FINCA GEORGIA

Independent Auditors' Report

Financial Statements
For The Years Ended 31 August 2004
and 2003

FINCA GEORGIA

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INDEPENDENT AUDITORS' REPORT

To the Founders of FINCA Georgia and FINCA International, Inc.:

We have audited the accompanying statements of financial position of FINCA Georgia (the "Organization") as of 31 August 2004 and 2003, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 from 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of FINCA Georgia as of 31 August 2004 and 2003, and the results of its activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

21 December 2004

FINCA GEORGIA

STATEMENTS OF FINANCIAL POSITION
AS AT 31 AUGUST 2004 and 2003
(in US Dollars)

	Notes	2004	2003
ASSETS			
CURRENT ASSETS:			
Unrestricted cash	3	501,545	591,877
Short-term bank deposit		200,000	-
Loans to customers, net	5	2,617,326	1,566,281
Grant support receivable	4	456,536	-
Prepaid expenses and other assets		61,610	26,701
Total current assets		3,837,017	2,184,859
NON-CURRENT ASSETS:			
Property, plant and equipment, net	7	11,589	12,716
TOTAL ASSETS		3,848,606	2,197,575
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accrued expenses and other payables	8	329,507	78,196
Unearned grant support	4	-	60,000
Customers' deposits		196,119	147,860
Income tax payable	9	79,701	57,536
Deferred income tax liability	9	2,260	22,890
Total current liabilities		607,587	366,482
TOTAL LIABILITIES		607,587	366,482
NET ASSETS:			
Unrestricted		3,241,019	1,831,093
Total net assets		3,241,019	1,831,093
TOTAL LIABILITIES AND NET ASSETS		3,848,606	2,197,575

On behalf of the Management

Country Director **Chief Accountant**

The notes on pages 6 to 13 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 1.

FINCA GEORGIA

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED 31 AUGUST 2004 and 2003
(in US Dollars)

	Notes	2004	2003
CHANGES IN UNRESTRICTED NET ASSETS:			
REVENUES:			
Interest income		1,369,216	1,117,574
Foreign exchange gain		292,695	40,069
Affiliation fee income	4	74,575	59,660
Other income		5,891	16,977
Total revenues		1,742,377	1,234,280
NET ASSETS RELEASED FROM RESTRICTIONS:			
Satisfaction of program restrictions	4	1,131,141	331,797
Total net assets released from restrictions		1,131,141	331,797
Total unrestricted revenues and other support		2,873,518	1,566,077
EXPENSES:			
Program services (direct)		(262,102)	(224,093)
General and administrative (indirect)		(1,201,490)	(982,752)
Total expenses		(1,463,592)	(1,206,845)
Increase in unrestricted net assets		1,409,926	359,232
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:			
Contributions	4	1,131,141	331,797
Net assets released from restrictions:			
Satisfaction of program restrictions	4	(1,131,141)	(331,797)
Change in temporarily restricted net assets		-	-
CHANGE IN NET ASSETS		1,409,926	359,232
NET ASSETS, BEGINNING OF YEAR		1,831,093	1,471,861
NET ASSETS, END OF YEAR		3,241,019	1,831,093

On behalf of the Management

Country Director **Chief Accountant**

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FINCA GEORGIA

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED 31 AUGUST 2004 and 2003
(in US Dollars)

	Notes	2004	2003
DIRECT:			
Loan officers' salaries		132,861	116,073
Provision for loan losses	6	86,327	17,124
Employee benefits		42,914	90,896
Total direct expenses		262,102	224,093
INDIRECT:			
Administrative salaries		255,245	202,513
Payroll taxes		224,559	154,994
Affiliation fees to FINCA Inc.	4	149,150	100,211
Professional services		143,621	59,137
Income tax expense	9	99,758	104,170
Management fees to FINCA Inc.	4	89,835	112,576
Rent		75,212	63,358
Travel and per diem		46,163	49,708
Bank charges		39,567	21,788
Office supplies		16,733	12,623
Communications		15,373	13,626
Other taxes		13,969	29,102
Depreciation		9,743	15,147
Maintenance		3,801	7,407
Training		18	4,834
Administrative services fees to FINCA HUB	4	-	12,789
Miscellaneous		18,743	18,769
Total indirect expenses		1,201,490	982,752
TOTAL EXPENSES		1,463,592	1,206,845

