

Audited Financial Statements
And Other Financial Information

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

December 31, 2006

Audited Financial Statements

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Independent Auditor's Report

To Executive Direction
Asociacion Esperanza Internacional, Inc.,
Santo Domingo, Dominican Republic

We have audited the balance sheets of ***Servicios de Microfinanzas de Asociacion Esperanza Internacional, Inc.***, as of December 30, 2006 and 2005, and the related states of income and expenses, changes in patrimony, and cash flows for the years then ended, and a summary of significant the countable policies and other explanatory notes. The management is responsible for the preparation and reasonable presentation of these financial statements and of which they are in conformity with the International Standards of Financial Information. This responsibility includes to design, to implement and to maintain the excellent internal control for the preparation and reasonable presentation of which the financial statements are free of false or erroneous declarations, or by fraud or error; as well as to select and to apply appropriate policies of accounting that are reasonable in the circumstances.

Our responsibility is to express an opinion on these financial statements based on our audit. We made the audit in accordance with the International Standards of Audit emitted by the International Federation of Accountants. These norms require ethical fulfillments and that we glide and we make the audit to receive a reasonable rank of security about which the financial statements do not contain important false or erroneous declarations.

An audit includes procedures to obtain evidences of the amounts and revelations contained in the financial statements. The selected procedures depend on the judgment of the auditors, including the evaluation of the risks on which false or erroneous declarations of importance are included in the financial statements, or by fraud or error. When carrying out these evaluations of risk, we considered the internal control for the reasonable preparation and presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but in order not to express an opinion on the effectiveness of the internal control of the company.

An audit includes, in addition, the evaluation of the used policies of accounting and the .reasoning of the estimations done by the management, as well as the evaluation of the general presentation of the financial statements.

We considered that the audit evidence that we have obtained is sufficient and appropriate to provide the bases of our opinion

In our opinion, the financial statements provide a true and reasonable presentation of the financial situation of ***Servicios de Microfinanzas de Asociacion Esperanza Internacional, Inc.***, as of December 31, 2006 and 2005, its financial performance and its cash flows by the years then ended, in accordance with the International Standards of Financial Information emitted by the International Accountability Standards Committee (IASC).

***Certified Public Accountants
I. C. P. A. R. D. Register No. 71***

Santo Domingo, Dominican Republic
August 7, 2007

BALANCE SHEETS

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

(Expressed in Dominican pesos)

	<i>December 31,</i>	
	2006	2005
ASSETS		
Cash --Note B	1,279,321	1,393,049
Loans receivable- net--Note D	28,918,015	19,789,822
Accounts receivable	8,679,193	7,235,789
Inventory	1,250,000	1,250,000
Prepaid expenses	-	16,875
Furniture and equipment -net--Note E	6,228,640	6,475,400
Other assets	3,520,010	4,280,137
	49,875,179	40,441,072
LIABILITIES AND PATRIMONY		
LIABILITIES		
Loans payable --Note F	35,783,684	30,794,161
Accounts payable	4,214,738	4,266,323
Accrued expenses	368,306	2,578,646
	40,366,728	37,639,130
PATRIMONY		
Retained earnings	9,508,451	2,801,942
	9,508,451	2,801,942
	49,875,179	40,441,072

See notes to financial statements.

STATEMENTS OF INCOME AND EXPENSES

**ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS**

(Expressed in Dominican pesos)

	<i>Years ended</i> <i>December 31,</i>	
	<u>2006</u>	<u>2005</u>
Income:--Note D		
Grants	25,045,138	10,647,280
Interests and commission	12,121,933	5,299,210
Others	-	114,719
	<u>37,167,071</u>	<u>16,061,209</u>
 Expenses :--Notes C, E and F		
Interests and commission	2,245,879	312,537
Administrative	18,573,358	10,555,250
Depreciation	3,396,152	1,075,221
Provision for uncollectable loans	4,930,123	573,977
	<u>29,145,512</u>	<u>12,516,985</u>
 EXCEDENT OF INCOME OVER EXPENSES OF THE YEAR	 <u>8,021,559</u>	 <u>3,544,224</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN PATRIMONY

**ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS**

(Expressed in Dominican pesos)

