

Report of Review of Interim Financial Information

To Board of Directors Azeri Star Microfinance LLC

Introduction

We have reviewed the accompanying balance sheet of “Azeri Star Microfinance”, non-banking credit organization (hereinafter referred to as “the Company”) as of December 31, 2006 and the related statements of income, changes in equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Standard on Review Engagements 2410. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at December 31, 2006, and of its financial performance and its cash flows for the period then ended in accordance with International Standard on Review Engagements 2410, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards.

Azeri Star Microfinance Non-Banking Credit organization
Balance sheet for the year ending on December 31, 2006
(The figures are reflected in AZN)

	Comments	February 28,2006	December31, 2006
ASSETS			
Cash and cash equivalent	4	36,605.0	3,617.5
Total loan portfolio	5	595,706.7	754,809.4
(Loan Loss Reserve)	6		(17.348,9)
Advance payment	7		
Total short term assets		632,311.7	741,078.0
Total current assets	8	38,335.7	42,627.6
Depreciation			(15,611.5)
Total long term assets		38,335.7	27,016.1
TOTAL ASSETS		670,647.4	768,094.1
LIABILITIES			
Long term assets	9	73,064	69,712.0
Taxes			25,399.5
Total Liabilities		73,064	95,111.5
EQUITY			
Share holder equity	10	32,228.6	32,228.6
Retained earnings	11		75,399.3
Accumulated Grants	12	551,000.3	551,000.3
Capital reserves		14,354.5	14,354.5
Total equity		597,583.4	672,982.6
TOTAL LIABILITIES AND EQUITY		670,647.4	768,094.1

NOTE: Comments on pages 5-10 are the consisting part of this financial statement

Azeri Star Microfinance Non-Banking Credit Organization
Financial Statement for the year ending on July 31, 2006
(The figures are reflected in AZN)

	Comments	December 31, 2006
Interest income		
Interest income on loans		374,778.9
Less: Interest expense on long-term borrowings		(7,361.4)
Less: Interest expense on overdraft		
Total interest income		367,417.5
Other operating income		3,352.0
Penalties from loans		464.0
Total other operating income		3,816.0
Total interest and other operating income		371,233.5
Less :Increase in allowance for loan losses provisions	6	(17,348.9)
Interest and other operating income after allowance for loan losses		353,884.7
Operating expenses		
Salaries and benefits		176,348.4
Transport expenses		27,096.2
Rent charges		11,850.0
Depreciation	8	15,611.5
Other expenses	13	23,868.7
Total operating and other expenses		254,774.9
Net operating income		99,109.8
Exchange losses		(39.9)
Net operating income after exchange losses		99,069.9
Tax		21,795.4
Net operating income after tax		77,274.5

NOTE: Comments on pages 5-10 are the consisting part of this financial statement

Azeri Star Microfinance Non-Banking Credit Organization
Cash Flow Statements for the year ending on December 31, 2006
(The figures are reflected in AZN)

ASSETS	2006		Operational activity	Investment activity	Financial activity
	February 28	December 31			
Short term assets					
Cash and cash equivalent	36,605.0	3,617.5			
Gross portfolio outstanding	595,706.7	754,809.4	(159,102.7)		
(Loan Loss Reserve)		17,348.9	17,348.9		
Advance prepayment					
Total short term assets	632,311.7	741,078.0			
Current assets					
Gross fixed assets	38,335.7	42,627.6			
Depreciation charges	0.0	15,611.5			
Total current assets	38,335.7	27,016.1	11,319.6		
TOTAL ASSETS	670,647.4	702,517.9			
LIABILITIES					
Taxes		25,399.5	25,399.5		
Long-term loans	73,064	69,712.0	(3,352.0)		
TOTAL LIABILITIES	73,064	95,111.5	22,047.5		
EQUITY					
Share holder equity	32,228.6	32,228.6			
Retained earnings		75,399.3	75,399.3		
Accumulated Grants	551,000.3	551,000.3			
Capital reserves	14,354.5	14,354.5			
TOTAL EQUITY	597,583.4	672,982.6			
TOTAL LIABILITIES AND EQUITY	670,647.4	768,094.1	10,939.9		

Total decrease is equal to 10,939.9

NOTE: Comments on pages 5-10 are the consisting part of this financial statement

Azeri Star Microfinance Non-Banking Credit Organization
Financial Statement for the year ending on July 31, 2006
(The figures are reflected in 1,000 AZN)

Comment 1: Principals of Activities

“Azeri Star Microfinance” is Non-Banking Credit Organization (hereinafter referred to as “the Company”) was established by “Save the children Federation, Inc” in 18.07.2002 and entered the state registration in 30.05.2003 but began operating in 01.03.2006. The Company’s operations are based on the general banking license provided by the National Bank of Azerbaijan Republic. The Company has 2 representative offices with Head Office in the city of Barda. The Company is involved in one main type of activity (i.e. lending) and operates in one geographical area (i.e. Azerbaijan).