On behalf of the Management

Country Director **Chief Accountant**

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FINCA GEORGIA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 AUGUST 2004 and 2003
(in US Dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	1,409,926	359,232
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	9,743	15,147
Provision for loan losses	86,327	17,124
Loss on disposal of property, plant and equipment	192	418
Property, plant and equipment received as donation	-	(3,035)
(Increase) in short-term bank deposit	(200,000)	-
(Increase) in loans	(1,137,372)	(531,878)
Increase in grant support receivable	(456,536)	-
(Increase)/decrease in prepaid expenses and other assets	(34,909)	2,414
Increase/(decrease) in accrued expenses and other payables	251,311	(130,169)
(Decrease) in unearned grant support	(60,000)	(331,797)
Increase in customers' deposits	48,259	76,493
Increase in income tax payable	22,165	57,536
(Decrease)/increase in deferred tax liability	(20,630)	22,890
Cash flows (used in) operating activities	(81,524)	(445,625)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in deposit with FINCA Inc.	-	639,763
Purchases of property, plant and equipment	(10,184)	(4,338)
Sales of property, plant and equipment	1,376	906
Cash flows (used in)/provided by investing activities	(8,808)	636,331
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(90,332)	190,706
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	591,877	401,171
CASH AND CASH EQUIVALENTS, END OF THE YEAR	501,545	591,877
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for income tax	98,223	23,744

On behalf of the Management

Country Director **Chief Accountant**

The notes on pages 6 to 13 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 1.

1. BACKGROUND

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-help and 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 investment in individual or community productive micro enterprises. Participants build self-reliance, self-esteem, and a savings fund that remains within the community as a permanent source of capital for continued investment.

FINCA Georgia ("the Organization") is the affiliate of FINCA Inc. in Georgia. Through its regional hub headquartered in Moscow, Russia ("FINCA HUB"), FINCA Inc. carries out Small Enterprise Technical Assistance and Financing Programs in the Eastern Europe and Central Asia.

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 Savings and Credit Groups – associations 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements have been prepared, in all material respects, in accordance with accounting principles that are generally accepted in the United States of America ("US GAAP") under the historical cost convention.

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 amount 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 during the reporting period. Actual results could differ from those estimates.

Grants and Grant Support – Under the Grant Agreement with Shorebank Advisory Services, Inc (SAS) and the Grant Agreement with the Government of the United States of America, acting through the Commodity Credit Corporation ("CCC"), FINCA Inc. advances donated funds to the Organization. The Organization records each advance as unearned grant support when received. When an allowable expenditure or a disbursement of a new loan to a borrower is made, the corresponding amount is debited to unearned grant support and recognized as grant revenue.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, cash in bank, and short-term, highly liquid investments with original maturities of three months or less.

Loans to Customers – Loans are stated at the outstanding principal balance less specific and general provisions for loan losses. The Organization estimates provisions for loan losses every month to maintain an adequate allowance for doubtful loans.

The allowance for loan losses is determined by applying specific percentages to aged loans, grouped by lateness of payments. As of 31 August 2004 and 2003, the percentages were as follows:

Current	2%
1-30 days late	10%
31-60 days late	25%
61-90 days late	50%
91-180 days late	75%
more than 180 days late	100%

On a monthly basis the Organization reviews all late loans and writes off, on a case-by-case basis, those that have no realistic prospects of recovery. All loans which are late for more than 180 days are usually written off on a monthly basis. Write-offs are taken out of the outstanding loan portfolio and deducted from the allowance for loan loss.

