

FINCA GEORGIA
Branch of FINCA International, Inc.
JSC Microfinance Organization FINCA Georgia

*Consolidated Financial Statements for the year ended 31 December 2009,
And Independent Auditors' Report*

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საქართველოს აუდიტორული და საკონსულტაციო კომპანია
Georgian Audit & Consulting Company

A Crowe Horwath Business Alliance Associate

INDEPENDENT AUDITOR'S REPORT

To the founders of FINCA Georgia and FINCA International, Inc.

We have audited the accompanying consolidated balance sheet of FINCA Georgia ("The Organization") as of 31 December 2009, and related statement of activities, statement of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Organization as of December 31, 2009 and the results of its operations for the year then ended, in accordance with International Financial Reporting Standards.

*Georgian Audit & Consulting Company (GACC)
A Horwath Business Alliance Associate*

March 26, 2010

GACC



FINCA GEORGIA

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BALANCE SHEET STATEMENT as at December 31, 2009 (in GEL)

Assets	Note	2009	2008
Cash and cash equivalents	2		
Loans to customers	3	13,421,102	5,620,426
Prepaid and other assets	5	27,663,130	28,213,539
Property and equipment	6	584,280	413,412
Intangible assets	6	342,069	454,889
Other receivables	4	179,181	202,120
		712,119	452,410
Total assets		42,901,880	35,356,795
Liabilities			
Trading liabilities	4		
Refundable advances		173,405	176,513
Notes payable	7-8	750,564	343,480
Income tax		29,564,932	20,362,232
Other liabilities	9	361,452	263,379
		1,228,344	1,450,669
Total liabilities		32,078,697	22,596,273
Equity			
Share capital			
Retained earnings		8,032,600	250,000
Total equity		2,790,583	12,510,522
		10,823,183	12,760,522
Total liabilities and equity		42,901,880	35,356,795

On behalf of the Management

Country Director

Chief Accountant

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

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INCOME STATEMENT for the period from January 1, 2008 to December 31, 2009 (in GEL)

	<i>Note</i>	2009	2008
Operating Income			
Income from portfolio	10	10,940,948	10,546,006
Interest from investment	10	325,003	44,320
		11,265,950	10,590,326
Operating Expenses			
Net impairment loss on financial assets		-	-
Financial costs	10	973,218	45,565
Foreign exchange gain/loss		2,292,971	1,600,350
Personnel expenses	11	125,907	(5,652)
Operating expenses	11	4,629,195	4,722,910
Depreciation and amortization	6	3,047,538	3,019,943
Other expenses	11	369,256	313,414
		65,338	563,454
		11,503,423	10,259,984
Profit before Income Tax		(237,473)	330,342
Income tax expense	12	(536,499)	(328)
Non-operating Income			
Grants		-	35,101
Other operating income		6,406	27,408
Non-operating expenses		(1,051,605)	238
Net non-operating income		(1,045,199)	62,747
Profit for the period		(1,819,170)	392,761

On behalf of the Management

Country Director

Chief Accountant

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STATEMENT OF CASH FLOWS for the year ended December 31, 2009 (in GEL)

	2009	2008
Cash flows from operating activities		
Profit for the period before income tax	(237,473)	392,761
Adjustments for non-cash items:		
Depreciation and amortization	369,256	313,414
Loss/gain on disposal of fixed assets	75	-
Impairment on financial assets	180,021	45,565
Changes in deferred tax assets and liabilities	89,025	-
Net interest income	(8,037,731)	-
	<u>(7,636,826)</u>	<u>751,740</u>
Change in loans receivable	370,387	(5,890,857)
Change in other receivables and other assets	(426,841)	(426,485)
Change in trading liabilities	38,781	9,000
Change in deferred income	(63,338)	-
Change in other liabilities	(134,976)	1,438,210
Interest received	8,904,906	-
Interest paid	(2,453,577)	-
Income taxes paid	(292,885)	-
Net cash generated from operating activities	<u>5,942,456</u>	<u>(4,870,132)</u>
Cash flows from investing activities		
Purchase of property and equipment	(169,872)	(213,627)
Purchase of intangible assets	(76,502)	(204,492)
Net cash used in investing activities	<u>(246,373)</u>	<u>(418,120)</u>
Cash flows from financing activities		
Loans received from lenders	16,248,650	-
Repayment of loans and borrowings to lenders	(12,571,654)	-
Proceeds from notes payable	-	6,200,986
Other financing activities	5,619,000	-
Net cash from financing activities	<u>9,295,996</u>	<u>6,200,986</u>
Net increase / (decrease) in cash and cash equivalents	<u>7,355,253</u>	<u>1,664,473</u>
Cash and cash equivalents at the beginning of the year	5,620,426	3,955,953
Effect of exchange-rate changes on cash and cash equivalents	445,422	-
Cash and cash equivalents at the end of the year	<u>13,421,101</u>	<u>5,620,426</u>

