

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

*Consolidated Financial Statements for the year ended 31 December 2008,
and Independent Auditors' Report*

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საქართველოს აუდიტორული და საკონსულტაციო კომპანია
Georgian Audit & Consulting Company

A 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 2008, 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, 2008 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, 2009

GACC



FINCA GEORGIA

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BALANCE SHEET STATEMENT as at December 31, 2008 (in GEL)

	<i>Note</i>	2008	2007
Assets			
Cash and cash equivalents	2	5,620,426	3,955,953
Loans to customers	3	28,213,539	22,368,247
Other receivables	4	452,410	312,005
Property and equipment	6	468,121	552,303
Intangible assets	6	188,887	-
Prepaid and other assets	5	413,412	127,333
Total assets		35,356,795	27,315,841
Liabilities			
Trading liabilities	4	176,513	167,513
Refundable advances		343,480	-
Notes payable	7	20,362,232	14,161,246
Income tax		263,379	(17,761)
Other liabilities	8	1,450,669	637,078
Total liabilities		22,596,273	14,948,077
Equity			
Share capital		250,000	250,000
Retained earnings		1,234,756	841,996
Donated Equity		11,275,767	11,275,767
Total equity		12,760,524	12,367,763
Total liabilities and equity		35,356,796	27,315,841

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, 2008 (in GEL)

	<i>Note</i>	2008	2007*
Operating Income			
Income from portfolio	10	9,368,405	7,287,799
Interest from investment	10	44,319	194,916
Penalty fees	10	526,871	411,741
Commission fees	10	650,731	683,766
		10,590,326	8,578,221
Operating Expenses			
Net impairment loss on financial assets	11	45,565	273,488
Financial costs	9	1,600,350	1,120,331
Foreign exchange gain/loss		(5,652)	100,515
Personnel expenses	11	4,722,910	3,439,707
Operating expenses	11	3,019,943	2,800,420
Depreciation and amortization	6	313,415	158,954
Other expenses	11	563,454	364,510
		10,259,984	8,257,924
Profit before Income Tax		330,341	320,297
Income tax expense	12	328	239,673
Non-operating Income			
Grants		35,101	-
Donations			-
Other operating income		27,408	28,935
Non-operating expenses		238	13,949
Net non-operating income		62,747	14,986
Profit for the period		392,761	95,610

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 CASH FLOWS For the year ended December 31, 2008 (in GEL)

	Note	2008	2007
Cash flows from operating activities			
Profit for the period		392,761	95,610
Adjustments for:		-	-
Depreciation and amortization		313,415	158,954
Impairment on financial assets		45,565	273,488
		<u>751,740</u>	<u>528,052</u>
<i>Change in working capital:</i>			
Change in loans receivable		(5,890,857)	(7,884,619)
Change in other receivables and other assets		(140,405)	(133,129)
Change in Prepaid and other assets		(286,080)	-
Change in trading liabilities		9,000	-
Change in refundable advances		343,480	-
Change in other liabilities		1,094,730	(115,401)
		<u>(4,870,132)</u>	<u>(8,133,149)</u>
Net cash used in operating activities		<u>(4,118,392)</u>	<u>(7,605,097)</u>
Cash flows from investing activities			
Purchase of property and equipment		(418,120)	(378,810)
Proceeds from sales/disposal of fixed assets		-	-
Net cash used in investing activities		<u>(418,120)</u>	<u>(378,810)</u>
Cash flows from financing activities			
Net notes payable		6,200,986	3,297,222
Change in Share capital		-	250,000
Net cash from financing activities		<u>6,200,986</u>	<u>3,547,222</u>
Net increase / (decrease) in cash and cash equivalents		1,664,474	(4,436,685)
Cash and cash equivalents at 1 January		3,955,953	8,392,638
Cash and cash equivalents at December 31		<u>5,620,426</u>	<u>3,955,953</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, 2008 (in GEL)

	Notes	Share capital	Retained earnings	Retained earnings opening balance adjustments	Currency translation	Total equity
Balance at 31 December 2007	13	250,000	11,982,563	135,200	-	12,367,763
Foreign currency translation differences		-	-	-	-	-
Profit for the period		-	392,761	-	-	392,761
Balance at 31 December 2008		250,000	12,375,324	135,200	-	12,760,524


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 2008	USD 1 = GEL 1,6670
31 December 2008	EUR 1 = GEL 2,3648
31 December 2007	USD 1 = GEL 1.5916

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 25% 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.

Management of credit risk

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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 gradings in order to categorise 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.

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 optimising the return on risk.

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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 2008. 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.

Note 2. Cash and cash equivalents

Cash and cash equivalents at December 31, 2008

<i>In GEL</i>	2008	2007
Cash on Hand	475	239
Cash on Bank	5,619,951	3,955,714
	5,620,426	3,955,953

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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 12 to 48 weeks. 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 17 to 104 weeks.