Property, Plant and Equipment – Property, plant and equipment is carried at cost less accumulated depreciation. Depreciation begins in the month following the month of purchase and is calculated using the straight-line method over the following estimated useful lives:

Leasehold improvements	Term of lease
Computer equipment and software	3 years
Office furniture	5 years
Vehicles	5 years
Office equipment	5 years

When assets are retired, or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the Statement of Activities. The cost of maintenance and repairs is charged to the Statement of Activities as incurred. Significant renewals and betterments that extend the assets' estimated useful lives are capitalized.

Grant Contributions Unrestricted and Temporarily Restricted – The Organization received temporarily restricted contributions from CCC to cover its eligible operating expenditures and recognized these contributions as revenue as the related expenditures were incurred.

The Organization also received temporarily restricted contributions from SAS and CCC to lend those funds to its customers. The funds remained temporarily restricted until they were lent to the customers who were eligible borrowers under SAS or CCC grant agreement, at which time the funds are considered to be released from temporary restrictions and are recognized as a part of net increase in unrestricted net assets in the statement of activities.

Income and Expenses Recognition – Income and expenses are recognized on the accrual basis.

Translation of Foreign Currency – The reporting currency is US dollar ("USD"). The books and records of the Organization are maintained in USD, although a significant volume of operations (e.g., loan granting and repayments, receipt of interest, payment of operating expenses) are processed in Georgian Lari ("GEL").

The translation of the results of transactions denominated in GEL is made in accordance with SFAS 52 "Foreign Currency Translation". Exchange rates used are official rates of the National Bank of Georgia, which approximate the market rates. The monthly average USD/GEL exchange rates are used for translation of revenues and expenses, historical USD/GEL exchange rates are used for translation of the purchased non-monetary assets and period end rates are used for translation of monetary assets and liabilities outstanding at the period end. Gains and losses originated on such translation are included in the Statement of Activities.

The exchange rates as of 31 August 2004 and 2003 were GEL 1.785 and GEL 2.1125 to USD 1, respectively. The average GEL/USD exchange rates for the years ended 31 August 2004 and 2003 were 2.035 and 2.159, respectively.

The translation of GEL denominated assets and liabilities into USD as of 31 August 2004 and 2003 does not indicate that the Organization could realize, or settle in USD, the translated value of these assets and liabilities.

Property, Plant and Equipment received as donations – Such gifts are reported as unrestricted support in the absence of donor-imposed restrictions on the use of the assets.

Change in the manner of presenting of comparative figures – The statements of activities were expanded in order to disclose more detailed information to the users of the Organization's financial statements, payroll-related taxes payable by employees were added to the salaries and benefits amounts in the prior year statement of functional expenses so that employees' remuneration is shown gross rather than net in both years, and certain amounts in the prior year statement of functional expenses were reclassified for enhanced comparability with current year figures.

3. CASH AND CASH EQUIVALENTS

	2004	**2003**
Cash on hand	553	2,073
Cash in banks	500,992	589,804
Cash and cash equivalents	**501,545**	**591,877**

4. RELATED PARTY TRANSACTIONS

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

During 2004 the Organization received grant support from CCC through FINCA Inc. Total revenue derived from this grant support received to cover eligible current expenditures was USD 151,380. There was no grant for current expenditures during 2003. During 2004 and 2003 the Organization received temporarily restricted contributions from CCC and SAS to lend those funds to its customers in the amounts of USD 979,761 and USD 331,797 respectively. All those contributions were released from the temporary restrictions and recognized as revenue during 2004 and 2003.

Unearned grant support was USD nil and USD 60,000 as of 31 August 2004 and 2003 respectively. As of 31 August 2004 and 2003 the Organization had grant support earned but not received from FINCA Inc. of USD 456,536 and USD nil respectively.