On behalf of the Management

Country Director

Chief Accountant

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

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STATEMENT OF CHANGES IN EQUITY FOR the year ended December 31, 2009 (in GEL)

	Share Capital	Retained Earnings	Total Equity
Balance at 31 December 2008	250,000	12,510,523	12,760,523
Total comprehensive income for the year	-	-	-
Dividends (Withdrawal of Capital)	-	(7,827,295)	(7,827,295)
Profit for the period	-	(1,819,170)	(1,819,170)
Issue of share capital	7,782,600	-	7,782,600
Transfer to statutory reserve	-	-	-
Transfer to retained earnings	-	-	-
Currency Translation Adjustment	-	(73,475)	(73,475)
Balance at 31 December 2009	8,032,600	2,790,583	10,823,183

On behalf of the Management
 Country Director

Chief Accountant

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

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NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

GENERAL INFORMATION

FINCA International, Inc. ("FINCA Inc."), a not-for-profit organization, is incorporated in the USA. The purpose of FINCA Inc. is to "Help the poor help themselves". FINCA Inc. believes that world hunger and poverty cannot be cured simply by food handouts and grants but can be permanently affected by self-sufficiency of the poor.

FINCA Inc. provides self-help opportunity by establishing community revolving loan funds, or "village banks", in impoverished communities through affiliated organizations ("affiliates"). The affiliates are typically separate legal entities that enter into affiliate agreements with FINCA Inc. Small loans support in individual or community productive micro enterprises. Participants build self-reliance, and a savings fund that remains within the community as a permanent source of capital for continued investment.

FINCA Georgia (currently functioning in the form of two entities FINCA Georgia branch of FINCA International, Inc. and JSC Microfinance Organization FINCA Georgia) ("the Organization") is the affiliate of FINCA Inc. in Georgia. Through its regional hub headquartered in Kiev, Ukraine ("FINCA HUB"), FINCA Inc. carries out Small Enterprise Technical Assistance and Financing Programs in the Eastern Europe and Central Asia.

According to the legislative changes, FINCA Georgia branch of FINCA International, Inc. has undertaken legal transformation during 2007 and 2008. At the end of 2007 the JSC Microfinance Organization FINCA Georgia was established, and assets and liabilities were gradually transferred from FINCA Georgia branch of FINCA International, Inc. to the new entity during year 2008. The transfer continues in 2009. Consequently the above financial statements represent the consolidated financial position of the two entities as of December 31, 2008 and the results of its operations for the year then ended.

The Organization's mission is to support the economic and human development of Georgian families trapped in severe poverty. This is accomplished through the creation of Credit Groups-association of several individual members who receive the following services: working capital loans to finance self-employment activities and a mutual support system that encourages self-worth and personal development.

The Organization began lending in July 1998. The Organization was registered to comply with statutory regulations on 19 April 1999.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) on the historical cost basis of accounting. The principal accounting policies adopted are set out below.

The Company maintains its accounting records in local currency (Georgian Lari) and in accordance with International Accounting Standards. The application of IAS requires the use of reasonable assumptions and estimates. These estimates and assumptions 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 revenues and expenses of the operating period. Actual results could differ from these estimates.

Cash and cash equivalents

Cash includes cash on premises as well as cash on bank accounts, and short-term, highly liquid investments with original maturities of three month or less.

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Foreign currencies

Transactions denominated in foreign currencies are translated into GEL at the official exchange rate of the National Bank of Georgia on the date of transaction, which approximates the prevailing market rates. Monetary assets and liabilities denominated in foreign currencies are accounted based on historical cost and are translated at the rate of exchange on the balance sheet date. Official exchange rate for the principal currency as of December was (GEL for a unit of foreign currency):

Details of the exchange rates are as follows:

31 December 2009	USD 1 = GEL 1,6858
31 December 2009	EUR 1 = GEL 2,4195
31 December 2008	USD 1 = GEL 1,6670

Fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. Original historical cost of a fixed asset consists of purchase price, non-recoverable taxes and other expenses directly related to putting a fixed asset into use.

