

**MICROFINANCE ORGANIZATION
CONSTANTA FOUNDATION**

Financial Statements
For the Year Ended 31 December 2006

and Independent Auditors' Report

MICROFINANCE ORGANIZATION CONSTANTA FOUNDATION

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's audit report set out on pages 2 and 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Microfinance Organization Constanta Foundation (the "Fund").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Fund at 31 December 2006, the results of its operations, cash flows and changes in net assets for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

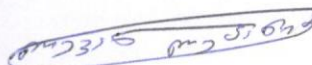
- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Fund will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Fund;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Fund, and which enable them to ensure that the financial statements of the Fund comply with IFRS;
- Maintaining accounting records in compliance with legislation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Fund; and
- Detecting and preventing fraud and other irregularities.

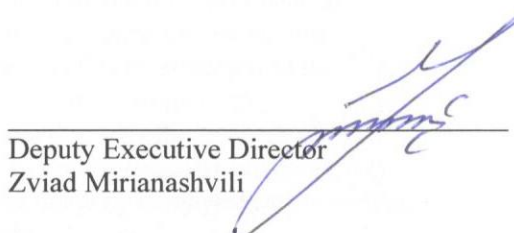
The financial statements for the year ended 31 December 2006 were authorised for issue on 8 May 2007 by Governing Board.

On behalf of the Executive Board:



Executive Director
Levan Lebanidze

8 May 2007



Deputy Executive Director
Zviad Mirianashvili

8 May 2007

INDEPENDENT AUDITORS' REPORT

To the Governing Board of Microfinance Organization Constanta Foundation:

Report on the financial statements

We have audited the accompanying financial statements of Microfinance Organization Constanta Foundation, which comprise of the balance sheet as at 31 December 2006, and the statements of activities, changes in net assets 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 includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 the Microfinance Organization Constanta Foundation as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

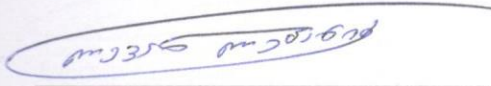
Deloitte & Touche

8 May 2007

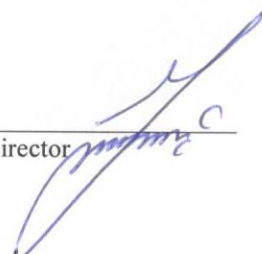
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED 31 DECEMBER 2006
(in Georgian Lari and in thousands)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Interest income	4	9,181	4,830
Interest expense	4	<u>(2,226)</u>	<u>(177)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT ON INTEREST BEARING ASSETS		6,955	4,653
ALLOWANCE FOR IMPAIRMENT LOSSES	5	(643)	(758)
NET INTEREST INCOME		6,312	3,895
Fee and commission income	6	983	694
Fee and commission expense	6	(58)	(45)
Net gain/(loss) on foreign exchange operations	7	100	(16)
Other income	8	218	108
OPERATING INCOME		7,555	4,636
OPERATING EXPENSES	9	<u>(6,028)</u>	<u>(4,520)</u>
NET OPERATING INCOME		1,527	116
Donation income	10	<u>647</u>	<u>560</u>
PROFIT BEFORE INCOME TAXES		2,174	676
Income tax expense	11	<u>(475)</u>	<u>(51)</u>
NET PROFIT		<u><u>1,699</u></u>	<u><u>625</u></u>

On behalf of the Executive Board:


 Executive Director
 Levan Lebanidze

8 May 2007


 Deputy Executive Director
 Zviad Mirianashvili

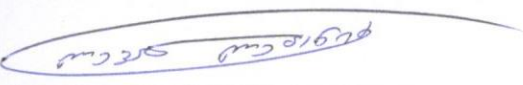
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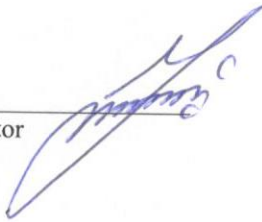
BALANCE SHEET
AS AT 31 DECEMBER 2006
(in Georgian Lari and in thousands)

