

# **FINCA AZERBAIJAN**

**Independent Auditor's Report**

**Financial Statements for the year ended 31 December 2006  
Prepared under IFRS**

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# RSM Top-Audit

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13.03.2007, № 61-473

## Independent Auditor's Report

To the Founders of FINCA Azerbaijan and the Board of Directors FINCA International, Inc. USA:

### Report on the Financial Statements

We have audited the accompanying financial statements of FINCA Azerbaijan (the «Organization»), which comprise the balance sheet as at December 31, 2006, and the statement of activities, functional expenses, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility include: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the 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.

#### *Auditor's Responsibility*

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.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Organization as of December 31, 2006, and of its performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



FINCA Azerbaijan  
 Balance Sheet as at December 31, 2006  
 (in US Dollars)

	Notes	December 31, 2006	December 31, 2005
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	2	1,908,900	1,761,188
Loans to customers, net	3	18,728,317	10,283,890
Accounts receivable	4	300,130	182,411
Grants support receivable	5	-	128,466
Prepaid expenses		63,096	30,661
<b>Total Current Assets</b>		<b>21,000,443</b>	<b>12,386,616</b>
<b>Non-current assets</b>			
Net property and equipment, net	6	212,611	39,992
Deferred profit tax assets	12	291,402	290,061
<b>Total Non-current Assets</b>		<b>504,013</b>	<b>330,053</b>
<b>Total Assets</b>		<b>21,504,456</b>	<b>12,716,669</b>
<b>EQUITY AND LIABILITY</b>			
<b>Current Liabilities</b>			
Short-term notes payable	7	1,396,570	2,076,589
Fees payable to FINCA International Inc.	13	271,838	631,192
Accounts payable & accruals	8	227,418	122,160
Taxes payable	9	362,310	125,420
Interest payable	10	273,518	100,877
<b>Total Current Liabilities</b>		<b>2,531,654</b>	<b>3,056,238</b>
<b>Non-current liabilities</b>			
Long-term notes payable	7	11,451,857	3,786,311
Deferred profit tax liabilities	12	130,760	367,131
<b>Total Non-current Liabilities</b>		<b>11,582,617</b>	<b>4,153,442</b>
<b>Total Liabilities</b>		<b>14,121,271</b>	<b>7,209,681</b>
<b>Equity</b>			
Share capital		5,000	5,000
Retained Earnings		7,385,185	5,501,988
<b>Total Equity</b>		<b>7,390,185</b>	<b>5,506,988</b>
<b>Total Equity and Liabilities</b>		<b>21,504,456</b>	<b>12,716,669</b>

On behalf of the Management

  
 Country Director

  
 Chief Accountant

See Notes to Financial Statements.

FINCA Azerbaijan

Statement of Activities

For the year ended December 31, 2006

(in US Dollars)

	Notes	Year ended December 31, 2006	Year ended December 31, 2005
<b>Operating Revenue</b>			
Income from portfolio		5,769,346	3,261,135
Penalty fees		61,791	40,721
Other income		1,133,099	414,346
<b>Total Operating Revenue</b>		<b>6,964,236</b>	<b>3,716,202</b>
<b>Expenses</b>			
Financial cost	11	(1,012,288)	(150,360)
Impairment losses on loans		(319,856)	(109,831)
Operating expenses		(4,316,608)	(2,358,841)
<b>Net Operating Margin (before forex gain/(loss), taxes and donations)</b>		<b>1,315,484</b>	<b>1,097,170</b>
Translation Gain/(Loss)		328,397	286,965
<b>Net Operating Margin (before taxes and donations)</b>		<b>1,643,881</b>	<b>1,384,135</b>
Taxes	12	(244,813)	(220,807)
<b>Net Operating Margin (after taxes before donations)</b>		<b>1,399,068</b>	<b>1,163,328</b>
<b>Non-operating income</b>			
Grants	5	132,726	532,725
Donations	5	351,403	-
<b>Total Non-operating income</b>		<b>484,129</b>	<b>532,725</b>
<b>Net Income</b>		<b>1,883,197</b>	<b>1,696,053</b>

On behalf of the Management

  
Country Director

  
Chief Accountant


See Notes to Financial Statements.

FINCA Azerbaijan

Statement of Functional Expenses  
For the year ended December 31, 2006  
(in US Dollars)

	Year ended December 31, 2006			2005
	Program Services	General and Administrative	Total	Total
Professional fees and contract services	96,913	51,682	148,595	222,821
Salaries	1,032,201	648,004	1,680,205	695,185
Employee benefits	17,306	12,026	29,332	29,342
Payroll taxes	199,811	125,455	325,266	202,386
Travel	176,667	122,769	299,436	176,057
Occupancy and utilities	136,921	95,149	232,070	98,105
Supplies and miscellaneous	114,050	109,661	223,711	91,124
Telephone and communications	81,553	56,673	138,226	46,306
Meetings and conferences	28,861	33,143	62,004	33,648
Printing and publication	23,347	10,006	33,353	-
Depreciation	38,542	26,783	65,325	27,422
Periodicals, dues, and subscriptions	-	1,026	1,026	-
Provision for loan losses	319,856	-	319,856	109,831
Royalty payments to FINCA	252,000	258,073	510,073	507,566
Advertising/Promotion	38,428	-	38,428	-
Bank charges	256,004	-	256,004	205,655
Interest expenses (Note 11)	1,012,288	-	1,012,288	150,360
<b>Total direct costs</b>	<b>3,824,749</b>	<b>1,550,449</b>	<b>5,375,198</b>	<b>2,595,808</b>
Income tax expense	-	-	244,813	220,807
Other taxes	-	-	273,554	23,224
<b>Indirect costs</b>	-	-	<b>518,367</b>	<b>244,031</b>
<b>Total expenses</b>	<b>3,824,749</b>	<b>1,550,449</b>	<b>5,893,565</b>	<b>2,839,039</b>

On behalf of the Management

  
Country Director

  
Chief Accountant

See Notes to Financial Statements.

