

RSM! Top-Audit

Аудиторская и консалтинговая группа

FINCA AZERBAIJAN

Independent Auditor's Report

**Financial Statements for the four months period ended 31 December 2005
Prepared under US GAAP**



Contents

Independent Auditor's Report	3
Financial Statements	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 18

RSM Top-Audit

АКГ "РСМ Топ-Аудит"

119017, г. Москва, ул. Б. Ордынка, д. 64, стр. 2

т/ф + 7 (095) 363-28-48, +7 (095) 981-41-21

www.top-audit.ru E-mail: mail@top-audit.ru

31.12.06г. № 611-763

Independent Auditor's Report

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

We have audited the accompanying statement of financial position of FINCA Azerbaijan (the «Organization») as of December 31, 2005, and the related statements of activities, functional expenses and cash flows for the period 01 September to 31 December 2005. These financial statements are the responsibility of Organization's management. 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 (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements for the period 01 September to 31 December referred to above present fairly, in all material respects, the financial position of Organization as of December 31, 2005, and the changes in their net assets, statement of functional expenses and their cash flows for the period 01 September to 31 December 2005 are in conformity with accounting principles generally accepted in the United States of America.

RSM Top-Audit



FINCA Azerbaijan

Statement of Financial Position
For the four months period ended December 31, 2005

Assets	December 31, 2005	August 31, 2005
Cash and cash equivalents		
Unrestricted (Note 2)	\$1,761,188	\$595,722
	1,761,188	595,722
Loans and advances receivables, net (Note 3)	10,283,890	7,257,291
Grant support receivable (Note 4)	128,466	123,134
Other receivables (Note 5)	182,411	23,402
Other assets (Note 6)	30,661	42,124
Property and equipment, net (Note 7)	39,992	48,560
	<u>\$12,426,608</u>	<u>\$8,090,233</u>
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses (Note 8)	\$979,650	\$820,841
Notes payable (Note 9)	5,862,900	2,387,127
	<u>6,842,550</u>	<u>3,207,968</u>
Commitments and Contingencies (Note 11)		
Net Assets		
Unrestricted (Note 13)	5,584,058	4,882,265
	<u>5,584,058</u>	<u>4,882,265</u>
	<u>\$12,426,608</u>	<u>\$8,090,233</u>

On behalf of the Management

Country Director

Chief Accountant

See Notes to Financial Statements.

FINCA Azerbaijan

Statement of Activities

For the four months period ended December 31, 2005

	for the four months period ended December 31, 2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Interest income	\$1,439,077	-	-	\$1,439,077
Grants and contracts (Note 4)	5,332	-	-	5,332
Fees and other	202,299	-	-	202,299
Investment income	-	-	-	-
Total revenue and support	1,646,708	-	-	1,646,708
Expenses:				
Program services	724,135	-	-	724,135
General and administrative	297,122	-	-	297,122
Indirect expenses	(44,070)	-	-	(44,070)
Total expenses	977,187	-	-	977,187
Change in net assets before translation adjustment	669,521	-	-	669,521
Translation adjustment	32,272	-	-	32,272
Change in net assets	701,793	-	-	701,793
Net assets:				
Beginning	4,882,265	-	-	4,882,265
Ending	\$5,584,058	-	-	\$5,584,058

On behalf of the Management

Country Director

Chief Accountant

See Notes to Financial Statements.

FINCA Azerbaijan

Statement of Functional Expenses

For the four months period ended December 31, 2005

	Program Services	General and Administrative	Total
Professional fees and contract services	-	\$73,324	\$73,324
Salaries, employee benefits and payroll taxes	199,594	113,366	312,960
Travel	34,477	24,529	59,006
Occupancy and utilities	20,568	14,634	35,202
Supplies and miscellaneous	17,622	13,022	30,644
Telephone and communications	11,151	7,933	19,084
Meetings and conferences	772	2,541	3,313
Printing and publication	2,701	8,006	10,707
Depreciation	5,006	3,562	8,568
Provision for loan losses	72,703	-	72,703
Affiliation fees to FINCA	177,185	-	177,185
Management fees to FINCA	-	36,205	36,205
Advertising/Promotion	1,237	-	1,237
Bank charges	85,587	-	85,587
Interest expenses	95,532	-	95,532
Total direct costs	\$724,135	\$297,122	\$1,021,257
Income tax expense			(53,150)
Other taxes			9,080
Indirect costs			\$(44,070)
Total expenses			\$977,187

On behalf of the Management

Country Director

Chief Accountant

See Notes to Financial Statements.

