

VISIONFUND CREDO FOUNDATION

IFRS Financial Statements and Auditors' Report

For the year ended 31 December 2006

CONTENTS

Auditors' Report.....	2
Balance Sheet	3
Income Statement	4
Cash Flow Statement.....	5
Statement of Changes in Equity	6
Notes to the Financial Statements	
1. Principal Activities and Operating Environment of the Organization.....	7
2. Basis of Preparation and Significant Accounting Policies	7
3. Critical Accounting Estimates and Judgements in Applying Accounting Policies	10
4. New Accounting Pronouncements	11
5. Cash and Cash Equivalents	12
6. Loans to Customers.....	12
7. Other Debtors and Receivables	12
8. Property, Plant and Equipment, Net.....	13
9. Other Creditors and Liabilities	14
10. Borrowings.....	14
11. Donations	15
12. Income Tax	15
13. Administrative and Other Operating Expenses	17
14. Financial Risk Management.....	17
15. Fair Value of Financial Instruments	19
16. Related Party Transactions.....	19
17. Commitments and Contingent Liabilities.....	20

AUDITORS' REPORT

To the Founders and Management of VisionFund Credo Foundation

- 1 We have audited the accompanying balance sheet of VisionFund Credo Foundation (“the Organization”, “Credo”) as at 31 December 2006, and the related statements of income, of cash flows and of changes in equity for the year then ended. These financial statements are the responsibility of the Organization’s Management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2006 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Tbilisi, Georgia
21 March, 2007

VisionFund Credo Foundation
Balance Sheet

<i>In United States Dollars</i>	Notes	31-Dec-06	31-Dec-05
ASSETS			
Cash and cash equivalents	5	182,062	158,984
Loans to customers	6	4,659,402	2,244,812
Other debtors and receivables	7	229,510	284,969
Property, plant and equipment, net	8	136,294	120,311
TOTAL ASSETS		5,207,268	2,809,076
LIABILITIES			
Short-term borrowings	10	1,934,375	258,708
Other creditors and liabilities	9	141,605	55,325
Long-term borrowings	10	1,373,300	960,667
Deferred Tax liability	12	34,468	6,871
TOTAL LIABILITIES		3,483,748	1,281,571
EQUITY			
Statutory fund		5,000	5,000
Donated equity		1,185,711	1,134,181
Retained earnings for prior years		343,601	
Retained earnings		189,208	388,324
TOTAL EQUITY		1,723,520	1,527,505
TOTAL LIABILITIES AND EQUITY		5,207,268	2,809,076

The financial statements were approved on March 21, 2006:

Gerlof de Korte, Executive Director

VisionFund Credo Foundation
Income Statement

	Notes	Period from 1-Jan-06 to 31 December 2006	Period from 24-Jan-05 to 31 December 2005
<i>In United States Dollars</i>			
Interest income		1,109,658	532,996
Interest expense		(149,507)	(38,748)
Net interest income		960,151	494,248
Provision for loan impairment	6	(9,384)	(11,619)
Funds recovered from loans written-off		10,354	4,098
Net interest income after provision for loan impairment		961,121	486,727
Other income		3,571	1,979
Administrative and other operating expenses	13	(823,141)	(463,354)
Foreign exchange loss		(3,623)	(2,358)
Profit tax	12	(31,876)	(7,527)
Net income before donations		106,052	15,467
Donations			
Donations for operations	11	46,883	48,328
Donations for fixed assets	11	3,945	
Donations for loan capital	11	32,328	324,529
Net income for the period		189,208	388,324

VisionFund Credo Foundation
Cash Flow Statement

	Notes	Period from 1-Jan-06 to 31 December 2006	Period from 24-Jan-05 to 31 December 2005
<i>In United States Dollars</i>			
Cash flows from operating activities:			
Interest received		916,385	417,519
Interest paid		(142,402)	(35,943)
Fees and commissions received		158,925	70,267
Administrative and other operating expenses paid		(743,071)	(389,188)
Profit tax paid		-	(677)
Cash flow from operating activities before change in operating assets and liabilities		189,837	61,978
Changes in operating assets and liabilities:			
Increase in loans to customers		(2,380,655)	(698,074)
Increase in other debtors and receivables		57,692	(36,288)
Increase in other creditors and payables		55,198	44,295
Net cash used in operating activities		(2,077,928)	(628,089)
Cash flows from investing activities:			
Acquisition of property, plant and equipment	8	(56,287)	(70,583)
Proceeds from disposals of fixed assets		3,300	14,204
Net cash from investing activities		(52,987)	(56,379)
Cash flows from financing activities:			
Donations received	11	65,693	104,078
Borrowings		2,088,300	734,374
Statutory Fund			5,000
Net cash from financing activities		2,153,993	843,452
Net change in cash and cash equivalents		23,078	158,984
Cash and cash equivalents at the beginning of period		158,984	-
Cash and cash equivalents at the end of period	5	182,062	158,984