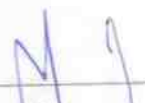
FINCA Azerbaijan

Statement of Cash Flows  
For the year ended December 31, 2006  
(in US Dollars)

	Year ended December 31, 2006	Year ended December 31, 2005
<b>Cash Flows from Operating Activities</b>		
Profit before tax	2,128,010	1,916,860
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	65,325	27,422
Loan loss provision	319,856	109,831
Donated assets	(148,452)	-
Interest expenses	1,012,288	150,360
<b>Changes in current assets and liabilities:</b>		
(Increase) decrease in:		
Loans and advances receivables	(8,624,429)	(6,794,335)
Grant support receivable	128,466	32,999
Other receivables and assets	(150,154)	(38,002)
Increase (decrease) in:		
Accounts payable and accrued expenses	(254,097)	616,127
Increase in taxes payable, other than profit tax	27,632	6,878
Profit tax	(273,267)	(79,115)
<b>Net cash used in operating activities</b>	<b>(5,768,822)</b>	<b>(4,050,974)</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(186,669)	(8,100)
Purchase of intangible assets	(42,675)	(2,001)
<b>Net cash used in investing activities</b>	<b>(229,344)</b>	<b>(10,101)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from notes payable	6,985,527	5,454,367
Interest paid	(839,649)	(53,744)
<b>Net cash provided by financing activities</b>	<b>6,145,878</b>	<b>5,400,623</b>
<b>Net increase in cash and cash equivalents</b>	<b>147,712</b>	<b>1,339,548</b>
<b>Cash and Cash Equivalents</b>		
Beginning	1,761,188	421,640
Ending	1,908,900	1,761,188

On behalf of the Management

  
Country Director

  
Chief Accountant

See Notes to Financial Statements.

FINCA Azerbaijan

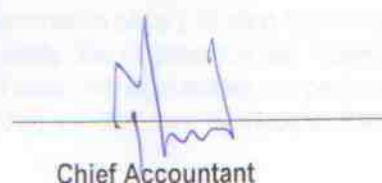
Statement of Changes in Equity  
For the year ended December 31, 2006  
(in US Dollars)

	Foundation Capital	Retained Earnings	Total equity
As at January 1, 2005	5,000	3,805,935	3,810,935
Profit for the period	-	1,696,053	1,696,053
At December 31, 2005	5,000	5,501,988	5,506,988
As at January 1, 2006	5,000	5,501,988	5,506,988
Profit for the period	-	1,883,197	1,883,197
At December 31, 2006	5,000	7,385,185	7,390,185

On behalf of the Management



Country Director



Chief Accountant

See Notes to Financial Statements.

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 1. Nature of Activities and Significant Accounting Policies**

Nature of Activities:

FINCA International, Inc. ("FINCA"), a not-for-profit organization, is incorporated in the USA. The purpose of FINCA is to "Help the poor help themselves". FINCA 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 provides self-help opportunity by providing small loans to individual or community productive micro enterprises through affiliated organizations ("affiliates"). The affiliates are typically separate legal entities that enter into affiliate agreements with FINCA.

FINCA Azerbaijan Limited Liability Non-Bank Credit Organization ("the Organization") is the affiliate of FINCA in Azerbaijan. Under the management of its regional hub headquartered in Kiev, Ukraine ("FINCA HUB"), the Organization carries out its operations.

The Organization's mission is to support the economic and human development of Azeri families trapped in severe poverty. This is accomplished mostly through the creation of Solidarity 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 was established in April 1998 and started its operations in June 1998. Until 25 November 2000 it was registered as a representative office of FINCA in Azerbaijan ("the representative office"). Starting from the aforementioned date, the Organization as re-registered and obtained the status of a legal entity. The Organization was reregistered to comply with the regulations of the National Bank of Azerbaijan, in accordance with which only legal entities can perform lending activities on the territory of Azerbaijan. The new entity obtained a license for lending activities from the National Bank of Azerbaijan on 9 November 2000.

Operating Environment - Over recent years, Azerbaijan has undergone substantial political and economic changes. As an emerging market, Azerbaijan 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 Azerbaijan, the long-term prospects for the Azeri 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 – In accordance with the Agreement between the Government of the United States of America and Government of the Republic of Azerbaijan Regarding Cooperation to Facilitate the Provision of Assistance signed on 11 May 2000 the Organization is defined as an operator responsible for the implementation of U.S. Government assistance programs and is not liable for income tax, value added tax, social and pension contributions or any other taxes derived from any activities related to grants received from the U.S. Government. Organization became a normal taxpayer as the agreement with USAID ended on 31 December 2005 but enjoyed relief from social and pension contribution as it participates in the State program for IDPs.

Azeri 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 Azerbaijan are constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Azeri 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.

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

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.

A summary of FINCA's significant accounting policies follows:

Basis of accounting: The financial statements have been prepared in accordance with International Financial Reporting Standards («IFRS»), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

Cash and cash equivalents: FINCA considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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 - 7 days past due	1 %
8 - 30 days past due	10 %
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 installment of principal that is due but unpaid, beginning with the earliest such installment. The number of days of lateness is based on the due date of the earliest loan installment that has not been fully paid. The organization does not convert late or penalty interest into principal.

The amount of interest accrued as of December 31, 2006 is \$ 274,890 (as of December 31, 2005: \$ 155,001).

At the time a loan is deemed doubtful, or management believes the contractual interest or principal due will not be collected, the loan is classified as non-performing and any interest accrued is reversed. As at December 31, 2006 the allowance for doubtful accounts was \$ 462,132 (As at December 31, 2005: \$ 148,000).

Loans overdue for more than 180 days are written-off as unrecoverable. Loans are written-off before reaching 180 days overdue if it is determined that they are unrecoverable.

FINCA Azerbaijan does not accrue interest on loans with payments more than 30 days overdue.

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

Property and equipment:

Until end of 2005, the Organization used to capitalize all the purchases more than \$5000, but since January 1, 2006 the policy of recognizing and recording Fixed Assets has been aligned with the statutory accounting which mandates threshold of AZN 110 (approximately \$124).