During 2004 and 2003 the customers of the Organization were charged an affiliation fee of 1% of the loan amount upon receipt of new loans. During 2004 and 2003 the Organization received affiliation fees from its customers on behalf of FINCA Inc. in the amounts of USD 74,575 and USD 59,660, respectively. During 2004 and 2003 the Organization was charged an affiliation fee by FINCA Inc. in the amounts of USD 149,150 and USD 100,211, respectively. The affiliation fee is calculated as a percentage (currently 2%) of the Organization's loan disbursements.

During 2003 the Organization received administrative services from FINCA Inc. through FINCA HUB. The amount of such services was USD 12,789. During 2004 and 2003 the Organization received management services from FINCA Inc. The amounts of such services were USD 89,835 and USD 112,576 respectively. During 2003 the Organization earned interest income on its funds deposited with FINCA Inc. in the amount of USD 2,555.

As of 31 August 2004 and 2003 the Organization had liabilities for affiliation fees payable to FINCA Inc. for USD 104,951 and USD 3,253 respectively. As of 31 August 2004 and 2003 the Organization had other liabilities to FINCA Inc. (for management fee payable to FINCA Inc. and for expenses paid by FINCA Inc. on behalf of the Organization) in the amounts of USD 54,472 and USD 22,229 respectively.

Settlements between the Organization and FINCA Inc. are normally made in the manner of decreases and increases of the amount of funds held by the Organization with FINCA Inc. (although sometimes direct wire transfers of funds via banks are used) and on the terms agreed with FINCA Inc. (currently settlements are made on a monthly basis).

5. LOANS TO CUSTOMERS, NET

Loans to customers are made within Georgia, in the cities of Tbilisi, Telavi, Tsnori, Marneuli and in rural areas. Most loans outstanding as of 31 August 2004 and 2003 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 16 to 52 weeks. The principal and interest amounts for group loans are redeemable weekly, bi-weekly or monthly by equal installments. Interest on group loans is charged on the basis of the original principal amount granted irrespective of repayment of the principal amount. The loan life for individual loans ranges from 16 to 104 weeks. The principal and interest amounts for individual loans are redeemable weekly, bi-weekly or monthly. Interest on individual loans is normally charged on the remaining principal amount, i.e. on declining basis.

	2004	**2003**
Loans to customers	2,761,607	1,622,581
Provision for loan losses (Note 6)	(144,281)	(56,300)
Loans to customers, net	**2,617,326**	**1,566,281**

Ageing analysis of the loans is as follows:

	2004	**2003**
Current and overdue less than one month	2,653,739	1,582,058
Overdue for 1-3 months	27,730	21,185
Overdue for 3-6 months	17,519	19,338
Overdue more than 6 months	62,619	-
Loans to customers	**2,761,607**	**1,622,581**

6. PROVISION FOR LOAN LOSSES

The movements in the provision for loans to customers are as follows:

31 August 2002	**54,674**
Additional provision	17,124
Write-off against provision	(16,329)
Recovery of written-off amounts	831
31 August 2003	**56,300**
Additional provision	86,327
Foreign exchange loss on revaluation of provision	13,433
Write-off against provision	(15,902)
Recovery of written-off amounts	4,123
31 August 2004	**144,281**

The provision for loans to customers is deducted from the related asset.

7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consisted of the following as of 31 August 2004 and 2003:

	2004	2003
Computer equipment	60,676	57,123
Office furniture	10,701	10,701
Leasehold improvements	7,875	4,172
Computer software	1,679	779
Office equipment	1,578	1,578
Vehicles	-	3,906
Total	**82,509**	**78,259**
Less: Accumulated depreciation	(70,920)	(65,543)
Property, plant and equipment, net	**11,589**	**12,716**

8. ACCRUED EXPENSES AND OTHER PAYABLES

	2004	2003
Provision for social security payable and related fines	138,961	-
Accrued affiliation fee payable to FINCA Inc. (Note 4)	104,951	3,253
Other payables to FINCA Inc. (Note 4)	54,472	22,229
Salaries and bonuses payable	10,636	7,520
Audit fee payable	9,600	16,000
Provision for legal costs	6,970	-
Other taxes payable	3,477	7,274
Social security payable	359	20,674
Other	81	1,246
Accrued expenses and other payables	**329,507**	**78,196**