Loans to individuals are secured principally by cars, equipment 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, 2008 consist of the following:

<i>In GEL</i>	2008	2007
Loans to customers	28,692,345	22,738,414
Less specific allowances for impairment	(478,805)	(370,166)
	28,213,539	22,368,247
Specific allowances for impairment		
Balance at 1 January	370,166	565,195
Impairment loss for the year:		
Charge for the year	166,372	(195,028)
Effect of discounting	(57,732)	-
Balance at 31 December	478,805	370,166

The aging of those loans receivables at December 31, 2008 consist of the following:

Normal loans	Portfolio at risk	Amount	% for creation specific provisions	Provision
Current	97.06%	27,848,989	1%	(279,700)
1 - 7 days past due	0.33%	93,728	1%	(937)
8 - 30 days past due	0.88%	253,598	1%	(2,535)
31 - 60 days past due	0.37%	107,189	25%	(26,797)
61 - 90 days past due	0.39%	113,100	50%	(56,550)
91 - 180 days past due	0.45%	130,166	75%	(110,827)
181 or more days past due	0.00%	-	100%	-
Subtotal	99.49%	28,546,770		(477,349)
Rescheduled loan				
Current	0.51%	145,574	1%	(1,456)
Subtotal	0.51%	145,574	1%	(1,456)
Total	100%	28,692,344		(478,805)

The change in the loan loss provision for the year ended December 31, 2008, consists of the following:

<i>In GEL</i>	Loan Portfolio Provision
Balance at 1 January 2008	370,166
Provisions made during the year	467,112
Provisions reversed during the year	(243,008)

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Balance at 31 December 2008**478,805****Note 4. Accounts Receivable and Accounts Payable**

Accounts receivable and Accounts Payable at December 31, 2008, consist of the following:

<i>In GEL</i>	2008	2007
Trading assets		
Other receivables:		
Interest	306,633	299,264
Staff advances and loans	8,834	-
Other	136,943	12,741
	452,410	312,005

*Brief description of trading assets.***Trading liabilities**

Accounts payable and accrued expenses:

Vendors payable	15,118	59,235
Employee accruals	130,209	104,411
Interest payable	77,579	3,868
Taxes payable	(46,393)	
	176,513	167,513

Note 5. Prepaid expenses

Prepaid expenses as at December 31, 2008 consist of the following:

<i>In GEL</i>	2008	2007
Prepaid insurance	411	-
Prepaid Rent	29,892	27,057
Other Prepaid expenses	16,307	33,898
Deferred tax assets	329,430	66,378
Deferred expenses	27,433	-
Prepaid internet	7,307	-
Advance payments	2,632	-
	413,412	127,333

Note 6. Property and equipment

Property and equipment and accumulated depreciation at December 31, 2008 consist of the following:

<i>In GEL</i>	Improvements	equipment	office equipment	Total
Cost				
Balance at 1 January 2007	77,371	262,366	58,595	398,331
Acquisitions	53,830	432,041	30,960	516,831
Disposals	(31,889)	(29,472)	(718)	(62,079)
Balance at 31 December 2007	99,311	664,935	88,837	853,083
Balance at 1 January 2008	99,311	664,935	88,837	853,083

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Acquisitions	47,238	66,909	86,678	200,825
Disposals	-	-	-	-
Balance at 31 December 2008	146,549	731,845	175,515	1,053,908

Depreciation and impairment losses

Balance at 1 January 2007	36,941	114,732	27,075	178,748
Depreciation for the period	11,493	96,519	14,020	122,033
Impairment loss	-	-	-	-
Balance at 31 December 2007	48,434	211,251	41,095	300,781

Balance at 1 January 2008	48,434	211,251	41,095	300,781
Depreciation for the period	55,621	202,737	26,648	285,006
Impairment loss	-	-	-	-
Balance at 31 December 2008	104,055	413,989	67,743	585,787

Carrying amounts

Balance at 1 January 2007	43,528	158,941	33,934	236,403
Balance at 31 December 2007	50,877	453,684	47,742	552,303
Balance at 31 December 2008	42,493	317,856	107,772	468,121

**Purchased software
2008***In GEL***Cost**

Balance at 1 January	-
Acquisitions	217,295
Balance at 31 December	217,295

Amortization and impairment

Balance at 1 January	-
Amortization for the period	28,409
Impairment loss	-
Balance at 31 December	28,409

Carrying amounts

Balance at 1 January	-
Balance at 31 December	188,887

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Note 7. Notes Payable

Notes payable as of 31 December 2008 consist of the following:

	Beginning balance	Loans received	Loans repaid	Ending balance as of 12/31/2008
<i>In GEL</i>				
Respons.Ability	3,334,000	2,750,550	250,050	5,834,500
Oikocredit	1,253,525		503,375	750,150
FMO	2,300,700		766,900	1,533,800
KFW	5,334,400		5,334,400	-
Symbiotic	2,500,500	3,334,000	1,667,000	4,167,500
Incofin	-	3,334,000	-	3,334,000
Finca Capital Fund LLC	-	833,500	92,519	740,982
Finca Capital Fund LLC	-	2,083,750	231,296	1,852,454
Finca Capital Fund LLC	-	2,417,150	268,304	2,148,846
	14,723,125	14,752,950	9,113,844	20,362,232