The main objective of the company is:

- Support the development of micro, small and medium sized enterprises, including those engaged in production and agricultural activities
- The creation of new employment opportunities in family, and other types of enterprises
- Provide equal access to financial resources for both men and women

The legal address of the Head office is:
Azerbaijan, Baku city, Garabag str 22.

Comment 2: Basis of preparation

Basis of accounting and preparation of accounting statements

The Company has to maintain its primary accounting records in accordance with internal regulations. These financial statements have been prepared based on the Company's primary records, and adjusted as necessary in order to conform in all material respects with International Financial Reporting Standards (IFRS)

These financial statements cover the period from February 28, 2006 to December 31, 2006. The figures are expressed in national currency of Azerbaijan Republic, i.e. Azeri manats (AZN).

We have to point out that, in order to start operating, the Organization was provided with active credit portfolio, current and other assets and liabilities by the establisher. All these facts have been reflected in balance sheet confirmed between the organization and the establisher as to 28.02.2006. But all these figures have not been confirmed by the auditor.

Comment 3: Significant Accounting Policies

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect reported assets and liabilities as well as reported income and expenses for each year. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the allowances for losses on loans and impairment and the fair value of financial instruments.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted balances on accounts with the commercial banks. The Company realizes the credit operations only in national currency of Azerbaijan Republic, i.e. Azeri manats (AZN).

Loans, loan loss allowance and write-offs

The "Company" realized credit operations on two models—group and individual. Group credits are divided into "Business", "Cattle-breeding", "Summit" groups. Loans are given at different periods and different fixed rates.

Group name	Periodic and monthly rate		Periodic and monthly rate	
Business	4 monthly	4%; 3,5%	6 monthly	3,5 %
Cattle-breeding	6 monthly	3,5%	8 monthly	3,5%
Summit	6 monthly	4%	8 monthly	4%
Individual	4-12 monthly	4%		

As seen above, the Company determines the rates of loans not yearly, but monthly. The reason is minimal loan sum and taking the loan for short period.

During the audit period the loan portfolio of the Company increased for 26,71% and made, 754,810.9 AZN. The loan portfolio was 595,706.7 AZN on February 28, 2006. Rate accounting on given loans is carried out in accordance with "MIP Accounting" program.

Loans were presented as a balance for the year-end excluding Loan Loss Reserve. Reserves potentially were included in loan portfolio, but had not been shown as part of loan portfolio by the date of preparation of the financial statements. The Company creates reserves based on the internal policy, which was partially adopted from National Bank's regulation for the credit unions. The adequacy of the loan loss provisioning is determined based on provisioning allowance percentages multiplied by the outstanding overdue loan balances in various aging categories, as shown below:

Loan status	Allowance {percent}
1-30 days overdue loan balance	2
31-60 days overdue loan balance	6
61-90 days overdue loan balance	25
91-180 days overdue loan balance	50
More than 181 days overdue loan balance	100

Management evaluates the adequacy of the allowance for loan losses regularly. Factors considered in evaluating the adequacy of the allowance include the size of the

portfolio, previous loss experience, current economic conditions and their effect on clients.

Loans, loan loss allowance and write-offs

The figures presented as a result of the loan portfolio analyses show that the amount of loan per borrower for the period has increased. This is a normal practice by way of improvement of quality of a portfolio and reduction of operational costs on carrying out of credit work the Company

Loans, which cannot be repaid, are written-off from the loan portfolio and loan loss reserve is reduced for the same amount. Write-off is done after all necessary legal procedures and final definition of the amount of loss.

We have to point out that, after being assure of having loan loss “The Company” starts writing them off.

Risk application and other fee income (penalty)

Clients are charged a risk fee of 0.5 percent calculated on loan amount in arrears. These amounts are referred to other income.