Property and equipment is stated at cost and depreciated on a straight-line basis over the estimated useful life of the assets. Furniture and equipment purchased for direct use of foreign programs are expensed and charged to the grant under which they were acquired.

Revenue and support: Interest income on loans to customers is recognized when incurred.

Grants and Grant Support: Under the Grant Agreements with the United States Agency for International Development ("USAID"), BP Exploration (Shah Deniz) Limited ("BP"), Baku – Tbilisi-Ceyhan Pipeline Company ("BTC") FINCA advances donated funds to the Organization. The Organization records each advance as unearned grant support when received. When 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 revenue.

Foreign currency translation: For the purpose of these financial statements the functional currency is US dollars.

The financial statements and transactions of FINCA's foreign operations are generally maintained in the relevant local currency.

At each balance sheet date (a) local currency monetary items are translated into U.S. dollars using the closing rate; (b) non-monetary items that are measured in terms of historical cost in foreign currency are translated into U.S. dollars using the exchange rate at the date of the transaction. Revenues and expenses are translated at the average exchange rate for each period.

Exchange differences arising on the settlement of monetary items or on translating rate monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise.

The exchange rate as of December 31, 2006 and 2005 was AZM 0.8714 and AZM 0.9186 to \$ 1 respectively. The average AZM/USD exchange rates for the years ended December 31, 2006 and 2005 were 0.8951 and 0.9495, respectively. The translation of AZM-denominated assets and liabilities into USD as of 31 December does not indicate that the Organization could realize, or settle in USD, the translated value of these assets and liabilities.

Expenses: During the current financial year expenses are divided on program services expenses, general and administrative expenses and indirect cost. The program services expenses are \$ 3,824,749, general and administrative expenses are \$ 1,550,449, indirect expenses are \$ 518,367 for period ended December 31, 2006. The program services expenses were \$ 1,800,692, general and administrative expenses were \$ 1,039,146, indirect expenses were \$ 244,031 for period ended December 31, 2005.

Income tax: The income tax expense represents the sum of the tax currently payable and deferred income tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates in force as of the balance sheet date.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

Estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2. Cash and cash equivalents**

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Cash in bank	1,885,481	1,749,937
Cash on hand	23,420	11,251
<b>Total cash and cash equivalents</b>	<b>1,908,900</b>	<b>1,761,188</b>

As of December 31, 2006 and as of December 31, 2005 the sum of cash and cash equivalents in local currency is \$ 377,931 and \$ 416, 372 respectively, the sum of cash and cash equivalents in USD is \$ 1,530,971 and \$ 1,344,816. At the same time as of December 31, 2006 and as of December 31, 2005 the Organization has the balance of accounts payable and accrued expenses in local currency in the amount of \$ 682,584 and \$ 260,211, respectively, in USD in the amount of \$ 1,849,070 and \$ 2,796,028, respectively.

**Note 3. Loans and Advances Receivable**

Loans to customers are made within Azerbaijan, in the cities including Baku, Imishli, Massali, Gandja, Naxichivan and in rural areas. Most loans outstanding as of 31 December 2006 were granted to members of solidarity groups of small entrepreneurs, some of them were granted to individuals.

The loan life for group loans is standardized and ranges upto 12 months. 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 remaining balance of the loan after each repayment of principal, i.e. on a declining basis.

The loan life for individual loans ranges upto 12 months. The principal and interest amounts for individual loans are redeemable monthly. Interest on loans to individuals is charged on the remaining balance of the loan after each repayment of principal, i.e. on a declining basis.

The group loans are secured by Solidarity Group Guarantee. The individual loans are secured by movable & immovable property such as cars, equipment, home appliances, other household assets, and/or by gold items. Additionally, individual loans are ensured by guarantee on the demand by Credit Committee.

Loans and advances receivable at December 31, 2006 consist of the following:

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Loans and advances receivable	19,190,449	10,431,890
Less allowance for doubtful accounts	(462,132)	(148,000)
	<b>18,728,317</b>	<b>10,283,890</b>

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 3. Loans and Advances Receivable (continued)**

The aging of those loans receivables at December 31, 2006 consist of the following:

Normal loans	Portfolio at risk	Amount	% for creation specific provisions	Provision
Current	94,9 %	18,215,212	1%	182,152
1 - 7 days past due	1,0 %	187,640	1%	1,876
8 - 30 days past due	1,3 %	248,400	10%	24,840
31 - 60 days past due	1,0 %	196,701	25%	49,175
61 - 90 days past due	0,5 %	91,166	50%	45,583
91 - 180 days past due	0,8 %	158,981	75%	119,236
181 or more days past due	0,2 %	38,734	100%	38,734
<b>Subtotal</b>	<b>99,7 %</b>	<b>19,136,834</b>	<b>-</b>	<b>461,596</b>
<b>Rescheduled loan</b>				
Current	0,3%	53,615	1%	536
<b>Subtotal</b>	<b>0,3%</b>	<b>53,615</b>	<b>-</b>	<b>536</b>
<b>Total</b>	<b>100 %</b>	<b>19,190,449</b>	<b>-</b>	<b>462,132</b>

The aging of those loans receivables at December 31, 2005 consist of the following:

Normal loans	Portfolio at risk	Amount	% for creation specific provisions	Provision
Current	98,5 %	10,278,809	1%	102,788
1 - 30 days past due	0,6 %	69,430	1%	694
31 - 60 days past due	0,3 %	35,698	25%	8,925
61 - 90 days past due	0,1 %	12,898	50%	6,449
91 - 180 days past due	0,2 %	20,732	75%	15,549
181 or more days past due	0,3 %	13,588	100%	13,588
<b>Subtotal</b>	<b>100 %</b>	<b>10,431,155</b>		<b>147,993</b>
<b>Rescheduled loan</b>				
Current	0 %	735	1%	7
<b>Subtotal</b>	<b>0 %</b>	<b>735</b>		<b>7</b>
<b>Total</b>	<b>100 %</b>	<b>10,431,890</b>		<b>\$148,000</b>

The change in the loan loss provision for the year ended December 31, 2006, consists of the following:

	Year ended December 31, 2006	Year ended December 31, 2005
Beginning balance	(148,000)	(43,865)
Current year provision for loan loss	(319,856)	(109,831)
Recovery of losses	(69,148)	(656)
Write offs	74,872	6,352
	<b>(462,132)</b>	<b>(148,000)</b>

For 2006 loans receivable in the amount of \$ 139,852 (2005: \$ 0) was obtained as donation assets from FINCA via non-cash items.