	Notes	31 December 2006	31 December 2005
ASSETS:			
Cash and cash equivalents	12	238	215
Deposits held with banks	13	16,867	-
Loans to customers	14	34,234	13,654
Property, equipment and intangible assets	15	1,864	1,409
Income tax prepaid		-	318
Deferred tax asset	11	21	-
Other assets	16	562	77
TOTAL ASSETS		<u>53,786</u>	<u>15,673</u>
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other financial institutions	17	39,616	4,080
Income tax liability		369	-
Other liabilities-	18	544	35
Total liabilities		<u>40,529</u>	<u>4,115</u>
NET ASSETS			
Accumulated funds		<u>13,257</u>	<u>11,558</u>
Total net assets		<u>13,257</u>	<u>11,558</u>
TOTAL LIABILITIES AND NET ASSETS		<u>53,786</u>	<u>15,673</u>

On behalf of the Executive Board:


 Executive Director
 Levan Lebanidze

8 May 2007


 Deputy Executive Director
 Zviad Mirianashvili

8 May 2007

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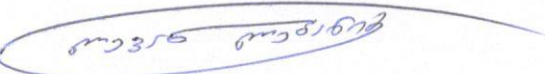
CONSTANTA FOUNDATION

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2006

(in Georgian Lari and in thousands)

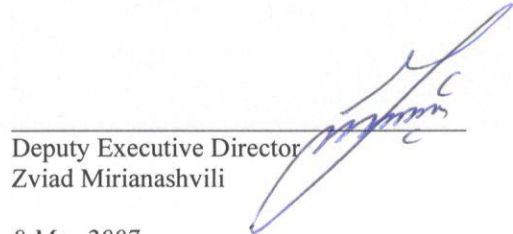
	Year ended 31 December 2006	Year ended 31 December 2005
At the beginning of the year	11,558	10,933
Net profit for the year	<u>1,699</u>	<u>625</u>
At the end of the year	<u><u>13,257</u></u>	<u><u>11,558</u></u>

On behalf of the Executive Board:



Executive Director
Levan Lebanidze

8 May 2007



Deputy Executive Director
Zviad Mirianashvili

8 May 2007

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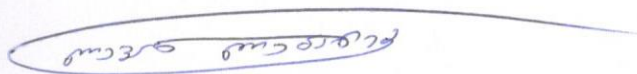
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006
(in Georgian Lari and in thousands)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		2,174	676
Adjustments for:			
Loss on disposal of equipment		27	5
Allowance for impairment losses on loans to customers		643	758
Depreciation and amortization expense		292	257
Net change in interest accruals		450	170
Translation gain		(152)	-
Cash flows from operating activities before changes in operating assets and liabilities		3,434	1,866
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Loans to customers		(21,540)	(6,195)
Deposits held with banks		(17,100)	-
Other assets		(476)	148
Increase/(decrease) in operating liabilities			
Other liabilities		700	(39)
Cash outflow from operating activities before taxation		(34,982)	(4,220)
Income tax paid		-	(279)
Net cash outflow from operating activities		(34,982)	(4,499)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(865)	(414)
Proceeds from sale of property and equipment		91	2
Net cash outflows from investing activities		(774)	(412)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bank loans		35,804	4,080
Net cash inflow from financing activities		35,804	4,080
NET DECREASE IN CASH AND CASH EQUIVALENTS		48	(831)
Effect of exchange rates on cash and cash equivalents		(25)	-
CASH AND CASH EQUIVALENTS at the beginning of the year	12	215	1,046
CASH AND CASH EQUIVALENTS at the end of the year	12	238	215

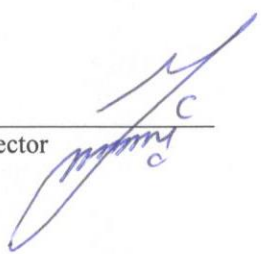
Interest paid and received by the Fund during the year ended 31 December 2006 amounted to GEL 2,071 thousand and GEL 9,847 thousand, respectively.

Interest paid and received by the Fund during the year ended 31 December 2005 amounted to GEL 165 thousand and GEL 4,987 thousand, respectively.

On behalf of the Executive Board:


 Executive Director
 Levan Lebanidze

8 May 2007


 Deputy Executive Director
 Zviad Mirianashvili

8 May 2007

The notes on pages 8-27 form an integral part of these financial statements. The Independent Auditors' Report is on pages 2 and 3.

1. ORGANISATION

Microfinance Organization Constanta Foundation is a non profit making micro financial organization. It was established as an association on 31 January 1997 by the Decree number 3/29 of the Ministry of Justice. The association was succeeded by the Fund Constanta, that was registered on 4 December 1998 by the Decree number 30/7 of the Ministry of Justice.