The credit risk means possibility of financial losses in the result of non-fulfillment of liabilities by borrowers that is expressed in a non-returned (in full or in part) of the basic debt sum and interests on it in the established deadline by the contract.

Property, equipment and depreciation

Property and equipment is shown in the balance sheet historical costs with the deduction of depreciation. Depreciation is calculated based on Tax Code of Azerbaijan Republic.

In 2005, the Company received some fixed assets as Grants. The accrued amount of depreciation was accounted as income and expenses.

Share capital

According to confirmed Instructions, the share capital of the company was determined as 33,000 USA dollars (32,228.6 AZN) in two contribution forms. 8,414 dollars contribution was made in the form of cash but 24,586 dollars as fixed assets.

Share capital

Share capital contribution made in the form of cash is registered at fair value at the date of contribution.

Grants

The company received Grants for the loan portfolio, and operating and administrative expenses. The purchase of property and equipment are recorded in income statement after the net income from operations. Grants for periods beyond the current operating period are recorded under liabilities as grant revenue. During the useful work period these fixed assets will be decreased as depreciation amount and will be accounted as “non-operating income” in profit/loss statement.

Comment 4: Cash and cash equivalents

Content	31.12.2006	01.03.2006
Cash	812.7	36,605.0
Assets in correspondent bank accounts	2,804.8	
TOTAL	3,617.5	36,605.0

Comment 5: Loan portfolio

Content	31.12.2006	01.03.2006
Outstanding loans	754,810.9	595,706.7
Past-due loans	(17,348.8)	
TOTAL	737,462.1	595,706.7

Comment 6: Calculation of Loan Loss Reserve

Classification	31.12.2006		01.03.2006	
	Credit portfolio	Loan reserves	Credit portfolio	Loan reserves
Reserve for Satisfactory loans (2%)	752,323.85	15,046.5	595,706.7	
Reserve for Watch loans (6%)	-	-		
Reserve for Unsatisfactory loans (25%)	-	-		
Reserve for Doubtful loans (50%)	369.4	184.7		
Reserve for Lost loans (100%)	2,117.7	2,117.7		
Total	754,810.9	17,348.8	595,706.7	
Loan Loss Reserve ratio		2,30%		

Comment 7: Accrued interest receivable

Content	31.12.2006	01.03.2006
Interest receivable	5.36	
Total	5.36	

Comment 8: Fixed assets

Cost	Machinery and equipments	Furniture and other assets	Transport	Total
Cost	18,409.0	8,587.1	11,339.6	38,335.7
Reclassification	3,006.7	162.1	1,123.3	4,291.9
Disposed assets				
As at 31.12. 2006	21,415.7	8,749.1	12,462.9	42,627.6
Depreciation	7,599.2	4,896.6	3,115.7	15,611.5
Cost				
Accumulated depreciation for the year	7,599.2	4,896.6	3,115.7	15,611.5
Depreciation of disposed assets				
As at 31.07.2006	13,816.4	3,852.5	9,347.1	27,016.1
Net Book Value as at 01.03.2006	18,409.0	8,587.1	11,339.6	38,335.7
Net Book Value as at 31.12.2006	13,816.4	3,852.5	9,347.1	27,016.1

Comment 9: Involved capital

Content	31.12.2006	01.03.2006
"Qafqaz credit" LLC	69,712.0	73,064.0
Total	69,712.0	73,064.0

The reason is exchange rate.

Comment 10: Shareholder equity

Content	Amount	Share %
Save the children	32,228.6	100
Total shareholder equity	32,228.6	100

Comment 11: Retained earnings

Content	31.12.2006
Net operating income after tax	77,274.5
Travel expenses (over norm)	(1,348.4)
Business lunch	(48.6)
Other expenses	(434.3)
Penalty by Tax Orgarns	(44.0)
Total	75,399.3

Comment 12: Accumulated grants:

Content	31.12.2006	01.03.2006
As credit portfolio	551,000.3	551,000.3
As current assets	14,354.5	14,354.5
Total	565,354.8	565,354.8

Comment 13: General, administrative and other operational expenses

Content	Total
Bank charges	5,856.6
Vehicle maintenance and insurance	106.6
Travel expenses	1,455.6
Communications	2,993.6
Office supplies	1,956.7
Write-off loans	1,365.6
Repair expenses	785.9
Economic expenses	3,359.9
Rating expenses	3,965.9
Training expenses	1,147.2
Tax on transport	194.2
Other operating expenses	680.7
Total	23,868.7