Value of liquidated and sold fixed assets and congruent amount of depreciations is written off from account and congruent profit or lose from operation is taken into current year profit lose statement.

Depreciation is charged to the historical cost for all fixed assets using the straight-line method on a monthly basis. Rates for the main fixed asset groups are the following:

Computer equipment	3 year
Vehicles	5 year
Furniture and equipment	5 year
Office equipment	5 year

The organization timely conducted inventory of goods according to the financial and administrative regulations and all fixed assets are marked.

Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is on dispatch from the Company's premises.

Revenue consists of loan interest, fees for loan services (revenue from financial service), penalties and other revenue.

Expenses are recognized on the accrual basis. During the current financial year expenses are divided on program services expenses, general and administrative expenses and indirect cost.

Taxation

The company pays property tax 1% of average annual property cost and profit tax of 15%.

The company has to pay 20% of income tax on salaries.

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Deferred Taxes

Method of recognition - The tax expense for the period is determined on the basis of tax effect accounting, using the liability method. The expected tax effects of current timing differences are determined and reported either as liabilities for taxes payable in the future or as assets representing advance payments of future taxes. Deferred tax balances are adjusted for changes or expected future changes in the tax rate.

Deferred tax asset - The tax effect of timing differences that result in a deferred tax asset is recognized only if there is a reasonable expectation of its realization.

Loans and advances receivables

Loans and advances to customers are stated at the unpaid principal balance less provisions for loan losses. FINCA estimates amounts of possible losses on loans and advances at the statement of financial position date to determine the provisions, and believes they are reasonable, having regard to the risks in lending in our market areas. FINCA recognizes that economic and regulatory conditions may have an impact on the debtors' ability to repay loans.

All delinquent loans are provided for by specific provisions using prescribed percentages depending on overdue days. In determining its specific provision FINCA classifies loans and advances into categories based on aging analysis and applies the following minimum rates:

Overdue days	Prescribed percentages for creation specific provisions
1 - 30 days past due	1 %
31 - 60 days past due	25 %
61-90 days past due	50 %
91-180 days past due	75 %
181 or more days past due	100 %

FINCA also maintains a minimum general provision of 1 % against the current loan portfolio at the end of each month.

Loans are considered overdue if any payment has fallen due and remained unpaid. Loan payments are applied first to any penalty fines due, then to interest due, and then to any instalment of principal that is due but unpaid, beginning with the earliest such instalment. The number of days of lateness is based on the due date of the earliest loan instalment that has not been fully paid. The organization does not convert late or penalty interest into principal.

Financial risk management

Management of risk is fundamental to the microfinance organization and is an essential element of the operations. The main risks inherent to the company's operations are related to credit, liquidity and market changes (interests and foreign exchange rates). Risk management policies of the company are tailored to unpredictable financial market and the main goal of the policy is to reduce impact to the minimal level. Risk management is accomplished by the senior management under the supervision of the Supervisory Board.

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Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. A separate Credit department, reporting to the Credit committee, is responsible for oversight of FINCA Georgia's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit credit Officers. Larger facilities require approval by credit, Head of credit, credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining FINCA Georgia's risk grading in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Risk.

Each business unit is required to implement FINCA Georgia credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Liquidity risk

Liquidity risk is the risk that FINCA Georgia will encounter in meeting obligations from its financial liabilities. FINCA Georgia's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to FINCA Georgia's reputation.

Liquidity risk is managed through careful planning of the loan portfolio expansion and settlement of the arising liabilities, which are matched with the funding pipeline. The Asset-liability Management Committee carries the ultimate responsibility for the liquidity risk management.

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Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect FINCA Georgia's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Currency risk

FINCA Georgia had no significant hedged currency position at the end of the period. FINCA Georgia has an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarizes the exposure to foreign currency exchange rate risk at 31 December 2009. Assets and liabilities are categorized by currency.

Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with FINCA Georgia's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the FINCA Georgia's operations.

FINCA Georgia's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to FINCA Georgia's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall FINCA Georgia standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with FINCA Georgia standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of FINCA Georgia.