	<u><i>Retained earnings</i></u>
Balance as of December 31, 2004	-
Elimination of items	142,606
Result of the year	3,544,224
Transfer	(884,888)
Balance as of December 31, 2005	2,801,942
Elimination of items	(1,315,050)
Result of the year	8,021,559
BALANCE AS OF DECEMBER 31, 2006	<u>9,508,451</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

**ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS**

(Expressed in Dominican pesos)

	<i>Years ended</i>	
	<i>December 31,</i>	
	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Cash receipt (paid) by:		
Grant, interest and commission and others	37,167,071	16,061,209
Operational expenses	(20,058,281)	(4,977,156)
Financial	(2,245,879)	(312,537)
NET CASH PROVIDED BY OPERATING EXPENSES	<u>14,862,911</u>	<u>10,771,516</u>
INVESTMENT ACTIVITIES		
Cash paid in:		
Loan receivable-Net	(14,058,316)	(20,363,799)
Adquisition of furniture and equipment	(3,149,392)	(7,550,621)
Other assets	-	(4,280,137)
NET CASH USED IN INVESTMENT ACTIVITIES	<u>(17,207,708)</u>	<u>(32,194,557)</u>
FINANCING ACTIVITIES		
Cash receipt (paid) by:		
Loans payable	7,380,962	30,794,161
Paid of loans	(2,391,439)	-
Account receivable	(1,443,404)	(7,235,789)
Saneamiento de cuentas	(1,315,050)	(742,282)
NET CASH PROVIDING BY FINANCING ACTIVITIES	<u>2,231,069</u>	<u>22,816,090</u>
(Decrease) increase cash during the year	(113,728)	1,393,049
Cash at the beginning of the year	1,393,049	-
CASH AT END OF THE YEAR	<u><u>1,279,321</u></u>	<u><u>1,393,049</u></u>

STATEMENT OF CASH FLOWS

**ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS**

(Expressed in Dominican pesos)

**CONCILIATION BETWEEN EXCEDENT OF INCOME OVER EXPENSES OF THE YEAR WITH
NET CASH PROVIDED BY OPERATING EXPENSES**

	<i>Years ended</i> <i>December 31,</i>	
	<u>2006</u>	<u>2005</u>
Excedent of income over expenses of the year	8,021,559	3,544,224
Items that no require cash		
Depreciation	3,396,152	1,075,221
Provision for uncollectable loans	4,930,123	573,977
Amortization of other assets	760,127	-
	<u>9,086,402</u>	<u>1,649,198</u>
Changes in assets and liabilities		
(Increase) decrease in:		
Prepaid expenses	16,875	(16,875)
Inventory	-	(1,250,000)
Increase (decrease) in:		
Accounts and accrual payable	<u>(2,261,925)</u>	<u>6,844,969</u>
	<u>14,862,911</u>	<u>10,771,516</u>

See notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

ASOCIACION ESPERANZA INTERNACIONAL, INC. SERVICIOS DE MICROFINANZAS

December 31, 2006

NOTE A--SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: *Servicios de Microfinanzas* is a department of *Asociacion Esperanza Internacional, Inc.* is a non - profit religious association created by Decree No. 128/99 under the protection of Law No. 520 dated July 26, 1920.

The main objectives of the Institution are:

- To liberate the children and their families of poverty through that generate income, education and health. Restore the self-esteem and dignity to those who have lost it.
- The development of the micro-enterprise, assisting poor people, especially mothers, in the creation of income and employment generation to stabilize the personal dignity.
- The community development through the establishment of schools that emphasize their programs on literacy, primary health education, clinical nutrition education, recreation and leadership, sports programs to assist children and adolescents, religious education and spiritual development.
- Development of environmental health programs, such as improved health, development of improved access to safe water for their staff and food, water, latrine, recycling of plastic, glass and metals, and other matters of interest to developing environmental awareness.

Fund Accounting: The accounting records kept by the Asociacion are prepared under the fund principle, such require that each fund has accounting according objectives and activities

Properties and Equipments: At December 31, 2006 and 2005, land and buildings are recorded based on cost of acquisition not exceeding its market value. They are depreciating according Fiscal Law in Use.