The organization was further re-registered on 31 March 2005 by the Decree number 42 of the Ministry of Justice, as Microfinance Organization Constanta Foundation (the "Fund").

The registered address of the Fund is 115, Tsinamdzgvrishvili Street, Tbilisi, 0164, Georgia.

The principal activity of the Fund is the implementation of micro credit programs, being achieved through providing microfinance services to local micro and small entrepreneurs living in Georgia. Target groups of the Fund are legal entities and individuals with relatively low levels of income.

The Fund has nine branches, six outlets and eleven service points, covering different regions of Georgia.

As at 31 December 2006 and 2005 the Fund employed 268 and 236 people, respectively.

These financial statements were authorized for issue by the Governing Board on 8 May 2007.

2. BASIS OF PRESENTATION

Accounting basis

These financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**
(in Georgian Lari and in thousands, unless otherwise stated)

Key assumptions

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2006	31 December 2005
Loans to customers	34,234	13,654

Functional currency

The functional currency of these financial statements is the Georgian Lari.

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

The Fund recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash balances in banks.

Deposits held with banks

In the normal course of business, the Fund maintains advances and deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Originated loans

Loans originated by the Fund are financial assets that are created by the Fund by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Fund with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of activity according to nature of these losses.

Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Allowance for impairment losses

The Fund establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and loss and the total of the allowance for impairment losses is deducted in arriving at assets as shown in balance sheet. Factors that the Fund considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Fund may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and any recognized impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**
(in Georgian Lari and in thousands, unless otherwise stated)

Depreciation of property and equipment and amortization of intangible assets is charged on their historical cost and is designed to write off assets over their useful lives. It is calculated on a straight line basis at the following annual rates:

Buildings	5-10
Computers and office equipment	20-25
Furniture and fixtures	20-25
Vehicles	20-25
Other fixed assets	10-20
Intangible assets	5-10

The carrying amounts of property, equipment and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the asset's revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of activity 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 Fund's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of activity, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Georgia also has various other taxes, which are assessed on the Fund's activities. These taxes are included as a component of operating expenses in the statement of activity.

Loans from banks

Loans and deposits from Banks are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Net assets

The Fund's net assets represent the surplus of total assets over total liabilities. Net assets arise from excess of income over expenditures. Excess of income over expenditures has to be used for micro credit operations. If the Fund ceased to exist, according to Georgian legislation its net assets should be distributed to the similar organizations.

Donations received

Donations received include donations from government or other parties in the form of transfers of cash, property and other types of assets to the Fund. These donations are recognized as income whenever there is a reasonable expectation that the organization will comply with the conditions of their use, if applicable.

Retirement and other benefit obligations

In accordance with the requirements of the Georgian legislation, the Fund withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. In addition such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by state pension fund. The Fund does not have any pension arrangements separate from the State pension system of Georgia. In addition, the Fund has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using effective interest rate method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**
(in Georgian Lari and in thousands, unless otherwise stated)

Interest income also includes income earned on investments in securities. Other income is credited to statement of activity when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Commission incomes/expenses are recognized on an accrual basis.

Fee and commission income

Fee and commission income includes loan origination fees, loan commitment fees, loan servicing fees and loan syndication fees. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit and loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into GEL at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

The exchange rates at year-end used by the Fund in the preparation of the financial statements are as follows:

	31 December 2006	31 December 2005
GEL/1 US Dollar	1.714	1.793
GEL/1 Euro	2.256	2.125

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Fund has a legally enforceable right to set off the recognized amounts and the Fund intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Fund does not offset the transferred asset and the associated liability.

Adoption of new and revised International Financial Reporting Standards

In 2006 the following interpretations and amendments applicable to the Fund became effective:

- IFRIC 4 "Determining Whether an Arrangement Contains a Lease" (effective 1 January 2006);
- IFRIC 9 "Reassessment of Embedded Derivatives" (effective 1 June 2006);
- Amendment to IAS 39 regarding the financial guarantee contracts (effective 1 January 2006);
- Amendment to IAS 39 regarding the fair value option (effective 1 January 2006).
- The effect of these changes on the financial statements of the Fund is not significant.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**
(in Georgian Lari and in thousands, unless otherwise stated)

At the date of authorisation of these financial statements, the following Standards and Interpretations applicable to the Fund were issued but not yet effective:

- IFRS 7 “Financial Instruments: Disclosures” (effective 1 January 2007);
- Amendments to IAS 1 regarding disclosure on the Fund’s objectives, policies and processes for managing capital (effective 1 January 2007).