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 4. Accounts Receivable**

Accounts receivable at December 31, 2006, consist of the following:

	December 31, 2006	December 31, 2005
Interest income accrued on loans to customers	274,890	155,001
Account receivable	5,645	5,645
Employee Advances	19,595	5,332
VAT receivable	-	16,433
	<b>300,130</b>	<b>182,411</b>

As of December 31, 2006 and as of December 31, 2005 FINCA Azerbaijan has accounts receivable had to be paid by FINCA in the total amount of \$ 5,645. This amount represents training expenses which has to be reimbursed by FINCA.

**Note 5. Grants support receivable**

Grant support receivable consists of the following amount of grants at December 31, 2006:

The list of grants (№ and date)	Balance at December 31, 2005	Due to FINCA	Repayment from FINCA	Liquidation	Balance at December 31, 2006
Grant USAID. Grant agreement № 112-A-00-00-00024-00, dated 20.09.2000.	11,681	-	11,681	-	-
Grant BTC. Grant agreement № G-03-AGT-49486, dated 01.07.03.	117,618	-	117,618	-	-
Grant BP SH. Grant agreement № G-03-BPSD-53471, dated 03.12.2003.	(833)	(131,893)	-	132,726	-
	<b>128,466</b>	<b>(131,893)</b>	<b>129,299</b>	<b>132,726</b>	<b>-</b>

Grant support receivable consists of the following amount of grants at December 31, 2005:

The list of grants (№ and date)	Balance at December 31, 2004	Due to FINCA	Liquidation	Write off	Balance at December 31, 2005
Grant USAID. Grant agreement № 112-A-00-00-00024-00, dated 20.09.2000.	8,724	(26,000)	28,957	-	11,681
Grant BTC. Grant agreement № G-03-AGT-49486, dated 01.07.03.	63,874	(183,142)	236,886	-	117,618
Grant BP SH. Grant agreement № G-03-BPSD-53471, dated 03.12.2003.	5,012	(20,998)	15,153	-	(833)
Grant IRC.	(78,175)	-	-	78 175	-
Grant GTZ. Grant agreement № 81068523, dated 06.05.2004.	162,030	(335,584)	-	173,554	-
	<b>161,465</b>	<b>565,724</b>	<b>280,996</b>	<b>251,729</b>	<b>128,466</b>

For the year ended December 31, 2006 and 2005 the sum of grant liquidation was recognized as non-operating expense in the Statement of Activities.

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 5. Grants support receivable (continued)**

For the year ended 31 December 2006 the Organization received donation from FINCA in the amount of \$ 351,403. The total amount of donation was recognized as non-operating income. The structure of donation is as follows:

	<b>December 31, 2006</b>
Cash and cash equivalents	202,951
Non-current asset	8,600
Loans receivable	139,852
<b>Donation assets</b>	<b>351,403</b>

For the year ended December 31, 2005 the Organization had not received in-kind subsidies.

**Note 6. Property and equipment**

Property and equipment and accumulated depreciation at December 31, 2006 consist of the following:

<b>Cost of property and equipment</b>	<b>Estimated Useful Lives</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Net</b>
Computer equipment and software	3 year	89,326	87,217	-	176 543
Furniture and equipment, vehicles	5 year	35,062	137,076	-	172 138
Leasehold improvements	under the term of the lease	2,970	13,651		16 621
<b>Total cost as at December 31, 2006</b>		<b>127,358</b>	<b>237,944</b>	<b>-</b>	<b>365 302</b>
<b>Accumulated depreciation</b>					
Computer equipment and software	3 year	63,709	47,542	-	111,251
Furniture and equipment, vehicles	5 year	20,687	15,028	-	35,715
Leasehold improvements	under the term of the lease	2,970	2,755	-	5,725
<b>Total accumulated depreciation</b>		<b>87,366</b>	<b>65,325</b>	<b>-</b>	<b>152,691</b>
<b>Net book value</b>		<b>39,992</b>	<b>172,619</b>	<b>-</b>	<b>212,611</b>

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 6. Property and equipment (continued)**

Property and equipment and accumulated depreciation at December 31, 2005 consist of the following:

<b>Property and equipment</b>	<b>Estimated Useful Lives</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Net</b>
Computer equipment and software, leasehold improvements	3 year	80,800	8,526	-	89,326
Furniture and equipment, vehicles	5 year	33,487	1,575	-	35,062
Leasehold improvements	under the term of the lease	2,970	-	-	2,970
<b>Total cost as at December 31, 2005</b>		<b>117,257</b>	<b>10,101</b>	<b>-</b>	<b>127,358</b>
<b>Accumulated depreciation</b>					
Computer equipment and software, leasehold improvements	3 year	42,761	20,948	-	63,709
Furniture and equipment, vehicles	5 year	14,213	6,474	-	20,687
Leasehold improvements	under the term of the lease	2,970	-	-	2,970
<b>Total accumulated depreciation</b>		<b>59,944</b>	<b>27,422</b>	<b>-</b>	<b>87,366</b>
<b>Net book value</b>		<b>57,313</b>	<b>(17,322)</b>	<b>-</b>	<b>39,992</b>

Non-cash transaction in respect of vehicle was connected with donation asset from FINCA.

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
Non-cash acquisition through donation from FINCA	8,600	-

**Impairment.** Management assessed the condition of the existing fixed assets and concluded that an impairment charge is not required, as at December 31, 2006 and as at December 31, 2005, respectively.