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Note 2. Cash and cash equivalents

Cash and cash equivalents at December 31, 2009

<i>In GEL</i>	2009	2008
Cash on hand	12,314	475
Cash in Bank	10,880,088	5,619,951
Pledged as collateral	2,528,700	-
Total:	13,421,102	5,620,426

Note 3. Loans to customers, net

Loans to customers are made within Georgia Tbilisi, Kakheti, Kvemo Kartli, Samegrelo, Achara, Samtskhe Javakheti, Shida Kartli, Kvemo Kartli, Imereti, Zemo Imereti in the cities and in rural areas. Most loans outstanding as of 31 December 2008 were granted to groups of small entrepreneurs, some of them were granted to individuals. The loan life for group loans is standardized and ranges from 3 to 24 month. The principal and interest amounts are payable in equal installments weekly, bi-weekly or monthly depending on loan cycle. The loan life for individual loans ranges from 3 to 36 month.

Loans to individuals are secured principally by guarantors and home appliances. Some loans are secured by inventory or shop premises. Loans to groups are not collateralized or secured.

Loans and advances receivable at December 31, 2009 consist of the following:

	2009	2008
Loans to customers	28,321,957	28,692,344
Less allowances for impairment	(658,827)	(478,805)
	27,663,130	28,213,539

Specific allowances for impairment

Balance at 1 January	478,806	370,166
Impairment loss for the year:		
Charge for the year	961,404	46,079
Amounts written off during the year as uncollectible	(1,074,679)	(308,454)
Income received on claims previously written off	293,296	371,015
Balance at 31 December	658,827	478,806

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The aging of those loans receivables at December 31, 2009 consist of the following:

Normal loans	Portfolio at risk	Amount	provisions %	Provision
Current	96.35%	27,288,197	1%	244,926
1 - 30 days past due	0.69%	194,022	1%	1,566
31 - 60 days past due	0.58%	165,073	25%	38,036
61 - 90 days past due	0.33%	94,671	50%	40,541
91 - 180 days past due	1.07%	301,810	75%	191,134
181 or more days past due	0.21%	59,356	100%	115,064
Subtotal	99.23%	28,103,129		631,267
Rescheduled loan				
Current	1%	218,829	17%	27,560
Subtotal	1%	218,829	17%	27,560
Total	100%	28,321,958		658,827

Note 4. Accounts Receivable and Accounts Payable

Accounts receivable and Accounts Payable at December 31, 2009, consist of the following:

<i>In GEL</i>	2009	2008
Trading assets		
Other receivables:		
Interest	526,442	306,633
Staff advances and loans	-	8,834
Other	185,677	136,943
	712,119	452,410

Brief description of trading assets.

Trading liabilities

Accounts payable and accrued expenses:

Audit fee	10,239	-
Vendors payable	-	15,118
Employee accruals	38,410	130,209
Interest payable	-	77,579
Other A/P	124,757	(46,393)
	173,406	176,513

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Note 5. Prepaid expenses

Prepaid expenses as at December 31, 2009 consist of the following:

<i>In GEL</i>	2009	2008
Prepaid Aff.fee	74,575	
Prepaid insurance	325	411
Deferred tax asset	174,026	329,430
Staff advances and loans	389	29,892
Prepaid taxes	10,880	2,632
Office supply/equipment	101,951	27,433
Prepaid utilities/Rent	121,406	-
Prepaid telephone/internet	185	7,307
Other	100,545	16,307
Total:	584,282	413,412

Note 6. Property and equipment

Property and equipment and accumulated depreciation at December 31, 2009 consist of the following:

<i>In GEL</i>	Leasehold Improvements	IT equipment	Furniture and office equipment	Other	Total
Cost					
Balance at 1 January 2009	146,549	707,314	160,146	15,369	1,029,378
Acquisitions	9,127	98,063	52,399	10,283	169,872
Disposals	-	-	(100)	-	(100)
Exchange difference	-	-	-	-	-
Balance at 31 December 2009	155,676	805,377	212,445	25,652	1,199,150
Depreciation and impairment losses					
Balance at 1 January 2009	104,055	402,691	67,490	253	574,489
Depreciation for the period	37,477	206,309	33,072	5,759	282,617
Impairment loss	-	-	(25)	-	-
Exchange difference	-	-	-	-	-
Balance at 31 December 2009	141,532	609,000	100,537	6,012	857,106
Carrying amounts					
Balance at 31 December 2008	42,494	304,623	92,656	15,116	454,889
Balance at 31 December 2009	14,144	196,377	111,909	19,639	342,069