VisionFund Credo Foundation
Statement of Changes in Equity

	Note	Statutory fund	Donated equity	Retained earnings	Total equity
<i>In United States Dollars</i>					
Balance at 01 January 2006		5,000	1,134,181	388,324	1,527,505
Opening Adjustments for 2005		-	44,648	(44,723)	(75)
Donated equity	11	-	6,882		6,882
Net income for the period		-	-	189,208	189,208
Balance at 31 December 2006		5,000	1,185,711	532,809	1,723,520

1. Principal Activities and Operating Environment of the Organization

Vision Fund Credo Foundation (“Credo” or “the Organization”) is a Micro Finance Organization (“MFO”), founded by Vision Fund International and registered with the Ministry of Justice of Georgia on 24 January 2005 and consequently re-registered on 31 March 2005 as an MFO following a change in the Civil Code. The Organization is 100% owned by Vision Fund International (parent) which is 100% owned by World Vision International (ultimate parent).

Credo’s mission is to provide financial services to the poor and micro-small businesses, especially in the rural areas of Georgia with the objective to stimulate the creation of employment opportunities for the poor. The primary clients are economically active individual women and men entrepreneurs. Credo has 81 employees as of 31 December 2006 (52 as of 31 December 2005) and its registered office is located at Leonidze Street, 1, Tbilisi, Georgia.

The Organization operates in Tbilisi, Kutaisi, Batumi, Kobuleti, Borjomi, Khashuri, Bakuriani, Akhaltsikhe, Akhalkalaki, Ninotsminda and surrounding areas. Loans are given to individuals and groups, with loan principal amounts from US\$50 to GEL 50,000, depending on the sector of business and on the individual client for periods ranging from four to 36 months.

2. Basis of Preparation and Significant Accounting Policies

Basis of presentation. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below.

Key measurement terms. Depending on their classification financial instruments are carried at cost or amortized cost as described below.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount, are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day and include cash and deposits with banks. Cash and cash equivalents are carried at amortized cost.

Loans to customers. Loans to customers are recorded when the Organization advances money to originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortized cost.

2. Basis of Preparation and Significant Accounting Policies (continued)

Impairment of financial assets carried at amortized cost. Impairment losses are recognized in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Organization determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are recognized through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Receivables. Receivables are accounted on an accrual basis. A provision for impairment is established if there is objective evidence that the Organization will not be able to collect the amounts due. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected future cash flows.

Property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalized and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets as follows:

	%
Motor vehicles	20
Computers and office equipment	20
Furniture	15
Mobile phones	50
Other assets	15

2. Basis of Preparation and Significant Accounting Policies (continued)

Interest income and expense recognition. Interest income and expense are recognized in the income statement for all interest-bearing instruments on an accrual basis, using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Organization to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Organization will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Organization does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

Donations. Any donations received from the donors are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate. Donations received as an immediate support or with no specific pre-determined expenditure relating to them are recognized as income of the period in which it becomes receivable (this includes donations received to cover the general cost of operations and to issue new loans). Donations intended to cover specific pre-determined expenses are recognized as income over the periods necessary to match them with these expenses.

Donations related to specific items of property, plant and equipment are initially recognized as deferred income and then amortized to income over the useful life of the related asset. Donations are presented on a gross basis - i.e. they are presented separately and not deducted from the related asset in the balance sheet or expense in the income statement. Any portion of grant not received during the period to which the Organization is entitled to be presented as account receivable at the balance sheet date.

Foreign currency translation. The Georgian Lari is the national currency of Georgia. However, the Organization's functional currency and its presentation currency is the United States Dollar (USD) due to the following reasons:

- The entity's parent uses USD as its functional currency;
- The entity's operations are integral to the operations of its ultimate parent in that the entity receives the majority of its funds from the parent and the entity is substantially dependent on its parent in carrying out its activities ;
- Loans to customers are denominated in USD;
- The entity has no restrictions in the amount of transactions in USD;
- Funding provided by donors is in USD; and
- Management's decisions are made based on the management reports prepared in USD.