The management is currently assessing the impact of the adoption of these new and revised Standards and Interpretations in future periods.

4. NET INTEREST INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income		
Interest income on loans to customers	8,419	4,796
Interest income on deposits held with banks	752	7
Other	10	27
	<u>9,181</u>	<u>4,830</u>
Interest expense		
Interest expenses on loans	2,205	169
Interest expense on overdrafts	21	8
	<u>2,226</u>	<u>177</u>
Net interest income, before provision for impairment on interest bearing assets	<u><u>6,955</u></u>	<u><u>4,653</u></u>

5. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses on loans to customers were as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
At the beginning of the year	469	1,550
Provision	643	758
Recoveries of loans previously written off	97	100
Write off	(252)	(1,939)
	<u>957</u>	<u>469</u>
At the end of the year	<u><u>957</u></u>	<u><u>469</u></u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)
(in Georgian Lari and in thousands, unless otherwise stated)

6. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2006	Year ended 31 December 2005
Fee and commission income:		
Revenues from administrative fees	907	677
Other commission income	76	17
Total fee and commission income	983	694
Fee and commission expense:		
Commission fees on loans	<u>(58)</u>	<u>(45)</u>
Total fee and commission expense	<u>(58)</u>	<u>(45)</u>

7. NET GAIN / (LOSS) FROM FOREIGN EXCHANGE OPERATIONS

Net gain / (loss) from foreign exchange operations comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Translation differences	152	-
Forex loss	<u>(52)</u>	<u>(16)</u>
Total net gain/(loss) on foreign exchange operations	<u>100</u>	<u>(16)</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)
(in Georgian Lari and in thousands, unless otherwise stated)

8. OTHER INCOME

Other income comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Revenues from penalties	189	87
Other income	29	21
	<u>218</u>	<u>108</u>
Total net gain/(loss) on foreign exchange operations	<u>218</u>	<u>108</u>

9. OPERATING EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005
Salary expenses	2,905	2,137
Social security costs	594	435
Advertisement expenses	338	197
Depreciation and amortization	292	257
Rent expenses	252	266
Professional services	232	87
Communication expenses	206	174
Security expenses	198	143
Stationery	152	110
Business trips	134	91
Fuel expenses	130	115
Repair and maintenance	75	128
Other expenses	520	380
	<u>6,028</u>	<u>4,520</u>
Total operating expenses	<u>6,028</u>	<u>4,520</u>

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10. DONATION INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Chemonics International	358	276
Care International in Caucasus	289	249
Merci Corps	-	35
Total donation income	647	560

11. INCOME TAXES

The Fund provides for taxes based on the tax accounts maintained and prepared in accordance with the Georgian tax regulations that differ from International Financial Reporting Standards.

The Fund is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2006 and 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2006 and 2005 comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Deferred assets:		
Loans to customers	315	469
Other liabilities	360	-
Total deferred assets	675	469
Deferred liabilities:		
Property, equipment and intangible assets	408	220
Other assets	164	-
Total deferred liabilities	572	220
Net deferred asset	103	249
Deferred tax asset at the statutory rate of 20 %	21	50
Less valuation allowance	-	(50)
Net deferred tax asset	21	-

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Relationships between tax expenses and accounting profit for the years ended 31 December 2006 and 2005 are explained as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before income taxes	2,174	676
Theoretical tax at the statutory tax rate (20%)	435	135
Tax effect of permanent differences	90	166
Change in valuation allowance	(50)	(250)
Income tax expense	475	51
Current income tax expense	496	51
Deferred income tax benefit	(21)	-
Income tax expense	475	51

12. CASH AND CASH EQUIVALENTS

	31 December 2006	31 December 2005
Cash on hand in national currency	26	27
Cash in banks in national currency	179	156
Cash in banks in foreign currency	33	32
Total cash and cash equivalents	238	215

13. DEPOSITS HELD WITH BANKS

As of 31 December 2006 the fund placed deposits with the Bank Republic in the amount of GEL 16,867 thousand.