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Intangible assets at December 31, 2009 consist of the following:

<i>In GEL</i>	2009	2008
Cost		
Balance at 1 January	241,826	2,834
Acquisitions	63,699	238,992
Disposals	-	-
Exchange difference	-	-
Balance at 31 December	305,525	241,826
Amortization and impairment		
Balance at 1 January	39,705	1,757
Amortization for the period	86,639	37,948
Impairment loss	-	-
Exchange difference	-	-
Balance at 31 December	126,344	39,705
Carrying amounts		
Balance at 1 January	202,121	1,077
Balance at 31 December	179,181	202,120

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Note 7. Notes Payable

Notes payable as of 31 December 2009 consist of the following:

<i>In GEL</i>	2009	2008
Inco fin	3,371,600	3,334,000
FINCA Capital Fund LLC	562,214	740,982
FINCA Capital Fund LLC	1,405,536	1,852,454
FINCA Capital Fund LLC	1,630,421	2,148,846
ResponsAbility	2,528,700	5,834,500
Symbiotics (Finethic)	3,034,440	4,167,500
ResponsAbility	3,371,600	-
BlueOrchard Debt	1,685,800	-
Symbiotics (Finethic)	1,685,800	-
BlueOrchard Debt	1,685,800	-
TBC BANK	2,525,850	-
FMO	766,900	1,533,800
Oikocredit	252,870	750,150
	24,507,532	20,362,232

Note 8. Subordinated Debt

	Maturity Date	%	31-Dec-09		
			USD	Ex. Rate	GEL
FINCA Microfinance Fund B.V.	5-May-17	12.63%	3,000,000	1.6858	5,057,400
Total:			3,000,000		5,057,400

In the event of bankruptcy or liquidation of the Organization, repayment of this debt is subordinate to the repayments of the Organization's liabilities to all other creditors.

Note 9. Other Liabilities

Other Liabilities at December 31, 2009 consist of the following:

<i>In GEL</i>	2009	2008
Interest payable	356,556	242,414
Personnel	11,171	-
Tax liability	1,139	-
Payable to HQ (excl grants)	-	544,753
Deferred income	692,131	422,069
Other	167,348	241,433
	1,228,344	1,450,669

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Note 10. Financial costs

Financial Costs at December 31, 2009,

<i>In GEL</i>	2009	2008
Interest from investments		
Loans to customers	10,239,742	9,467,960
Investments	325,003	44,320
Other	701,205	1,078,046
Total interest income	10,564,745	10,590,325
Interest expense		
Notes payable	2,292,971	1,600,350
Total interest expense	2,292,971	1,600,350
Net interest income	8,737,552	8,989,975

Note 11. Expenses

Personnel expenses for the year ended at December 31, 2009

<i>In GEL</i>	2009	2008
Wages and salaries	3,703,356	3,778,328
Compulsory social security obligations	925,839	944,582
Total:	4,629,195	4,722,910

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Operating and Other Expenses

Operating and Other Expenses for the year ended at December 31, 2009

<i>In GEL</i>	2009	2008
Motor vehicle expenses	143,548	254,892
Rent expense	862,252	656,839
Security	129,898	134,899
Communication expense	258,272	229,241
Bank charges	224,308	235,878
Maintenance & repair	5,641	77,178
Consumables	131,817	153,258
Subsistence and travel	132,559	192,750
Accommodation expenses	57,829	58,407
Training and hiring	15,711	1,944
Audit	33,428	25,892
PSO fees (FINCA International)	603,759	839,627
Professional services	153,500	159,138
Total Admin.fee Expense	-	1,238
Advertising and Marketing	17,485	24,773
Meetings and conferences	22,309	41,049
Taxes (SBT)	87,141	441,588
Insurance	97,682	41,245
Other expenses	93,760	13,178
Meetings and conferences	-	350
Miscellaneous	41,977	32
Total:	3,112,876	3,583,396

Note 12. Income tax

Income tax at December 31, 2009

<i>In GEL</i>	2009
Profit before income tax	(514,901)
Income tax using the domestic corporation tax rate	239,582
Non-deductible expenses	33,770
Deferred tax	263,147
Total income tax expense in income statement	536,499

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Note 13. Related Party Transactions

The related parties of the Organization include key management of the Organization, FINCA and other companies of the FINCA group (i.e. FINCA HUB and all affiliates).