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the National Bank of Georgia ("NBG") at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the NBG are recognized in profit or loss. Translation at year-end rates does not apply to non-monetary items.

At 31 December 2006 the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.7135. At present, the Georgian Lari is not a freely convertible currency in most countries outside of the Georgia.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2. Basis of Preparation and Significant Accounting Policies (continued)

Taxation. According to Georgian tax legislation the Organization is exempt from profit tax, social taxes for employees and property tax for operations related to grant activities, except for personal income taxes of the Organization's employees.

Staff costs and related contributions. Wages, salaries, contributions to the Georgian state pension and social insurance funds, paid annual leave and sick leave, bonuses, are accrued in the year in which the associated services are rendered by the employees of the Organization.

3. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Organization makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Organization regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Organization uses the following table based on loan status.

Loan Status	Allowance %
Current loans	0%
1-30 days past due	10%
31-60 days past due	25%
61-90 days past due	50%
91-120 days past due	75%
> 121 days past due	100%

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Borrowings. The Organization treats the interest free borrowing from the donors (e.g. WV Germany – refer to Note 10) as government grants and carries the interest free borrowings at cost.

Donations. In the normal course of business the Organization enters into the grant award agreement with donors and recognizes the donation as income based on the accounting policy disclosed in Note 2. Judgment is needed to determine whether a donation relates to a specific expenditure or is received for general purposes. Donations intended to cover specific expenditure are recognized as income over the periods necessary to match them with the related costs; donations received for general purposes are recognized as income of the period in which they become receivable. Donations received to cover the general cost of operations and to issue new loans are treated as donations for general purposes and are recognized as income when grant award agreement is concluded (e.g. Chemonics – refer to Notes 7 and 11).

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 17.

Related party transactions. In the normal course of business the Organization enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Going concern. Management prepared these financial statements on a going concern basis. In making this judgment management considered current intentions, profitability of operations and access to financial resources.

4. New Accounting Pronouncements

IFRIC 4, determining whether an Arrangement contains a Lease. IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IAS 39 (Amendment) – Financial Guarantee Contracts. Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognized at their fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent de-recognition of financial assets or result in continuing involvement accounting.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures. The IFRS introduces new disclosures to improve the information about financial instruments. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital.

The Organization is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements. Other new accounting pronouncements are not expected to have significant effect on the Credo's financial statements.

5. Cash and Cash Equivalents

In United States Dollars

	31-Dec-06	31-Dec-05
Cash on hand in GEL	888	900
Settlement accounts in resident Organizations – GEL	39,528	36,140
Settlement accounts in resident Organizations – USD	1,646	41,944
Deposits at resident Organizations – USD	140,000	80,000
Total cash and cash equivalents	182,062	158,984

6. Loans to Customers

In United States Dollars

Business sector	31-Dec-06	31-Dec-05
Retail	2,096,405	1,142,015
Agriculture	1,070,220	476,730
Production	411,352	241,855
Service	1,005,282	349,484
Accrued interest receivable	88,529	45,210
Loans to customers before impairment provision	4,671,788	2,255,294
Less: loan impairment provision	(12,386)	(10,482)
Total loans to customers, net	4,659,402	2,244,812

Movement in the provision for loan impairment is as follows:

<i>In United States Dollars</i>	31-Dec-06	31-Dec-05
Balance at 1 January 2006	10,482	-
Balance transferred from World Vision Georgia	-	6,756
Additional provision for loan impairment during the period	9,384	11,619
Loans written off	(7,480)	(7,893)
Balance at 31 December 2006	12,386	10,482

As at 31 December 2006 the estimated fair value of loans to customers was USD 4,659,402. Refer to Note 15.

7. Other Debtors and Receivables

In United States Dollars

	31-Dec-06	31-Dec-05
Accounts receivable – Chemonics	18,530	221,530
Accounts receivable – WVG Headquarters	6,278	5,303
Accounts receivable - Other	27,156	29,538
Loan to World vision AzerCredit LLC with Accrued Interest	150,753	-
Prepayments	26,793	28,598
Total other debtors and receivables	229,510	284,969

7. Other Debtors and Receivables (continued)

In 2006, Credo concluded the Loan agreement with World vision AzerCredit LLC. Accounts receivable from Chemonics represents the funds receivable from Chemonics International in relations with the grant award agreement. Refer to Note 11.

As at 31 December 2006 the estimated fair value of other debtors and receivables to customers was USD 229,510. Refer to Note 15.