FINCA Azerbaijan

Statement of Cash Flows

For the four months period ended December 31, 2005

for the four months period
ended December 31, 2005

<hr/>	
Cash Flows from Operating Activities	
Change in net assets	\$701,793
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	8,568
Changes in assets and liabilities:	
(Increase) decrease in:	
Loans and advances receivables	(3,026,599)
Grant support receivable	(5,332)
Other receivables and assets	(147,546)
Increase (decrease) in:	
Accounts payable and accrued expenses	158,809
Net cash used in operating activities	(2,310,307)
Net cash used in investing activities	-
Cash Flows from Financing Activities	
Proceeds from notes payable	3,475,773
Net cash provided by financing activities	3,475,773
Net increase in cash and cash equivalents	1,165,466
Cash and Cash Equivalents	
Beginning	595,722
Ending	\$1,761,188
<hr/>	

On behalf of the Management

Country Director

Chief Accountant

See Notes to Financial Statements.

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 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. 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 Azerbaijan Limited Liability Non-Bank Credit Organization ("the Organization") is the affiliate of FINCA in Azerbaijan. Through its regional hub headquartered in Kiev, Ukraine ("FINCA HUB"), the Organization carries out Small Enterprise Technical Assistance and Financing Programs.

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 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 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 was 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.

The financial statements for the period 01 September 2005 to 31 December 2005 prepared in accordance with the principles generally accepted in the United States of America (US GAAP) only for consolidation purpose without comparative information.

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.

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.

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 are prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, FINCA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Restricted cash: The restricted cash balance relates to funds received from USAID and private sector grants. These funds are restricted for use on specific programs, as designated by donors.

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 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, 2005 is \$ 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. At December 31, 2005, the allowance for doubtful accounts was \$ 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.

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

Property and equipment:

Since May 1, 2005, all expenses connected to purchase of the fixed assets with cost less than \$ 5,000, are included in structure of charges and shown in the Statement of Activities.

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.

Valuation of long-lived assets: FINCA accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Unrestricted net assets: Unrestricted net assets represent unrestricted resources available to support FINCA's operations and temporarily restricted resources that become available for use by FINCA in accordance with the intentions of donors. Also, all loan capital is considered unrestricted resources when loans made to recipients are repaid to FINCA.

Revenue and support: Interest income on loans to customers is recognized when incurred on the original loan amount.

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: The financial statements and transactions of FINCA's foreign operations are generally maintained in the relevant local currency. Where local currencies are used, assets and liabilities are translated at current exchange rates in effect at the balance sheet date. Translation adjustments, which result from the process of translating the financial statements into U.S. dollars, are accumulated in the cumulative translation adjustment account, which is a component of accumulated net assets. Revenues and expenses are translated at the average exchange rate for each period. Gains and losses from foreign currency transactions are included in change in net assets.

The exchange rate as of 31 December 2005 was AZM 4,593 to \$ 1. The average AZM/USD exchange rates for the four months period ended 31 December 2005 was 4,597. 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 \$ 724,135, general and administrative expenses are \$ 297,122, indirect expenses are \$ (44,070) for the four months period ended December 31, 2005.

Income tax status: FINCA Azerbaijan is liable for corporate profit tax at the rate of 24%.

As of December 2005 the Organization did not have any significant temporary differences between the carrying and tax values of its assets and liabilities, and, therefore, there are no material deferred tax assets or liabilities as of this date. Therefore, the total corporate profit tax expense is fully represented by the current portion of corporate profit tax.

The total income tax of the Organization for 2005 tax year is in accordance with income tax return and equals \$ 143,737.

As for the period 01 January to 31 August 2005 the profit tax expense in the amount of \$ 196,887 represented the most probable estimation of the corporate income tax made by the Organization's management therefore for the period 01 September 2005 to 31 December 2005 the profit tax expense was calculated in the amount of \$ (53,150).