Note 8. Other Liabilities

Other Liabilities at December 31, 2008 consist of the following:

<i>In GEL</i>	2008	2007
Other	241,433	55,256
Affiliation fee payable to HQ	242,414	112,264
Payable to HQ (excl grants)	544,753	-
Deferred income	422,069	469,559
	1,450,669	637,078

Note 9. Financial costs

Financial Costs at December 31, 2008,

<i>In GEL</i>	2008	2007
Interest from investments		
Loans to customers	9,368,405	7,287,799
Investments	44,319	194,916
Total interest income	9,412,724	7,482,715
Interest expense		
Notes payable	1,600,350	1,120,331
Total interest expense	1,600,350	1,120,331
Net interest income	7,812,374	6,362,384

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Note 10. Operating Income

<i>In GEL</i>	2008	2007
Income from portfolio	9,368,405	7,287,799
Interest from investment	44,319	194,916
Penalty fee	526,871	411,741
Commission fee	650,731	683,766
	10,590,326	8,578,221

Note 11. Operating and Other Expenses

Operating and Other Expenses for the year ended at December 31, 2008

<i>In GEL</i>	2008	2007
Salaries & benefits	4,722,910	3,439,707
Motor vehicle expenses	254,892	235,483
Rent expense	656,839	571,653
Security	134,899	152,649
Communication expense	229,241	221,542
Bank charges	235,878	207,969
Maintenance & repair	77,178	14,907
Consumables	153,258	147,969
Subsistence and travel	192,750	126,874
Accommodation expenses	58,407	41,695
Depreciation	313,415	158,954
Training and hiring	1,944	840
Audit	25,892	32,643
PSO fees (FINCA International)	839,627	859,954
Professional services	159,138	185,007
	8,056,268	6,397,846

Other Expenses

<i>In GEL</i>	2008	2007
Loan Reserve	45,565	273,488
Total Admin. fee Expense	1,238	-
Advertising and Marketing	24,773	41,415
Meetings and conferences	41,049	1,234
Taxes (SBT)	441,588	268,515
Insurance	41,245	43,184
Other expenses	13,178	11,399
Meetings and conferences	350	-
Miscellaneous	32	-
	609,018	639,235

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Note 12. Income tax

Income tax at December 31, 2008

<i>In GEL</i>	2008	2007
Deferred tax expense		
Origination and reversal of temporary differences	260,959	464,399
Reduction in tax rate	(258,778)	(1,133,422)
	<u>2,182</u>	<u>(400,541)</u>
Total income tax expense	<u>328</u>	<u>239,673</u>

Note 13. Prior Years Adjustments

According to the IFRS requirements, the Finca Georgia reported an adjustment to the retained earnings for 2007 associated with the accounting error related to the application of IAS 18 "Revenue" and IAS 39 "Financial Instruments" and use of the effective interest method.

Management has adjusted its financial statements as summarized in the table below:

Adjustments 2007	Dr.	Cr.
Recalculation of Administrative fees balances using the effective interest method (estimated)		(469,559)
	Deferred income	
	Retained earnings	135,200
	Exchange Rate Differences	334,359
	Total:	<u>469,559</u>
		<u>(469,559)</u>

Noted adjustment is correction of opening balance of previous years which is a cause of recalculation Administrative fees.

Note 14. 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>InGEL</i>	Beginning balance	Loans received	Loans repaid	Ending balance as of 12/31/2008
Finca Capital Fund LLC	-	833,500	92,519	740,982
Finca Capital Fund LLC	-	2,083,750	231,296	1,852,454
Finca Capital Fund LLC	-	2,417,150	268,304	2,148,846

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Affiliation fees:

During the year ended 2008 the customers of the Organization were charged an affiliation fee of 1-3% of the loan amount upon receipt of new loans.

Management fees: During the year ended 2008 the Organization received management services from FINCA. The amount of such services was 465,350 GEL

Affiliation fees:

Affiliation fee payable to HQ	242,414
Affiliation fees exp	374,277
Payable to HQ (excl grants)	544,753

Management fees:

Management fees	465,350
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Insider loans: The Organization's policy forbids loans to the board members, country director, staff or their families.

Note 15. 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:

	31 December 2008		31 December 2007	
	Current amount (GEL)	Fair value (GEL)	Current amount (GEL)	Fair value (GEL)
Cash	475	475	239	239
Due from banks	5,619,951	5,619,951	3,705,714	3,705,714
Borrowings	20,362,232	20,362,232	14,161,246	14,161,246

The fair value of loans to customers can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

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Note 16. Commitments and Contingencies

Legal Transformation

Since 2009 according to 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 can not 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.

New Software Implementation

In 2008 successful implementation of the new business management software has been completed, which has been started in the last two quarters of 2007. The software enables higher level of internal control and improved analytical capability, also flexible support for the new product development.
