</tr>
<tr>
<td>Microfinanzas Prisma</td>
<td>1,146,163</td>
<td>2.61%</td>
</tr>
<tr>
<td>Kenya Agency for Development of Enterprise and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology (KADET), a partner of World Vision</td>
<td>1,134,077</td>
<td>2.58%</td>
</tr>
<tr>
<td>International</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bai Tushum &amp; Partners</td>
<td>1,004,306</td>
<td>2.28%</td>
</tr>
<tr>
<td>XacBank</td>
<td>956,421</td>
<td>2.18%</td>
</tr>
<tr>
<td>SEF International UCO LLC, a partner of World</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vision International</td>
<td>880,097</td>
<td>2.00%</td>
</tr>
<tr>
<td>Ameen s.a.l.</td>
<td>856,322</td>
<td>1.95%</td>
</tr>
<tr>
<td>Fundación Paraguaya</td>
<td>841,358</td>
<td>1.91%</td>
</tr>
<tr>
<td>KREDIT Ltd.</td>
<td>795,230</td>
<td>1.81%</td>
</tr>
<tr>
<td>Remaining partners</td>
<td>33,904,880</td>
<td>77.10%</td>
</tr>
<tr>
<td>Total</td>
<td>$43,970,278</td>
<td>100%</td>
</tr>
</tbody>
</table>

The top ten (10) countries in terms of cash exposure are as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>As of May 31, 2012</th>
<th># of Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>$3,607,120</td>
<td>16</td>
</tr>
<tr>
<td>Peru</td>
<td>2,718,300</td>
<td>7</td>
</tr>
<tr>
<td>Philippines</td>
<td>2,098,666</td>
<td>8</td>
</tr>
<tr>
<td>Cambodia</td>
<td>2,064,916</td>
<td>5</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>2,034,763</td>
<td>4</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1,809,923</td>
<td>6</td>
</tr>
<tr>
<td>Armenia</td>
<td>1,637,196</td>
<td>3</td>
</tr>
<tr>
<td>Mongolia</td>
<td>1,580,349</td>
<td>3</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1,505,903</td>
<td>7</td>
</tr>
<tr>
<td>Palestine</td>
<td>1,398,103</td>
<td>2</td>
</tr>
<tr>
<td>Remaining</td>
<td>23,515,039</td>
<td>139</td>
</tr>
<tr>
<td>Total</td>
<td>$43,970,278</td>
<td>200</td>
</tr>
</tbody>
</table>

The total number of partners listed is a cumulative total over the life of KUF and as of May 31, 2012, 139 of the 200 partners were active lenders.
NOTE 7 – COMMITMENTS AND CONTINGENCIES

Litigation
In the normal course of business, KUF has not become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a significant impact on the financial statements of KUF as of May 31, 2012, and through October 26, 2012.

NOTE 8 – LOANS FUNDED AND SETTLED (UNAUDITED)

The following table shows the total outstanding loan balance for all loans purchased which are being paid back by the borrowers as of May 31, 2012. This includes the full value of the loan including the amount of principal which has already been repaid by the borrower. These amounts are generated based on the amortization schedules of all of the outstanding loans and not necessarily the actual loan receivable balance on the accompanying balance sheet.

As of May 31, 2012 (unaudited)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding loans (gross)</td>
<td>$57,949,725</td>
</tr>
<tr>
<td>Less: Principal repayments</td>
<td>$14,746,473</td>
</tr>
<tr>
<td>Net outstanding loans</td>
<td>$42,748,252</td>
</tr>
</tbody>
</table>

Loan repayments are required to be made on a monthly basis per the terms of each loan agreement with the MFI and the borrower. Kiva tracks the delinquency of the MFIs and as of May 31, 2012, the following table shows the delinquency amounts and the number of days they have been delinquent.

As of May 31, 2012 (unaudited)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding – 30 days</td>
<td>$136,531</td>
</tr>
<tr>
<td>Outstanding – 60 days</td>
<td>$113,664</td>
</tr>
<tr>
<td>Outstanding – 90 days</td>
<td>$78,780</td>
</tr>
<tr>
<td>Outstanding – 180 days</td>
<td>$204,472</td>
</tr>
<tr>
<td>Total</td>
<td>$533,447</td>
</tr>
<tr>
<td>Delinquency Rate</td>
<td>1.25%</td>
</tr>
</tbody>
</table>

NOTE 9 – SUBSEQUENT EVENTS

KUF has evaluated subsequent events through October 26, 2012, the date the financial statement was issued.