As of 31 December 2006 accrued interest income included in deposits held with banks amounted to GEL 45 thousand. The deposits in the amount of 16,867 were pledged against the loans received from the Bank Republic.

14. LOANS TO CUSTOMERS

	31 December 2006	31 December 2005
Originated loans	35,191	14,123
Less allowance for impairment losses	(957)	(469)
Total loans to customers	34,234	13,654

As of 31 December 2006 and 2005 accrued interest income included in loans to customers amounted to GEL 843 thousand and GEL 268 thousand, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 7.

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	31 December 2006	31 December 2005
Loans collateralized by household equipment and inventory	16,965	3,500
Loans collateralized by real estate	5,194	1,828
Unsecured loans	<u>12,075</u>	<u>8,326</u>
Total loans to customers	<u>34,234</u>	<u>13,654</u>

	31 December 2006	31 December 2005
Analysis by sector:		
Loans to group of individuals	12,075	8,326
Individuals	20,678	5,106
Agricultural	<u>1,481</u>	<u>222</u>
Total loans to customers	<u>34,234</u>	<u>13,654</u>

A significant amount of loans 100% of total portfolio is granted to companies operating in Georgia, which represents significant geographical concentration in one region.

15. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land and Buildings	Vehicles	Computers and office equipment	Furniture and fixtures	Construc- tion in progress	Intangible assets	Total
At cost							
31 December 2004	780	172	647	144	-	21	1,764
Additions	23	28	268	75	-	20	414
Disposals	<u>-</u>	<u>(41)</u>	<u>(64)</u>	<u>(11)</u>	<u>-</u>	<u>-</u>	<u>(116)</u>
31 December 2005	803	159	851	208	-	41	2,062
Additions	134	79	307	101	50	194	865
Disposals	<u>-</u>	<u>(109)</u>	<u>(170)</u>	<u>(50)</u>	<u>-</u>	<u>(1)</u>	<u>(330)</u>
31 December 2006	<u>937</u>	<u>129</u>	<u>988</u>	<u>259</u>	<u>50</u>	<u>234</u>	<u>2,597</u>
Accumulated depreciation							
31 December 2004	97	87	264	53	-	4	505
Charge for the year	39	29	150	34	-	5	257
Eliminated on disposals	<u>-</u>	<u>(41)</u>	<u>(58)</u>	<u>(10)</u>	<u>-</u>	<u>-</u>	<u>(109)</u>
31 December 2005	136	75	356	77	-	9	653
Charge for the year	41	34	171	41	-	5	292
Eliminated on disposals	<u>-</u>	<u>(64)</u>	<u>(120)</u>	<u>(27)</u>	<u>-</u>	<u>(1)</u>	<u>(212)</u>
31 December 2006	<u>177</u>	<u>45</u>	<u>407</u>	<u>91</u>	<u>-</u>	<u>13</u>	<u>733</u>
Net book value							
31 December 2006	<u>760</u>	<u>84</u>	<u>581</u>	<u>168</u>	<u>50</u>	<u>221</u>	<u>1,864</u>
31 December 2005	<u>667</u>	<u>84</u>	<u>495</u>	<u>131</u>	<u>-</u>	<u>32</u>	<u>1,409</u>

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16. OTHER ASSETS

	31 December 2006	31 December 2005
Prepayments and other debtors	210	37
Prepaid commission fee	164	-
Tax settlements, other than income tax	133	40
Inventory	55	-
	<u>562</u>	<u>77</u>
Total other assets	562	77

17. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2006	31 December 2005
Bank Republic	16,885	1,200
Deutsche Bank	6,854	-
Global Microfinance Facility	3,614	-
Oikocredit	2,134	360
Novib Fund	1,830	-
Credit Suisse Microfinance Fund Management Company	1,719	-
Impulse Microfinance Investment Fund	1,702	-
Microvest	1,435	2,520
Dexia Micro credit fund	1,283	-
Triodes Doen	1,128	-
EBRD	1,032	-
	<u>39,616</u>	<u>4,080</u>
Total due to banks and other financial institutions	39,616	4,080

As of 31 December 2006 and 2005 accrued interest expenses included in due to banks and other financial institutions amounted to GEL 147 thousand and GEL 12 thousand, respectively.