**Note 7. Notes Payable**

Short-term notes payable as of December 31, 2006 consist of the following:

<b>The name of Lender</b>	<b>Interest rate</b>	<b>Secured</b>	<b>Unsecured</b>	<b>At December 31, 2006</b>	<b>At December 31, 2005</b>
ASN-Novib Fonds	9,75 %	-	1,000,000	1,000,000	-
Oikocredit, Ecumenical Development Cooperative Society U.A.	8%	142,857	142,857	285,714	71,429
Social Fund for Internally Displaced Persons (SFDI)	0%	-	110,856	110,856	105,160
VBCF	8%	-	-	-	1,000,000
Credit Suisse Microfinance fund Management company	9,6%	-	-	-	900,000
<b>Total short-term notes payable</b>		<b>142,857</b>	<b>1,253,713</b>	<b>1,396,570</b>	<b>2,076,589</b>

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 7. Notes Payable (continued)**

Long-term notes payable as of December 31, 2006 consist of the following:

The name of Lender	Interest rate	Secured	Unsecured	At December 31, 2006	At December 31, 2005
FINCA Capital Fund LLC	8 % - 10,4%	-	6,425,000	6,425,000	3,200,000
Microfinance Securities XXEB	8,5%	-	2,000,000	2,000,000	-
Credit Suisse Microfinance fund Management company	10,1-10,4%	-	1,900,000	1,900,000	-
Dual return Fund S.A.	8,5%	-	500,000	500,000	-
Oikocredit, Ecumenical Development Cooperative Society U.A.	8%	285,714.5	285,714.5	571,429	428,571
Social Fund for Internally Displaced Persons (SFDI)	0%	-	55,428	55,428	157,740
<b>Total long-term notes payable</b>		<b>285,714</b>	<b>11,166,142</b>	<b>11,451,857</b>	<b>3,786,311</b>

FINCA Capital Fund LLC:

Principal amount	Disbursement date	Interest rate	Maturity Date	Repayment Schedule for interest amount
1,700,000	December 2005	10,4%	Nine semi-annual installments, beginning the December 31, 2008	Semi-annually
1,500,000	November 2005	10,4%	Nine semi-annual installments, beginning the December 31, 2008	Semi-annually
1,250,000	June 2006	10,4%	Nine semi-annual installments, beginning the December 31, 2008	Semi-annually
975,000	July 2006	USD Libor plus 5,25%	July 18, 2008	Semi-annually
500,000	September 2006	10,4%	Nine semi-annual installments, beginning the December 31, 2008	Semi-annually
500,000	January 2006	8,0% - 10,38%	July 17, 2008	Semi-annually

The principal and interest are payable in US dollars.

Microfinance Securities XXEB

The principal amount of loan was received in the amount of \$ 2,000,000. Maturity date for this loan is June 08, 2011. The loan accrues interest at 8,5% a year, payable semi-annually in arrears each year, beginning with December 08, 2006. The principal and interest are payable in US dollars.

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 7. Notes Payable (continued)**

Credit Suisse Microfinance fund Management Company:

Principal amount	Disbursement date	Interest rate	Maturity Date	Interest Payment Date
1,000,000	June 2006	10,4%	June 29, 2008	December 2006 June 2007 December 2007 October 2006 April 2007
500,000	April 2006	10,1%	April 7, 2008	October 2007 October 2006 April 2007
400,000	April 2006	10,1%	April 28, 2008	October 2007

The principal and interest are payable in US dollars.

ASN-Novib Fonds

The loan principal in the amount of \$ 1,000,000 was received in July 2006 with a maturity date on 29 September 2006. The loan bears interest from the Commencement Date of 9,75% per annum fixed of the loan. The interest rate is charged per half year in arrears over the outstanding Loan and is payable on the 15<sup>th</sup> of January 2007 and the 15<sup>th</sup> of July 2007. The principal and interest are payable in US dollars.

Dual return Fund S.A.

The loan principal in the amount of \$ 500,000 was received in July 2006 with a maturity date on 15 April 2008. The loan bears interest from the Date of issuance of 8,5% per annum fixed of the loan. The interest rate is charged per half year in arrears over the outstanding loan and is payable on the 15<sup>th</sup> of February 2007 and the 15<sup>th</sup> of August 2007. The principal and interest are payable in US dollars.

Oikocredit, Ecumenical Development Cooperative Society U.A.: As at 31 December 2006 the principal amount of loan received from Oikocredit equals \$ 857,143. The loan shall be repaid in no more than 4 years, in seven equal, semi-annual and consecutive installments, payable on 12, 18, 24, 30, 36, 42 and 48 months, respectively, from the first Disbursement Date. The loan accrues interest at the rate of 8% per annum. The interest will be payable semi-annually on the basis of the principal amount outstanding under the loan. The first payment of interest is to be made in six months from the First Disbursement Date. Principal and interest are payable in US dollars.

The above credit agreement is made between Oikocredit, Ecumenical Development Cooperative Society U.A., Netherlands as Lender, FINCA as the Borrower and FINCA Azerbaijan as the co - borrower. United States agency for international development (USAID) acts as the guarantor of 50 % of the outstanding loan in accordance with agreement made between USAID and FINCA.

Social Fund for Internally Displaced Persons (SFDI): Three loans each of AZN 96,600 (AZM 483,000,000) in principal, were received in 2004. The loans amount shall be repaid in 12 equal quarterly installments through April 30, 2008 beginning with 31 July 2005. The loans are free from interest. Repayments of the principal amount from FINCA Azerbaijan to SFDI shall be made in manat.