9. INCOME TAX

Starting from 1 October 2002 the Organization's economic activity on the territory of Georgia became subject to taxation. Income tax liability of USD 79,701 represents the accrual of income tax and assessed related penalties as per current Georgian legislation as at 31 August 2004. Income tax liability of USD 57,536 represents the most probable estimation of the income tax payable as a result of economic activity during the year ended 31 August 2003 (less amounts of income tax already paid for this accounting period) made by the Organization's management based on all applicable revenues and expenses and currently enacted statutory rate of corporate income tax of 20%.

Deferred income tax liabilities of USD 2,260 and USD 22,890 respectively were calculated on the basis of temporary taxable and deductible differences between the Organization's assets and liabilities as per US GAAP and those as per Georgian statutory accounting, which existed as at 31 August 2004 and 2003. Significant temporary differences arise on interest receivable and some other items.

The difference between currently enacted statutory income tax rate and effective income tax rate as per the Organization's US GAAP financial statements is explained by existence of non-deductible differences, such as amounts payable to FINCA Inc., which the management classified as permanent.

Deferred income tax liability is calculated as follows:

	2004	**2003**
Total deferred income tax assets	12,986	11,607
Total deferred income tax liabilities	(15,246)	(34,497)
Deferred income tax liability	**(2,260)**	**(22,890)**

Income tax expense comprises the following:

	2004	**2003**
Current income tax expense	97,498	81,280
Deferred income tax expense	2,260	22,890
Income tax expense	**99,758**	**104,170**

10. COMMITMENTS AND CONTINGENCIES

Operating Environment – Over recent years, Georgia has undergone substantial political and economic changes. As an emerging market, Georgia does not possess a well-developed commercial infrastructure, which generally exists in more mature business markets. Laws and regulations affecting businesses operating within the country, as well as throughout the Commonwealth of Independent States ("CIS"), are subject to rapid change. In addition, continued economic stability is dependent to a large extent on the effectiveness of fiscal measures taken by the government, decisions of international lending organizations, and other actions beyond the Organization's control.

Although recently there have been positive economic signs in Georgia, the long-term prospects for the Georgian economy remain uncertain. As a result, the Organization's assets and operations could be at risk if there are any adverse changes in the political and business environment.

Taxation and Other Statutory Regulations – The Organization had been exempt of income tax, value added tax and other major taxes until 1 October 2002, when all of the tax privileges ceased and the Organization started paying these taxes.

Georgian tax authorities are increasingly directing their attention to the business community as a result of the overall economic environment. In respect of this, the local and national tax environments in Georgia are constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Georgian laws and regulations can lead to the imposition of severe penalties and interest. Future tax examinations could assess additional taxes, penalties and interest, and these amounts could be material.

The Organization believes it has complied with all applicable regulations and requirements. However, since the regulations are not always clearly written, it is difficult to predict future interpretations by regulatory authorities, and outcomes of such interpretations. The management of the Organization considers the probability of any future sanctions being undertaken by local authorities against the Organization remote, and believes that no fines or penalties will become payable.

Lease Obligations – As at 31 August 2004 the Organization had outstanding commitments under operating leases. Most of the lease agreements were made for the periods of 3-12 months (excluding the lease agreement for the main office in Tbilisi, which was made for 9 months). There are no specific lease renewal clauses - as old leases expire new lease agreements are made.

Future minimum lease payments under these contracts in effect as at 31 August 2004 are as follows:

Year ending 31 August 2005	35,847

11. PENSIONS AND RETIREMENT PLANS

The employees of the Organization received benefits from the Georgian government in accordance with the laws and regulations of Georgia. As at 31 August 2004 and 2003 the Organization was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.