Other Assets: In other assets guarantees and deposits for the obtaining of services are included deprived public and, as well as, licenses of programs of Microsoft., received in quality of donation, which are being amortized in a period of five years.

NOTES TO THE FINANCIAL STATEMENTS--Continued

**ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS**

Acknowledge of Income and Expenses by Accrual Basis: The method used by *Asociacion Esperanza Internacional, Inc.*, to record income and expenses is the accrual basis, which consist in recognizing the income and expenses when they are done.

NOTE B--CASH

The detail of cash as of December 31, is as follows:

	<u>2006</u>	<u>2005</u>
Fund for expenses	83,000	78,000
Asociacion Higuamo de Ahorros y Prestamos	25,993	1,315,049
Banco BHD, S. A.	785,559	-
Transfer in transit	384,769	-
	<u><u>1,279,321</u></u>	<u><u>1,393,049</u></u>

NOTE C—COMMITMENTS

The Association maintains leases for premises where they operate their offices, renewable annually. The cost of rent for the acts complete by December 31, 2006 an 2005 amounted to a value of DR\$512,344 and DR\$733,839, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued
ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

NOTE D--LOANS RECEIVABLE

The loans receivable as of December 31, is as follow:

<u>Detail</u>	<u>2006</u>	<u>2005</u>
No matureted loans	27,439,338	18,998,427
matureted loans	4,415,616	1,054,236
	31,854,954	20,052,663
Less, provision for uncollectable loans	(2,936,939)	(262,841)
	<u>28,918,015</u>	<u>19,789,822</u>

As of December 31, 2006 and 2005, the loans receivable rated an interest and commission that oscillates between a 36% and 48% annual. Most of the loans receivable at the year 2006 have a maturities in 2007.

Provision for uncollectable loans:

The movement of provision for uncollectable loans during the years ended December 31, is as follow:

<u>Detalles</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of the year	262,841	511,994
Provision of the year	4,930,123	573,977
	5,192,964	1,085,971
Write off loans during the year	(2,256,025)	(823,130)
Balance at end of the year	<u>2,936,939</u>	<u>262,841</u>

NOTES TO FINANCIAL STATEMENTS--Continued

**ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS**

NOTE D--LOANS RECEIVABLE--Continued

<u>Maturities</u>	<i>December 31,</i>		<i>% Over Tot</i>
	<i>2006</i>	<i>2005</i>	<i>December</i> <i>2006</i>
15 a 30 days	422,929	484,368	1.33
31 a 60 days	584,229	292,256	1.83
61 a 91 days	291,699	137,046	0.92
More than 91 days	210,609	140,566	0.66
Matured balance	1,509,466	1,054,236	4.74
No matured balance	30,345,488	18,998,427	95.26
Loans Receivable	31,854,954	20,052,663	100.00

NOTE E--FURNITURE AND EQUIPMENT

The detail of furniture and equipment as of December 31, is as follow:

<i>Año 2006</i> <i>Detalles</i>	<i>Balance as of</i> <i>12/31/2005</i>	<i>Adittion</i>	<i>Retire</i>
Furniture and equipment	4,489,387	973,293	-
Transportation equipment	4,563,431	1,190,060	-
Others	782,664	18,976	-
	9,835,482	2,182,329	-
Accumulated Depreciation	(3,360,082)	(2,429,089)	-
	6,475,400	(246,760)	-

al Loans
er 31,
2005

2.42
1.46
0.68
0.70
<hr/>
5.26
94.74
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100.00
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Balance as of
12/31/2006

5,462,680
5,753,491
801,640
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12,017,811
(5,789,171)
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6,228,640
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NOTES TO THE FINANCIAL STATEMENTS--Continued

**ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS**

NOTE F—LOANS PAYABLE

The details of the loans payable at December 31, is as follows:

	<u>2006</u>	<u>2005</u>
Loan of Fundación Reservas del País Inc., to cover operating expenses and investments. To be implemented over a period of five years beginning February 2004. At December 31, 2006 has been received by the loan value of DR\$18,150,000. This loan was agreed at a rate of interest and commission of 12% per year, payable on January 15 each year. It will be payable in eight years from the year 2009 in eight annual installments in December 31, the years 2009 to 2016. The amount spent to cover operating expenses will be paid in terms of three years beginning with the year 2007 three annual fees payable from December 31, 2007 to 2009.	18,150,000	18,150,000
Loans of Graneen Foundation USA, 2% annual interest and commission.	10,919,600	5,800,000
Loan of Asociación Dominicana de Mitigación de Desastre Inc., at an interest and commission annual rate of 18% without specific guarantee, payable to presentation.	1,450,000	1,450,000
Loans to individuals to interest rates and commission annual rates between 18% and 20%, without specific guarantee, and payable to presentation.	3,750,296	3,900,296
Loan of Banco BHD, S. A., payable through monthly installments of principal and interest and commission annual rate of 22%, collateralized on vehicle.	392,390	-
Line of Credit of Banco BHD, S. A. renewable every 90 days	1,000,000	-
Banking Overdraft	121,378	1,493,865
	<u>35,783,664</u>	<u>30,794,161</u>

Independent Auditors' Report on Supplemental Information

To Executive Direction
Asociacion Esperanza Internacional, Inc.,
Santo Domingo, Dominican Republic

The audited financial statements of *Servicios de Microfinanzas de Asociacion Esperanza Internacional, Inc.*, for the years ended December 31, 2006 and 2005, are presented in the preceding section of this report. The following financial information is presented for purposes of additional analysis and is not a required part of the financial statements of *Servicios de Microfinanzas de Asociacion Esperanza Internacional, Inc.*, such information has been subjected to the auditing procedures applied in our audit of the financial statements for the years then ended and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Certified Public Accountants
I.C.P.A.R.D. Register No. 71

Santo Domingo, Dominican Republic
August 7, 2007.

DETAIL OF INCOME

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

(Expressed in Dominican pesos)

	<i>Years ended</i> <i>December 31,</i>	
	<u>2006</u>	<u>2005</u>
Grants:		
Grants for expenses	6,425,327	6,468,944
Special Grants	<u>18,619,811</u>	<u>4,178,336</u>
	25,045,138	10,647,280
Interest and commission over loans receivable	<u>12,121,933</u>	<u>5,413,929</u>
	<u>37,167,071</u>	<u>16,061,209</u>

DETAIL OF INCOME AND EXPENSES

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

(Expressed in Dominican pesos)

	<i>Years ended</i>	
	<i>December 31,</i>	
	<u>2006</u>	<u>2005</u>
Payroll	7,929,136	4,548,894
Vacations	32,208	18,382
Christsmas bonus	632,187	576,105
Severance	561,501	251,230
Medical security	930,480	427,628
Employee attention	89,474	158,424
Incentive	108,500	239,352
Pension Plan	685,220	315,511
Vacations	61,522	60,482
International expenses	67,200	86,404
Fuel	891,892	360,069
Insurance of vehicles	60,969	1,750
Funrniture manintenance	255,506	357,512
Vehicles maintenance	344,203	-
Local maintenance	250,915	180,657
Per diem	301,079	207,729
Transportation	762,571	314,643
Education	18,392	58,559
Office suplies	425,399	244,002
Other expenses relative to work	91,600	3,500
Local rent	512,344	409,350
Vehicle rent	6,280	-
Communications	1,076,834	839,437
Trash, wather and power	378,999	114,117
Cleanning	189,164	71,207
Part time employee	8,271	4,379
Miscelaneous	105,574	173,962
General insurance	32,003	111,619
Bank Charges	262,059	38,453

DETAIL OF INCOME AND EXPENSES --Continued

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

(Expressed in Dominican pesos)

	<i>Years ended</i> <i>December 31,</i>	
	<u>2006</u>	<u>2005</u>
Training	-	17,500
Professional fees	317,748	74,240
Eventos y festejos	387,226	213,397
Health plan	95,331	-
Education plan	125,800	-
Development	23,140	-
Medical expenses	7,020	4,008
Office supplies for work	26,910	25,496
Representation	1,500	29,645
Grants and Contribution	400	867
Suscriptions	40,632	16,740
Office general expenses	92,219	-
Other personal related expenses	169,089	-
Increasing fund	96,100	-
Associated	57,232	-
Advertising	18,200	-
Meetings	37,884	-
Watchman service	5,445	-
Others		
	<u>18,573,358</u>	<u>10,555,250</u>