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 7. Notes Payable (continued)**

Loans Repayments for the period January 01 to December 31, 2006:

<b>The name of Lender</b>	<b>Loan principal at the year end</b>	<b>Average during the period (monthly)</b>
FINCA Capital Fund LLC	6,425,000	4,261,458
Microfinance Securities XXEB	2,000,000	1,625,000
Credit Suisse Microfinance fund Management Company	1,900,000	1,741,667
ASN-Novib Fonds	1,000,000	1,000,000
Oikocredit, Ecumenical Development Cooperative Society U.A.	857,143	869,821
Dual return Fund S.A.	500,000	500,000
Social Fund for Internally Displaced Persons (SFDI)	166,284	205,886
VBCF	-	1,141,667
<b>Total notes payable</b>	<b>12,848,427</b>	<b>11,345,499</b>

Maturities of notes payable at December 31, 2006, are due in future fiscal years as follows:

<b>Years ending December, 31</b>	<b>2006</b>	<b>2005</b>
2006	1,396,570	2,076,589
2007	4,765,592	248,017
2008	1,384,614	550,637
2009	1,098,900	853,257
2010	3,098,900	710,400
2011	1,103,850	710,400
2012	1,396,570	713,600
<b>Total Notes Payable</b>	<b>12,848,427</b>	<b>5,862,900</b>

FINCA Azerbaijan is current in all its payment obligations with respect to the notes payable.

As of December 31, 2006 and as of December 31, 2005 total notes payable in local currency are \$ 166,284 and \$ 262,900 respectively, total notes payable in USD are \$ 12,682,143 and \$ 5,600,000. At the same time as of December 31, 2006 the Organization has the balance of loans issued both in local currency in the amount of \$ 7,630,112 (as of December 31, 2005: \$ 5,521,689) and in USD in the amount of \$ 11,560,337 (as of December 31, 2005: \$ 4,910,201).

**Note 8. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses at December 31, 2006 consist of the following:

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Accrued payroll and accrued payroll tax payable	209,418	29,630
Accrued audit fee payable	18,000	14,000
MFSI payable	-	78,530
<b>Total</b>	<b>227,418</b>	<b>122,160</b>

As of December 31, 2006 the Organization has the balance of accounts payable and accrued expenses in local currency in the amount of \$ 209,418 (as of December 31, 2005: \$ 29,630) and in USD in the amount of \$ 18,000 (as of December 31, 2005: \$ 92,530). See also Note 2.

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Note 9. Taxes payable**

	December 31, 2006	December 31, 2005
Provision for profit tax	327,800	118,542
Other taxes	34,510	6,878
<b>Total taxes payable</b>	<b>362,310</b>	<b>125,420</b>

As of December 31, 2006 and as of December 31, 2005 the Organization has all balances of taxes payable in the local currency. See also Note 2.

**Note 10. Interest payable**

	December 31, 2006	December 31, 2005
Accrued interest payable to FINCA Capital Fund LLC	116,984	30,882
Accrued interest payable to VBCF	57,027	15,717
Accrued interest payable to ASN-Novib Fonds	44,877	-
Accrued interest payable to MFM	17,450	48,360
Accrued interest payable to Dual return Fund S.A.	16,174	-
Accrued interest payable to Microfinance Securities XXEB	10,861	-
Accrued interest payable to Oikocredit	10,145	5,918
<b>Total Interest payable</b>	<b>273,518</b>	<b>100,877</b>

As of December 31, 2006 and as of December 31, 2005 the Organization has all balances of interest payable in USD. See also Note 2.

**Note 11. Financial cost**

	Year ended December 31, 2006	Year ended December 31, 2005
Interest expense and other financial costs accrued by FINCA Capital Fund LLC	556,135	96,085
Interest expenses and other financial costs accrued by accrued by FMF	192,407	48,358
Interest expenses and other financial costs accrued by accrued by Microfinance Securities XXEB	80,250	-
Interest expenses and other financial costs accrued by accrued by Oikocredit	79,113	5,917
Interest expenses by accrued by ASN-Novib Fonds	54,876	-
Front End Commission accrued by European Bank for Reconstruction and Development (see also Note 14)	33,333	-
Interest and other financial costs accrued by Dual Return	16,174	-
<b>Total financial cost</b>	<b>1,012,288</b>	<b>150,360</b>

Withholding taxes and commission fees are included in the content of the other financial costs. As at 31 December 2006 withholding taxes are accrued in the amount of \$ 40,504 and commission fees are accrued in the amount of \$ 50,000. The withholding taxes were paid to tax authorities in the moment of interest payment to the lenders.

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
(in US Dollars)

**Note 12. Income tax**

Income tax charge	Year ended 31 December 2006	Year ended 31 December 2005
Current income tax charge	(482,525)	(143,737)
Deferred tax expense relating to the origination and reversal of temporary differences	239,253	(77,070)
Deferred tax expense (income) resulting from reduction in tax rate	(1,541)	-
<b>Total income tax charge</b>	<b>(244,813)</b>	<b>(220,807)</b>

During 2006 the Organization was subject to a 22% income tax rate on taxable profits (2005: 24%).

Net profit before income tax for financial reporting purposes is reconciled to income tax expenses as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
<b>Profit before income tax</b>		
Theoretical tax (charge) at an average statutory tax rate of 22 percent	(468,162)	(460,046)
Tax effect of items which are not deductible or assessable for taxation purposes	224,891	239,240
Reduction in opening deferred taxes resulting from reduction in tax rate	(1,541)	-
<b>Total income tax charge</b>	<b>(244,813)</b>	<b>(220,807)</b>

Deferred income tax: Differences between IFRS and statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for tax purposes. Deferred tax assets and liabilities are measured at 22 percent (2005: 24%), the rate applicable when the asset or liability will reverse.