8. Property, Plant and Equipment, Net

<i>In United States Dollars</i>	Motor vehicles	Computers and communications	Fixtures and equipment	Other assets	Total
Cost					
Balance at 01 January 2006	42,093	66,276	13,403	19,292	141,064
Additions	16,572	26,526	4,221	8,968	56,287
Write offs	(345)	(2,915)	(136)	(266)	(3,662)
Disposals	(846)	-	-	-	(846)
Balance at 31 December 2006	57,474	89,887	17,488	27,994	192,843
Accumulated Depreciation					
Balance at 1 January 2006	7,017	8,760	2,049	2,927	20,753
Opening Adjustment	-	75	-	-	75
Charge for the period	11,427	18,855	3,140	6,226	39,648
Write offs	(345)	(2,915)	(136)	(266)	(3,662)
Disposals	(265)	-	-	-	(265)
Balance at 31 December 2006	17,834	24,775	5,053	8,887	56,549
Net Book Value					
Balance at 1 January 2006	35,076	57,516	11,354	16,365	120,311
Balance at 31 December 2006	39,640	65,112	12,435	19,107	136,294

9. Other Creditors and Liabilities

<i>In United States Dollars</i>	31-Dec-06	31-Dec-05
Accounts payable	13,190	9,123
Tax liabilities	12,792	6,850
Other liabilities	115,623	39,352
Total other creditors and liabilities	141,605	55,325

10. Borrowings

<i>In United States Dollars</i>	31-Dec-06	31-Dec-05
Short-term borrowings		
Vision Fund International	845,000	138,708
UNDP	-	120,000
World Vision MEERO	77,500	-
World Vision CANADA	11,875	-
Credit Suisse Microfinance Fund Management Company	500,000	-
Dual Return Fund Sicav	500,000	-
	1,934,375	258,708
Long-term borrowings		
World Vision MEERO	48,000	240,000
Vision Fund International	900,000	611,292
Oxfam Novib	375,300	-
World Vision CANADA	-	59,375
World Vision GERMANY	50,000	50,000
	1,373,300	960,667
Total borrowings	3,307,675	1,219,375

Loans from Vision Fund International include six loans amounting to USD 375,000, USD 375,000, USD 95,000, USD 400,000, USD 300,000, USD 200,000 and received on 11 July 2005, 04 November 2005, 13 April 2006, 19 May 2006, 15 August 2006 and 2 December 2006 respectively. The loans bear interest rates of 6%, 7%, 7%, 8.8%, 8.8%, and 9.5% p.a., respectively. The first three of them mature on 30 June 2007 and last three on 30 June 2009.

Loans from World Vision MEERO include four loans amounting to USD 50,000, USD 48,000, USD 12,500, and USD 15,000 which were received on 7 December 2005, 21 October 2005, 15 December 2005 and 05 July 2005, respectively. First three of them bear interest rates of 6% and last one 4% p.a., respectively, and mature in June 2007, April 2008, January 2007, and January 2007, respectively.

Loan from World Vision GERMANY was initially received by WVG and transferred to Credo on 1 April 2005. The loan is interest free and is planned to be transferred to equity upon satisfaction of contractual conditions on 20 April 2007.

Loan from Credit Suisse Microfinance Fund Management Company was received on 27 June 2006. The loans bear interest rates of 9.5% p.a. It matures on 30 June 2007.

Loan from Dual Return Fund Sicav was received on 6 December 2006. The loans bear interest rates of 9.5% p.a. It matures on 5 December 2007.

Loan from Oxfam Novib was received on 7 November 2006. The loans bear interest rates of 10% p.a. It matures on October 2009.

11. Donations

Donated Equity. Donated equity represents the net assets transferred from World Vision Georgia to Credo on 1 April 2005. The fair value of the net assets, consisting of the loan portfolio, borrowings and other assets/liabilities, was USD 1,185,711 at the date of transfer.

The movement of donated equity from receipt up to 31 December 2006 is provided in the following table:

TOTAL NET WORTH/ EQUITY (Granted from WV)	1,094,756
Removed from Equity in 2005 by PwC (WV Germany Loan)	(50,000)
Statutory fund	(5,000)
Interest Income from Recalculation as of 1 Apr by declining rate	78,288
Accruals as of 1 Apr by declining rate	30,099
Removed from Equity in 2005 by PwC (Was not VAT deductible)	(13,962)
DONATED EQUITY as at 31.12.2005	1,134,181
Add back as opening adjustment for fixed assets donations by UBC	44,648
Add back as current adjustment for fixed assets donations by UBC	6,882
DONATED EQUITY as at 31.12.2006	1,185,711