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

	December 31, 2005	August 31, 2005
Cash in bank	\$1,749,937	\$574,662
Cash on hand	11,251	21,060
Cash and cash equivalents	\$1,761,188	\$595,722

As of December 31, 2005 the sum of cash and cash equivalents in local currency is \$ 416,372 the sum of cash and cash equivalents in USD is \$ 1,344,816. At the same time as of December 31, 2005 the Organization has the balance of accounts payable and accrued expenses in local currency in the amount of \$ 155,051 and in USD in the amount of \$ 824,599.

Note 3. Loans and Advances Receivable

Loans to customers are made within Azerbaijan, in the cities of Baku, Imishli, Massali, Gandja and in rural areas. Most loans outstanding as of 31 December 2005 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 48 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 6 to 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 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, 2005 consist of the following:

	December 31, 2005	August 31, 2005
Loans and advances receivable	\$10,431,890	\$7,334,243
Less allowance for doubtful accounts	(148,000)	(76,952)
	\$10,283,890	\$7,257,291

Note 3. Loans and Advances Receivable (continued)

The aging of those loans receivables consist of the following:

Normal loans	Portfolio at risk	Amount	% for creation specific provisions	Provision
Current	-	\$10,278,809	1%	\$ 102,788
1 - 30 days past due	0,7%	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 - 120 days past due	0,2%	19,978	75%	14,984
121 - 180 days past due	0%	754	75%	566
181 or more days past due	0,1%	13,588	100%	13,588
Subtotal	1,5%	\$10,431,155		\$147,993
Rescheduled loan				
Current	0%	\$ 735	1%	7
1 - 30 days past due	-	-	1%	-
31 - 60 days past due	-	-	25%	-
61 - 90 days past due	-	-	50%	-
91 - 120 days past due	-	-	75%	-
121 - 180 days past due	-	-	75%	-
181 or more days past due	-	-	100%	-
Subtotal	0%	\$735		7
Total	1,5%	\$10,431,890		\$148,000

As of December 31, 2005 the organization has only one restructured loan with maturity date in the September 7, 2006.

The change in the loan loss provision for the four months period ended December 31, 2005, consists of the following:

	four months period ended December 31, 2005
Beginning balance	\$76,952
Current year provision for loan loss	72,703
Recovery of losses	76
Write offs	-1,731
	\$148,000

FINCA Azerbaijan
Notes to Financial Statements

Note 4. Grant support receivable

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

The list of grants (№ and date)	Balance at August 31, 2005	Due to FINCA International, Inc	Liquidation	Balance at December 31, 2005
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.	(6,165)	-	5,332	(833)
	\$123,134	-	\$5,332	\$128,466

For the four months period ended 31 December 2005 the Organization had no receive in-kind subsidies. The total amount of grant revenue in the Statement of Activities consists of the sum of grant liquidation.

Note 5. Other Receivables

Other receivables at December 31, 2005, consist of the following:

	December 31, 2005	August 31, 2005
Interest income accrued on loans to customers	\$155,001	-
VAT receivable	16,433	\$15,593
Account receivable	5,645	5,999
Other	5,332	1,450
	\$182,411	\$23,402

Note 6. Other assets

Other assets at December 31, 2005, consist of the following:

	December 31, 2005	August 31, 2005
Prepaid expenses	\$30,661	\$17,468
Prepaid taxes	-	24,656
	\$30,661	\$42,124

FINCA Azerbaijan
Notes to Financial Statements

Note 7. Property and equipment

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

Property and equipment	Estimated Useful Lives	Beginning Balance	Additions	Deletions	Net
Computer equipment and software, leasehold improvements	3 year	\$92,296	-	-	\$92,296
Furniture and equipment, vehicles	5 year	35,062	-	-	35,062
		\$127,358	-	-	\$127,358
Accumulated depreciation					
Computer equipment and software, leasehold improvements	3 year	\$60,284	\$6,395	-	\$66,679
Furniture and equipment, vehicles	5 year	18,514	2,173	-	20,687
		\$78,798	\$8,568	-	\$87,366
NET		\$48,560	\$8,568	-	\$39,992

Note 8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2005 consist of the following:

	December 31, 2005	August 31, 2005
Accrued affiliation fee payable to FINCA	\$477,325	\$300,140
Provision for income tax	118,542	195,873
Management fees and other payables to FINCA	153,867	102,345
MFSI payable	78,530	90,191
Accrued interest payable	54,278	19,080
Accrued interest payable to FINCA Capital Fund LLC	30,882	-
Accrued payroll and accrued payroll tax payable	29,631	64,085
Accrued interest payable to FINCA	15,717	31,979
Accrued audit fee payable	14,000	16,520
Other taxes	6,878	628
	\$979,650	\$820,841

As of December, 31 2005 the Organization has the balance of accounts payable and accrued expenses in local currency in the amount of \$ 155,051 and in USD in the amount of \$ 824,599. See also Note 2.