**Deferred income tax liabilities as at December 31, 2006:**

	31 December 2005	Decrease in the tax rate	Movement for the period recognized in the Statement of Activities	31 December 2006
Loans to customers	367,131	(7,343)	(236,371)	130,760
<b>Total</b>	<b>367,131</b>	<b>(7,343)</b>	<b>(236,371)</b>	<b>130,760</b>

**Deferred income tax assets as at December 31, 2006:**

	31 December 2005	Decrease in the tax rate	Movement for the period recognized in the Statement of Activities	31 December 2006
Accounts payable	290,061	(5,801)	(37,792)	252,269
Net property and equipment	-	-	39,133	39,133
<b>Total</b>	<b>290,061</b>	<b>(5,801)</b>	<b>1,341</b>	<b>291,402</b>

**FINCA Azerbaijan**  
**Notes to the Financial Statements for the year ended December 31, 2006**  
**(in US Dollars)**

**Deferred income tax liabilities as at December 31, 2005:**

	31 December 2005	Movement for the period recognized in the Statement of Operations	31 December 2006
Loans to customers	-	367,131	367,131
<b>Total</b>	<b>-</b>	<b>367,131</b>	<b>367,131</b>

**Deferred income tax assets as at December 31, 2005:**

	31 December 2005	Movement for the period recognized in the Statement of Operations	31 December 2006
Accounts payable	-	290,061	290,061
<b>Total</b>	<b>-</b>	<b>290,061</b>	<b>290,061</b>

**Note 13. Related Party Transactions**

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

As of December 31, 2006 the FINCA Azerbaijan had liabilities for long-term loans received from FINCA Capital Fund LLC in the total amount of \$ 6,425,000 (as of December 31, 2005: \$ 3,700,000). As of 31 December 2006 the Organization had liabilities in respect of interest payable on loans received from FINCA Capital Fund LLC in the amount of \$ 116,984 (as of December 31, 2005: \$ 30,882).

As at 31 December 2006 the principal amount of loan received from Oikocredit, Ecumenical Development Cooperative Society U.A., Netherlands equals \$ 857,143. In this loan agreement FINCA acted as the Borrower, FINCA Azerbaijan acted as the Co – borrower.

Lender	Maturity	Rate as at December 31, 2006	Denomination	Amount
FINCA Capital Fund LLC	31 December 2012	10,4%	US \$	1,700,000
FINCA Capital Fund LLC	31 December 2012	10,4%	US \$	1,500,000
FINCA Capital Fund LLC	31 December 2012	10,4%	US \$	1,250,000
FINCA Capital Fund LLC	31 December 2012	10,4%	US \$	500,000
FINCA Capital Fund LLC	18 July 2008	USD Libor plus 5,25%	US \$	975,000
FINCA International, Inc	17 July 2008	10,38%	US \$	500,000
				<b>\$6,425,000</b>

Grants from FINCA International, Inc.: For year ended December 31, 2006 the Organization obtained grant support from BP SH through FINCA in the amount of \$ 131,893. (2005: \$ 565,724) and received repayments from FINCA in the amount of \$ 129,299 in order to set off the sum of Grant support receivables. Total revenue derived from the grant support received earlier to cover the current expenditure and to lend those funds to its customers was \$ 132,726 (2005: \$ 532,725). As of December 31, 2006 the grant support receivable is absent (as of December 31, 2005: \$ 128,466).

Royalty payments:

For year ended December 31, 2006 the Organization accrued royalties due to FINCA in the amount of \$ 510,073. As of December 31, 2006 the accounts payable for royalties due to FINCA was \$ 271,838.

For year ended December 31, 2005 the Organization accrued royalties due to FINCA in the amount of \$ 507,566. As of December 31, 2006 the accounts payable for royalties due to FINCA was \$ 631,192.

## FINCA Azerbaijan

### Notes to the Financial Statements for the year ended December 31, 2006

#### (in US Dollars)

Insider loans and other transactions with employees: The organization's policy forbids loans to board members, country director, staff or their families. For the four months period there were no related party transactions with employees of FINCA Azerbaijan or FINCA International, Inc.

#### Note 13. Commitments and Contingencies

As of 31 December 2006 no significant commitments and contingencies existed, except below.

On 15<sup>th</sup> November 2006 a loan agreement was signed with European Bank for Reconstruction and Development (EBRD) for US\$ 3,000,000. This agreement promises the Organization will have three tranches in the amount of US\$ 1,000,000 each over period of next seven months. There is commitment charge of 0.5% on the Organization for each un-drawn tranche for the period the funds are earmarked by EBRD.

#### Note 14. Lease Obligations

FINCA Azerbaijan leases office space in the North, West and South region of Republic of Azerbaijan and in Naxichivan to support its operations and project activity. Future minimum lease payments are presented as follows:

	December 31, 2006	December 31, 2005
Less than one year	201,970	117,909
Between one year and five years	302,796	-
<b>Total</b>	<b>504,766</b>	<b>117,909</b>

Total office rent expense for FINCA Azerbaijan for the year ended December 31, 2006 was \$ 232,070 (2005: \$ 98,105).

#### Note 15. Transition to IFRS on first time adoption

The financial statements for the year ended December 31, 2006 are the first financial statements that comply with IFRS. The financial statements have been prepared in accordance with the significant accounting policies described in Note 1. The organization has applied IFRS 1 "First time adoption of International Financial Reporting Standards" in preparing these statements.

#### Impact of transition to IFRS

The following is a summary of the effect of the differences between IFRS and US GAAP on the equity funds and profit for the financial year for the years previously reported under US GAAP following the date of transition to IFRS.

Total equity funds	Note	January 1, 2005	December 31, 2005
Total equity funds (US GAAP)		3,810,935	5,584,058
Measurement and recognition differences			
Deferred taxes	1	-	(77,070)
<b>Total equity funds (IFRS)</b>		<b>3,810,935</b>	<b>5,506,988</b>

Profit for the year ended December 31, 2005	Note	
Profit after taxation (US GAAP)		1,773,125
Measurement and recognition differences		
Deferred taxes	1	(77,072)
<b>Profit after taxation (IFRS)</b>		<b>1,696,053</b>

There were no significant differences between IFRS and US GAAP on the cash flow statements for the year ended December 31, 2005.

Measurement and recognition differences

**FINCA Azerbaijan**
**Notes to the Financial Statements for the year ended December 31, 2006**
**(in US Dollars)**

## Deferred taxes

The scope of IAS 12 "Income taxes" is wider than the corresponding US GAAP standards, and requires deferred tax to be provided on all temporary differences rather than timing differences under US GAAP. As a result, the organization recognizes as of December 31, 2005 deferred profit tax assets in the amount of \$ 290,061 and deferred profit tax liabilities in the amount of \$ 367,131.