Loans and Notes from FINCA Capital Fund LLC and FINCA International, Inc.:

<i>In GEL</i>	Ending balance as of 12/31/2009	Ending balance as of 12/31/2008
FINCA Capital Fund LLC	562,214	740,982
FINCA Capital Fund LLC	1,405,536	1,852,454
FINCA Capital Fund LLC	1,630,421	2,148,846
FINCA Microfinance Fund B.V.	5,057,400	

Affiliation fees:

During the year ended 2009 the customers of the Organization were charged an affiliation fee of 3% of the loan amount upon receipt of new loans.

Management fees: During the year ended 2009 the Organization received management services from FINCA. The amount of such services was 250,126 GEL

	2009	2008
<i>Affiliation fees:</i>		
Affiliation fee payable to HQ	-	242,414
Affiliation fees exp	353,633	374,277
Payable to HQ (excl grants)	(74,575)	544,753
<i>Management fees:</i>		
Management fees(Expenses)	250,126	465,350

Insider loans: The Organization's policy forbids loans to the board members, country director, staff or their families.

Note 14. Fair Value of Financial Instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Company is presented below:

<i>In GEL</i>		12/31/2009	
	Note	Carrying amount	Fair value
12/31/2009			
Cash and cash equivalents		13,421,102	13,421,102
Other receivables		712,119	712,119
Other Assets		584,280	584,280
Loans to customers		27,663,130	27,663,130
		42,380,631	42,380,631

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Trading liabilities		173,405	173,405
Notes payable		29,564,932	29,564,932
Other liabilities	13	1,228,344	2,122,344
		<u>30,966,681</u>	<u>30,966,681</u>

Note 15. Commitments and Contingencies

Within the period from 2005 to 2008 FINCA Georgia the branch of FINCA International, Inc. was transferring management and affiliation fee payments to the Founder's account in aggregate amount equivalent of \$1,573,964. These payments were subject to 10% taxation at source and 18% reverse value added tax in part proportionate to the commercial funding of the Branch. Within the frames of the humanitarian programs funded by the United States such payments were exempt from taxation.

The special commission created at the Branch, provided a conclusion that the above mentioned payments were subject to taxation. As a result an additional tax liability of \$44,155 arose (\$257,102 less the reduction in the income taxes caused by the recognition of the tax deductible expenses for the years from 2005 to 2008 of \$212,947).

It is impossible to reliably estimate amount of tax penalties, which will be imposed with regards to the above transaction by the tax authorities. Presumably the amount of penalties should not exceed the double amount of the principal amount of the additional tax liability. The exact amount will be known in March 2010.

Legal Transformation

Since 2009 according the Tax Code Georgia, Income tax was reduced from 25% to 20%. The Dividend tax reduced from 10% to 5%, and tax from interest income reduced from 10% to 7.5%.

The following changes took effect in the Georgian Tax Code since the year 2008: The social tax was abolished (20%), while personal income tax was increased from 12% to 25%. Income tax was reduced from 20% to 15%.

According to the amendments made in February 25, 2005 in the Civil Code of Georgia the legal status of microfinance organization was defined.

On July 18, 2006 a new Law on Micro Finance Organizations was adopted which allowed organizations operating micro-lending activities to register as microfinance organizations and conduct their activities in compliance with the established law and regulations.

In accordance to the decision of the Executive Committee of the Board of Directors of FINCA International, Inc., FINCA Georgia has undertaken legal transformation effort at the end of year 2007. The objective of this transformation is for the FINCA International's Branch FINCA Georgia to become a legal entity (Joint Stock Company and Micro-Finance Institution regulated by the National Bank of Georgia). The new status will enable JSC MFO FINCA Georgia to implement new product (currency exchange, remittances, utility bill payments, etc.), which was not possible without such transformation, also will contribute to its reputation and credibility at the local market. This decision was partially motivated by the requirement of Law of Georgia on Microfinance, which cannot be directly attributed to FINCA Georgia due to exceptional status of the company. The legal transformation continued in the year 2008. The JSC MFO FINCA Georgia started operations from June 2008. The old entity terminated lending activities, and the loan portfolio is being gradually transferred to the newly established entities, as well as equity and liabilities. The transfer of equity is subject to 10% withholding tax.