FINCA Azerbaijan
Notes to Financial Statements

Note 9. Notes Payable

Notes payable as of 31 December 2005 consist of the following:

The name of Lender	Interest rate	Secured	Unsecured	At December 31, 2005	At August 31, 2005
FINCA Capital Fund LLC	5, 10,4%	-	\$3,700,000	\$3,700,000	-
VBCF	8%	-	500,000	500,000	\$1,200,000
Credit Suisse Microfinance fund Management company	9,6%	-	900,000	900,000	900,000
Oikocredit, Ecumenical Development Cooperative Society U.A.	8%	\$250,000	250,000	500,000	-
Social Fund for Internally Displaced Persons (SFDI)	0%	-	262,900	262,900	287,127
			\$250,000	\$5,612,900	\$2,387,127

FINCA Capital Fund LLC: Two loan principals in the amount of \$1,500,000 and \$1,700,000 were received in November and December 2005, respectively, payable in nine consecutive semi-annual installments, beginning the December 31, 2008. The loans accrue interest at 10,4% a year, payable semi-annually.

The third loan principal in the amount of \$ 500,000 was received in September 2005 with a maturity date on 31 March 2006. This loan accrues interest at 5% a year, payable monthly. In all case principals and interests are payable in US dollars.

VBCF: The first loan principal in the amount of \$ 500,000 was received in March 2005, have maturity date on 31 March 2006. The loan accrues interest at 8% a year, payable monthly. Principals and interests are payable in US dollars.

Credit Suisse Microfinance fund Management Company: The first loan principal in the amount of \$ 450,000 was received in May 2005 with a maturity date on 30 June 2006. The loan accrue interest at 9,6% a year, payable semi-annually in arrears on June 30 and December 30 of each year, beginning on December 30, 2005. Principal and interest are payable in US dollars.

The second loan principal in the amount of \$450,000 was received in June 2005 with a maturity date on 29 September 2006. The loan accrue interest at 9,6% a year, payable semiannually in arrears on December 30, 2005 and September 29, 2006. The principal and interest are payable in US dollars.

Oikocredit, Ecumenical Development Cooperative Society U.A.: The loan principal in the amount of \$500,000 was received in November 2005. 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 which principals is 483,000,000 manat everyone, 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 Financial Statements

Note 9. Notes Payable (continued)

Loans Repayments for the period 01 September to 31 December 2005:

The name of Lender	Loan principal at the year	Average during the period (monthly)	interest expense
FINCA Capital Fund LLC	\$3,700,000	\$1,212,500	\$37,391
VBCF	500,000	1,175,000	22,947
Credit Suisse Microfinance fund Management Company	900,000	900,000	29,277
Oikocredit, Ecumenical Development Cooperative Society U.A.	500,000	187,500	5,917
Social Fund for Internally Displaced Persons (SFDI)	262,900	279,012	-
	\$5,862,900	\$6,456,915	\$95,532

Maturities of notes payable at December 31, 2005, are due in future fiscal years as follows:

Years ending December, 31	
2006	\$2,076,589
2007	248,017
2008	550,637
2009	853,257
2010	710,400
2011	710,400
2012	713,600
Total Notes Payable	\$5,862,900

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

As of December 31, 2005 total notes payable in local currency is \$ 262,900, total notes payable in USD is \$ 5,600,000. At the same time as of December 31, 2005 the Organization has the balance of loans issued both in local currency in the amount of \$ 5,521,689 and in USD in the amount of \$ 4,910,201.

Note 10. Related Party Transactions

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

As of 31 December 2005 the FINCA Azerbaijan had liabilities in respect of short-term loan received from FINCA in the total amount of \$ 500,000. Loan was issued during 2005 to the Organization at the interest rate of 8 % per annum and matured on 31 March 2006. The Organization has the right to prepay in whole or in part the principal amount of the loan anytime and without a prepayment premium or other charges. As of 31 December 2005 the Organization had outstanding interest payable on short-term loans received from FINCA International, Inc in the amount of \$9,208.