**Reconciliation of the US GAAP statement of activities to the IFRS income statement**

US GAAP format	US GAAP (\$)	Presentation differences	Measurement and recognition differences	IFRS	IFRS format
<b>Revenue and support</b>					<b>Operating Revenue</b>
Interest income	3,261,135	-	-	3,261,135	Income from portfolio
Grants and contracts	532,725	(532,725)	-	40,721	Penalty fees
Fees and other	455,067	-	-	414,346	Other income
<b>Total revenue and support</b>	<b>4,248,927</b>	<b>(532,725)</b>	<b>-</b>	<b>3,716,202</b>	<b>Total Operating Revenue</b>
<b>Expenses</b>					<b>Expenses</b>
Program services	1,800,692	(1,650,332)		150,360	Financial cost
General and administrative	795,116	(685,285)		109,831	Impairment losses on loans
Indirect expenses	166,959	(2,335,617)	(143,735)	2,358,841	Operating expenses
<b>Total expenses</b>	<b>2,762,767</b>	<b>-</b>	<b>(143,735)</b>	<b>2,619,032</b>	
<b>Change in net assets before translation adjustment</b>	<b>1,486,160</b>			<b>1,097,170</b>	<b>Net Operating Margin (before forex gain/loss, taxes and donations)</b>
Translation adjustment	286,965			286,965	Translation Gain/(Loss)
				1,384,135	<b>NOM (before taxes and donations)</b>
				220,807	Taxes
				1,163,328	<b>NOM (after taxes before donations)</b>
					<b>Non-operating income</b>
		532,725		532,725	Grants
<b>Change in net assets</b>	<b>1,773,125</b>	<b>-</b>	<b>77,072</b>	<b>1,696,053</b>	<b>Net Income</b>

FINCA Azerbaijan

Notes to the Financial Statements for the year ended December 31, 2006

(in US Dollars)

Reconciliation of the US GAAP balance sheet to the IFRS balance sheet as at January 01, 2005

US GAAP format	US GAAP (\$)	Presentation differences	Measurement and recognition differences	IFRS	IFRS format
<b>Assets</b>					<b>Current assets</b>
Cash and cash equivalents	421,640			421,640	Cash and cash equivalents
Investments to VBSF	163,856			163,856	Investment to VBSF
Loans to customers, net	3,599,386			3,599,386	Loans to customers, net
Other receivable	13,507			13,507	Accounts receivable
Other assets	(2,293)			(2,293)	Prepaid and other current assets
Net property and equipment, net	57,313			57,313	<b>Non-current assets</b> Net property and equipment, net
				-	Deferred profit tax assets
	<b>4,253,409</b>	<b>-</b>	<b>-</b>	<b>4,253,409</b>	<b>Total Assets</b>
<b>Liabilities and Net assets</b>					<b>Current Liabilities</b>
Liabilities		211,511		211,511	Short-term notes payable
Accounts payable and accrued expenses	33,941	75,092		109,034	Fees payable to FINCA International
Notes payable	408,533	(541,807)		(133,273)	Other accounts payable & accruals
		53,920		53,920	Taxes payable
		4,261		4,261	Interest payable
		197,022		197,022	<b>Non-current liabilities</b> Long-term notes payable
				-	Deferred profit tax liabilities
	<b>442,475</b>	<b>-</b>	<b>-</b>	<b>442,475</b>	<b>Total Liabilities</b>
<b>Net assets</b>	<b>3,810,935</b>	<b>-</b>	<b>-</b>	<b>3,810,935</b>	<b>Total Equity</b>
<b>Liabilities and Net assets</b>	<b>4,253,409</b>	<b>-</b>	<b>-</b>	<b>4,253,409</b>	<b>Total Equity and Liabilities</b>

FINCA Azerbaijan

Notes to the Financial Statements for the year ended December 31, 2006

(in US Dollars)

Reconciliation of the US GAAP balance sheet to the IFRS balance sheet as at December 31, 2005

US GAAP format	US GAAP (\$)	Presentation differences	Measurement and recognition differences	IFRS	IFRS format
<b>Assets</b>					<b>Current assets</b>
Cash and cash equivalents	1,761,188			1,761,188	Cash and cash equivalents
Loans to customers, net	10,283,890			10,283,890	Loans to customers, net
Grants receivable	128,466			128,466	Grants receivable
Other receivable	182,411			182,411	Accounts receivable
Other assets	30,661			30,661	Prepaid and other current assets
Net property and equipment, net	39,992			39,992	<b>Non-current assets</b> Net property and equipment, net
			290,061	290,061	Deferred profit tax assets
	<b>12,426,608</b>	<b>0</b>	<b>290,061</b>	<b>12,716,669</b>	<b>Total Assets</b>
<b>Liabilities and Net assets</b>					<b>Current Liabilities</b>
Liabilities		2,076,589		2,076,589	Short-term notes payable
Accounts payable and accrued expenses	979,650	(348,458)		631,192	Fees payable to FINCA International
Notes payable	5,862,900	(5,740,739)		122,161	Other accounts payable & accruals
		125,420		125,420	Taxes payable
		100,877		100,877	Interest payable
		3,786,311		3,786,311	<b>Non-current liabilities</b> Long-term notes payable
			367,131	367,131	Deferred profit tax liabilities
	<b>6,842,550</b>	<b>-</b>	<b>367,131</b>	<b>7,209,681</b>	<b>Total Liabilities</b>
<b>Net assets</b>	<b>5,584,058</b>	<b>-</b>	<b>(77,070)</b>	<b>5,506,988</b>	<b>Total Equity</b>
<b>Liabilities and Net assets</b>	<b>12,426,608</b>	<b>-</b>	<b>290,061</b>	<b>12,716,669</b>	<b>Total Equity and Liabilities</b>