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CONSTANTA FOUNDATION GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2007

Audit . Tax . Consulting . Financial Advisory.

CONSTANTA FOUNDATION GROUP

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2007, 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 consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group 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 Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2007 were authorized for issue on 14 July 2008 by the Management Board.

On behalf of the Management Board:

Executive Director
Levan Lebanidze

14 July 2008

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of Microfinance Organization Constanta Foundation:

We have audited the accompanying consolidated financial statements of Microfinance Organization Constanta Foundation Group, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated statements of income, of changes in net assets and cash flows 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects the financial position of Microfinance Organization Constanta Foundation Group as at 31 December 2007, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

14 July 2008

CONSTANTA FOUNDATION GROUP

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

(in Georgian Lari and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	4,24	14,049	10,088
Interest expense	4,24	(4,736)	(2,284)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		9,313	7,804
Allowance for impairment losses on interest bearing assets	5	(251)	(643)
NET INTEREST INCOME		9,062	7,161
Net (loss)/gain on foreign exchange operations	6	(308)	100
Fee and commission expense	7	(173)	(92)
Net gain on securities held for trading		61	-
Other income	8	892	290
Other expenses	9	(250)	-
NET NON-INTEREST INCOME		222	298
OPERATING INCOME		9,284	7,459
OPERATING EXPENSES	10, 24	(10,708)	(5,932)
NET OPERATING (LOSS)/INCOME		(1,424)	1,527
Donation income	11	1,266	647
(LOSS)/PROFIT BEFORE INCOME TAX		(158)	2,174
Income tax expense	12	(585)	(475)
NET (LOSS)/PROFIT		(743)	1,699
Attributable to:			
Equity holders of the parent		(543)	-
Minority interest		(200)	-
		(743)	1,699

On behalf of the Management Board:

Executive Director
Levan Lebanidze
14 July 2008

The notes on pages 8-35 form an integral part of these consolidated financial statements.

CONSTANTA FOUNDATION GROUP

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007
(in Georgia Lari and in thousands)

	Notes	31 December 2007	31 December 2006
ASSETS:			
Cash	13	1,871	238
Deposits held with banks	14	9,309	16,867
Loans to customers	15, 24	42,036	33,782
Property, plant and equipment	16	7,484	1,756
Current income tax asset		496	-
Deferred tax asset		-	21
Other assets	17,24	2,229	506
TOTAL ASSETS		63,425	53,170
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Loans from banks and other financial institutions	18	44,743	39,451
Other borrowed funds	19	2,762	-
Current income tax liability		499	369
Deferred tax liability	12	62	-
Other liabilities	20	388	93
Total liabilities		48,454	39,913
NET ASSETS:			
Net assets attributable to equity holders of the parent:			
Accumulated funds	21	11,253	13,257
Fixed assets revaluation reserve		1,247	-
Total net assets attributable to equity holders of the parent		12,500	13,257
Minority interest		2,471	-
Total net assets		14,971	13,257
TOTAL LIABILITIES AND NET ASSETS		63,425	53,170

On behalf of the Executive Board:

Executive Director
Levan Lebanidze
14 July 2008

The notes on pages 8-35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2007

(in Georgian Lari and in thousands)

	Accumulated funds	Fixed assets revaluation reserve	Total	Minority interest	Total net assets
31 December 2005	**11,558**	-	**11,558**	-	**11,558**
Net profit	1,699	-	1,699	-	1,699
31 December 2006	**13,257**	-	**13,257**	-	13,257
Share capital contribution attributable to minority holders (nominal amount)	-	-	-	3,036	3,036
Discount adjustment at initial recognition of the capital contribution	(1,461)	-	(1,461)	(365)	(1,826)
Gains on revaluation of fixed assets	-	1,247	1,247	-	1,247
Net Loss	(543)	-	(543)	(200)	(743)
31 December 2007	**11,253**	**1,247**	**12,500**	**2,471**	**14,971**

On behalf of the Executive Board:

Executive Director
Levan Lebanidze
14 July 2008

The notes on pages 8-35 form an integral part of these consolidated financial statements.

CONSTANTA FOUNDATION GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007

(in Georgian Lari and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax		(158)	2,174
Adjustments for:			
Loss on disposal of equipment		-	27
Allowance for impairment losses on loans to customers		251	643
Depreciation and amortization charge		792	292
Net change in interest accruals		741	450
Loss on foreign exchange operations		(348)	(152)
Cash flows from operating activities before changes in operating assets and liabilities		1,278	3,434
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Loans to customers		(8,417)	(21,540)
Deposits held with banks		7,558	(17,100)
Other assets		(294)	(476)
Increase/(decrease) in operating liabilities			
Other liabilities		295	700
Cash flows from operating activities before taxation		420	(34,982)
Income tax paid		(712)	-
Net cash outflow from operating activities		(292)	(34,982)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(5,325)	(865)
Purchase of intangible assets		(170)	-
Proceeds from sale of property and equipment		54	91
Net cash outflows from investing activities		(5,441)	(774)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from other borrowed funds		2,753	-
Proceeds from bank loans		4,871	35,804
Net cash inflow from financing activities		7,624	35,804
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,891	48
Effect of exchange rates on cash and cash equivalents		(258)	(25)
CASH AND CASH EQUIVALENTS at the beginning of the year	13	238	215
CASH AND CASH EQUIVALENTS at the end of the year	13	1,871	238

On behalf of the Executive Board:

Executive Director
Levan Lebanidze
14 July 2008

The notes on pages 8-35 form an integral part of these consolidated financial statements.

1. ORGANISATION

Microfinance Organization Constanta Foundation is a non for profit 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 following subsidiary is consolidated in the financial statements:

Name	Country of operation	The ownership interest 2007	2006	Type of operation
JSC Constanta	Georgia	80	-	Microfinance

JSC Constanta was formed as a joint stock company under the laws of Georgia on 8 November 2007. The registered share capital of the JSC as of 31 December 2007 amounted to GEL 18,000,000. The company's principal activity will be commercial activities, originating loans and guarantees, attracting customer accounts and trading foreign currencies.
On 29 December 2007 the Foundation incorporated a limited liability company "Constanta Plus" in Georgia. The authorized capital of the limited liability company amounted to GEL 12,140,680 as at 31 December 2007 which was paid up by contributing 80% shares of JSC Constanta.

As at 31 December 2007 the following shareholders owned shares of the JSC Constanta:

Shareholder	31 December 2007 %
LLC Constanta Plus	80.0%
Lebanidze Tamar	8.6%
Lebanidze Levan	5.2%
Mirianashvili Zviad	2.2%
Ghachava Gia	2.2%
Vardziashvili Gela	0.6%
Turnava Natela	0.6%
Jakhua Manana	0.6%
Total	**100%**

These consolidated financial statements were authorized for issue by the Management Board of the Group on 14 July 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements of the Group 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").

Basis of preparation

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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Microfinance Foundation and an entities controlled by the Fund (its subsidiaries) made up to 31 December 2007. Control is achieved where the Fund has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

Key assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts. Such estimates and assumptions are based on the information available to the Group's management as of the date of the consolidated financial statements. Therefore, actual results could differ from those estimates and assumptions. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

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 2007	31 December 2006
Loans to customers	42,885	34,739
Allowance for impairment losses	849	957
Loans to customers, net	42,036	33,782