18. OTHER LIABILITIES

	31 December 2006	31 December 2005
Deferred commission income	360	-
Advances received	92	-
Trade payables	61	35
Taxes payable, other than income tax	31	-
	<u>544</u>	<u>35</u>
Total other liabilities	544	35

19. FINANCIAL COMMITMENTS AND CONTINGENCIES

Capital commitments - The Fund had no material commitments for capital expenditures outstanding as at 31 December 2006.

Operating lease commitments - No material rental commitments were outstanding as at 31 December 2006 and 2005.

Legal proceedings - From time to time and in the normal course of business, claims against the Fund are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxes - Due to the presence in Georgian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Fund's business activities was to be challenged by the tax authorities, the Fund may be assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for deals' pricing. The Fund believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Pensions and retirement plans - Employees receive pension benefits from Government of Georgia in accordance with the laws and regulations of Georgia. As at 31 December 2006 and 2005, the Fund was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment - The Fund's principal business activities are within Georgia. Laws and regulations affecting the business environment in Georgia are subject to rapid changes and the Fund's assets and operations could be at risk due to negative changes in the political and business environment.

20. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Fund (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Fund that gives them significant influence over the Fund; and that have joint control over the Fund;
- (b) Associates – enterprises on which the Fund has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Fund is a venturer;
- (d) Members of key management personnel of the Fund or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d); and
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

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In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Fund had the following transactions outstanding with related parties:

	31 December 2006		31 December 2005	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans and advances to customers - key management personnel of the entity	10	34,234	55	13,654

	31 December 2006		31 December 2005	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation: short-term employee benefits	163	2,905	96	2,137

Included in the statement of activity for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	4	9,181	5	4,830
Operating expense	43	6,028	114	4,520

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Fund could realize in a market exchange from the sale of its full holdings of a particular instrument.

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The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Fund is presented below:

	31 December 2006		31 December 2005	
	Current amount	Fair value	Current amount	Fair value
Cash and cash equivalents	238	238	215	215
Deposits held with banks	16,867	16,867	-	-
Due to banks and other financial institutions	39,616	39,616	4,080	4,080

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

22. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the micro financing business and is an essential element of the Fund's operations. The main risks inherent to the Fund's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Fund's risk management policies in relation to those risks follows.

The Fund manages the following risks:

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Fund performs daily monitoring of expected future cash flows on financing operations, which is a part of the assets/liabilities management process.

Cash flow interest rate risk

Cash flow interest rate risk the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The majority of the Fund's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Fund monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The following table presents an analysis of interest rate risk and thus the potential of the Fund for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Fund.

MICROFINANCE ORGANIZATION CONSTANTA FOUNDATION

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	2006			2005		
	GEL	USD	EUR	GEL	USD	EUR
ASSETS						
Deposits held with banks	10%	-	10%	-	-	-
Loans to customers	44%	28%	-	58%	-	-
LIABILITIES						
Due to banks and other financial institutions	14%	10%	8%	13%	12%	-

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Maturity undefined	2006 Total
ASSETS							
Deposits held with banks	45	-	5,060	9,670	2,092	-	16,867
Loans to customers	317	1,960	5,630	14,677	11,650	-	34,234
Total interest earning assets	362	1,960	10,690	24,347	13,742	-	51,101
Cash and cash equivalents	238	-	-	-	-	-	238
Property, equipment and intangible assets	-	-	-	-	-	1,864	1,864
Deferred tax asset	-	-	-	-	-	21	21
Other assets	398	-	-	-	164	-	562
TOTAL ASSETS	998	1,960	10,690	24,347	13,906	1,885	53,786
LIABILITIES							
Due to banks and other financial institutions	88	-	6,762	15,511	17,255	-	39,616
Total interest bearing liabilities	88	-	6,762	15,511	17,255	-	39,616
Income tax liability	-	369	-	-	-	-	369
Other liabilities	380	41	72	51	-	-	544
TOTAL LIABILITIES	468	410	6,834	15,562	17,255	-	40,529
Liquidity gap	530	1,550	3,856	8,785	(3,349)	-	
Interest sensitivity gap	274	1,960	3,928	8,836	(3,513)	-	
Cumulative interest sensitivity gap	274	2,234	6,162	14,998	11,485	-	
Cumulative interest sensitivity gap as a percentage of total assets	0.5%	4.2%	11.5%	27.9%	21.4%	-	