As of 31 December 2005 the FINCA Azerbaijan had liabilities in respect of short-term loan received from FINCA Capital Fund LLC in the total amount of \$ 500,000. Loan was issued to the Organization at the interest rate of 5 % per annum and matured on 31 March 2006. The Organization has the right to prepay in whole or in part the principal amount of the loan anytime and without a prepayment premium or other charges. As of 31 December 2005 the Organization had outstanding interest payable on short-term loans received from FINCA Capital Fund LLC in the amount of \$6,509.

FINCA Azerbaijan
Notes to Financial Statements

Note 10. Related Party Transactions (continued)

As of 31 December 2005 the FINCA Azerbaijan had liabilities for long-term loans received from FINCA Capital Fund LLC in the total amount of \$3,200,000. Loans were issued to the Organization in the November and December 2005 at 10,4 % per annum with maturity date on 31 December 2012. As of 31 December 2005 the Organization had liabilities in respect of interest payable on loans received from FINCA Capital Fund LLC in the amount of \$30,882.

In November, 2005, the FINCA Azerbaijan received loans from Oikocredit, Ecumenical Development Cooperative Society U.A., Netherlands in the amount of \$ 500,000. In this loan agreement FINCA acted as the Borrower, FINCA Azerbaijan acted as the Co – borrower.

Lender	Maturity	Rate	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 March 2006	5 %	US \$	500,000
FINCA International, Inc	31 March 2006	8 %	US \$	500,000
				\$4,200,000

Grants from FINCA International, Inc.: For the four month ended December 31, 2005 the Organization didn't obtain grant support from the other organization. Total revenue derived from the grant support received earlier to cover the current expenditure and to lend those funds to its customers was \$ 5,332. As of December 31, 2005 the Organization had grant support earned but not received from FINCA International, Inc. in the amount of \$ 128,466.

Affiliation fees: Generally, for each loan extended to its customers 1-4% of the amounts disbursed is collected by FINCA Azerbaijan in exchange for providing supporting services. For the year ended December 31, 2005, the Organization recognized income in the amount of \$ 193,187. In its turn FINCA Azerbaijan agreed with FINCA International Inc. to pay 2% of the disbursement amount. For the year ended December 31, 2005 FINCA Azerbaijan realized an expense of \$ 177,185 related to affiliation fees payable to FINCA International, Inc. As of 31 December 2005 the accounts payable for affiliation fees due to FINCA International Inc. was \$ 477,325.

Management fees: Management fee expenses mainly represent the Country Director's expenses including salary and allowances. FINCA International, Inc., USA directly concluded the agreement with the Country Director. During the year ended December 31, 2005 the Organization received management services from FINCA International Inc. in the amount of \$ 36,205.

Other reimbursable expenses: Other reimbursable expenses due to FINCA International Inc. for the period ended December 31, 2005 were incurred in the amount of \$ 15,317.

As of 31 December 2005 the accounts payable for management fees and other reimbursable expenses due to FINCA International Inc. were \$ 153,867. Settlements between the Organization and FINCA International, Inc. are normally made in the manner of direct wire transfers of funds via banks and on the terms agreed with FINCA International, Inc. (currently settlements are made on as needed basis).

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 11. Commitments and Contingencies

As of 31 December 2005 no significant commitments and contingencies existed.

FINCA Azerbaijan
Notes to Financial Statements

Note 12. Lease Obligations

FINCA Azerbaijan leases office space in the North, West and South region of Republic of Azerbaijan to support its operations and project activity. These lease agreements are concluded for 12 months and can be terminated before the expiration date by either party. All rental payments are fixed till the expiration of the leases. There are no specific lease renewal clauses.

Future minimum lease payments due total \$ 117,909 and are due within one year.

Total office rent expense for FINCA Azerbaijan for the four months ended December 31, 2005 was \$ 35,202.

Note 13. Statement of Changes in Unrestricted Net Assets

	Foundation Capital	Retained Earnings	Total
Balance, August 31, 2005	\$5,000	\$4,877,265	\$4,882,265
Retained earnings for four months ended 31 December 2005	-	701,793	701,793
Balance, December 31, 2005	\$5,000	\$5,579,058	\$5,584,058