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 FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)
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	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Maturity undefined	2005 Total
ASSETS							
Loans to customers	454	1,959	5,290	3,460	2,491	-	13,654
Total interest earning assets	454	1,959	5,290	3,460	2,491	-	13,654
Cash and cash equivalents	215	-	-	-	-	-	215
Property, equipment and intangible assets	-	-	-	-	-	1,409	1,409
Other assets	37	-	-	-	40	-	77
Income tax prepaid	-	-	-	-	318	-	318
TOTAL ASSETS	706	1,959	5,290	3,460	2,849	1,409	15,673
LIABILITIES							
Due to banks and other financial institutions	1,200	-	-	717	2,163	-	4,080
Total interest bearing Liabilities	1,200	-	-	717	2,163	-	4,080
Other liabilities	35	-	-	-	-	-	35
TOTAL LIABILITIES	1,235	-	-	717	2,163	-	4,115
Liquidity gap	(529)	1,959	5,290	2,743	686		
Interest sensitivity gap	(746)	1,959	5,290	2,743	328		
Cumulative interest sensitivity gap	(746)	1,213	6,503	9,246	9,574		
Cumulative interest sensitivity gap as a percentage of total assets	(4.8%)	7.7%	41.5%	59.0%	61.1%		

The majority of the Fund's interest earning assets and interest bearing liabilities are at fixed rates of interest.

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Fund's liquidity and its susceptibility to fluctuations in interest rates and exchange rates.

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Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Fund's exposure to foreign currency exchange rate risk is presented in the table below:

	GEL	USD 1USD= 1.714 GEL	EUR 1 EUR= 2.256 GEL	2006 Total
ASSETS				
Cash and cash equivalents	208	11	19	238
Deposits held with banks	-	12,443	4,424	16,867
Loans to customers	34,207	27	-	34,234
Property, equipment and intangible assets	1,864	-	-	1,864
Deferred tax asset	21	-	-	21
Other assets	398	128	36	562
TOTAL ASSETS	36,698	12,609	4,479	53,786
LIABILITIES				
Due to banks and other financial institutions	16,885	16,028	6,703	39,616
Income tax liability	369	-	-	369
Other liabilities	544	-	-	544
TOTAL LIABILITIES	17,798	16,028	6,703	40,529
OPEN POSITION	18,900	(3,419)	(2,224)	13,257
	GEL	USD 1USD= 1.7925 GEL	EUR 1 EUR= 2.125 GEL	2005 Total
ASSETS				
Cash and cash equivalents	183	31	1	215
Loans to customers	13,252	402	-	13,654
Property, equipment and intangible assets	1,409	-	-	1,409
Income tax prepaid	318	-	-	318
Other assets	76	1	-	77
TOTAL ASSETS	15,238	434	1	15,673
LIABILITIES				
Due to banks and other financial institutions	1,200	2,880	-	4,080
Other liabilities	35	-	-	35
TOTAL LIABILITIES	1,235	2,880	-	4,115
OPEN POSITION	14,003	(2,446)	1	11,558

Credit risk

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The Fund is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers.

Where appropriate, the Fund obtains collateral and corporate guarantees. The credit risks are monitored on a continuous basis and are subject to annual or more frequent reviews, especially where no such security can be obtained.

Geographical concentration

The geographical concentration of assets and liabilities is set out below:

	Georgia	OECD countries	2006 Total
ASSETS			
Cash and cash equivalents	238	-	238
Deposits held with banks	16,867	-	16,867
Loans to customers	34,234	-	34,234
Property, equipment and intangible assets	1,864	-	1,864
Deferred tax asset	21	-	21
Other assets	398	164	562
TOTAL ASSETS	53,622	164	53,786
LIABILITIES			
Due to banks and other financial institutions	16,885	22,731	39,616
Income tax liability	369	-	369
Other liabilities	544	-	544
TOTAL LIABILITIES	17,798	22,731	40,529
NET POSITION	35,824	(22,567)	13,257
	Georgia	OECD countries	2005 Total
ASSETS			
Cash and cash equivalents	215	-	215
Loans to customers	13,654	-	13,654
Property, equipment and intangible assets	1,409	-	1,409
Income tax prepaid	318	-	318
Other assets	77	-	77
TOTAL ASSETS	15,673	-	15,673
LIABILITIES			
Due to banks and other financial institutions	1,200	2,880	4,080
Other liabilities	35	-	35
TOTAL LIABILITIES	1,235	2,880	4,115
NET POSITION	14,438	(2,880)	11,558