Donations for operations and loan capital. The details of donations recognized in 2006 are summarized in the bellow table:

<i>In United States Dollars</i>	Donations for loan capital	Donations for operations	Donations for Fixed Assets	Total
WV Canada	-	-	3,644	3,644
Chemonics	-	46,883	301	47,184
NRC	31,368	-	-	31,368
MR. R Carboni	960	-	-	960
Total donations	32,328	46,883	3,945	83,156

12. Income Tax

Income tax expense comprises the following:

<i>In United States Dollars</i>	2006	2005
Current tax charge	4,933	655
Deferred taxation movement due to temporary timing differences	26,942	6,871
Income tax expense for the period	31,876	7,526

The income tax rate applicable to the Credo's income is 20%. Reconciliation between the expected and the actual taxation charge is provided below.

<i>In United States Dollars</i>	2006	2005
IFRS profit before tax	221,084	71,322
Theoretical tax charge at the applicable statutory rate (20%)	44,217	14,264

VisionFund Credo Foundation
Notes to the Financial Statements – 31 December 2006

Non-deductible expenses	23,620	63,426
Income not assessable for taxation purposes	(35,961)	(70,163)
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Income tax expense for the period	31,876	7,526
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Income not assessable for taxation purposes represents donations and grants received which are not taxable under statutory taxation rules of Georgia.

Differences between IFRS and the Georgian statutory taxation rules give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax calculation purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 20%.

As at 31 December 2006, the temporary differences giving rise to the deferred tax assets and liabilities were as follows:

<i>In United States Dollars</i>	Tax Base	Cost	31-Dec-06
<hr/>			
Tax effect of taxable temporary differences			
Loans to customers	555,890	586,619	30,729
Premises and equipment	13,420	17,159	3,739
<hr/>			
Gross deferred tax liability	-	-	34,468
<hr/>			

13. Administrative and Other Operating Expenses

<i>In United States Dollars</i>	Period	Period
	from 1 January 2006	from 24 January
	to 31 December 2006	2005 to 31
		December 2005
Staff costs	385,033	236,625
Supplies, copying, printing	30,997	16,733
Contractors payments	56,854	9,651
Advertisement	17,790	13,474
Organization fees and charges	24,954	19,913
Program & MIS Maintenance	6,049	-
Communication	46,860	23,834
Rent	68,090	45,827
Office expenses Utilities, Security Repair	25,271	-
Travel	27,630	26,533
Fuel and Maintenance of Vehicles	51,240	22,464
Depreciation charge	39,648	21,037
Training & technical assistance	11,011	7,081
Audit	22,916	-
Fines and penalties	-	6,194
Other	8,798	13,988
	823,141	463,354

14. Financial Risk Management

The risk management function within the Organization is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Credit risk. The Organization takes on exposure to credit risk, which is the risk that counterparty will be unable to pay amounts in full when due. The Organization 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, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Management Board and Credit Committee.

Exposure to any one borrower including Organizations and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Organization's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Market risk. The Organization takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

VisionFund Credo Foundation
Notes to the Financial Statements – 31 December 2006

Currency risk. The Organization takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarizes the Organization's exposure to foreign currency exchange rate risk as at 31 December 2006. Included in the table are the Organization's assets and liabilities at their carrying amounts, categorized by currency. As at 31 December 2006, the Organization has the following positions in currencies:

<i>In United States Dollars</i>	GEL	USD	Total
Assets			
Cash and cash equivalent	40,416	141,646	182,062
Loans to customers	-	4,659,402	4,659,402
Other debtors and receivables	38,184	191,326	229,510
Property, plant and equipment	136,294	-	136,294
Total assets	214,894	4,992,374	5,207,268
Liabilities			
Short-term borrowings	-	1,934,375	1,934,375
Other creditors and liabilities	14,487	127,118	141,604
Long-term borrowings	-	1,373,300	1,373,300
Deferred tax liability	34,468	-	34,468
Total liabilities	48,955	3,434,793	3,483,748
Net balance sheet position	165,939	1,557,581	1,723,520

The Organization has loans denominated in US Dollars. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Georgian Lari may adversely affect the borrowers' repayment ability and, therefore, increases the likelihood of future loan losses.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Organization does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The table below shows assets and liabilities as at 31 December 2006 by their remaining contractual maturity which is the same as the re-pricing date for interest risk assessment purposes. The liquidity position of the Organization as at 31 December 2006 is set out below:

<i>In United States Dollars</i>	Demand and up to 1 month	From 1 to 3 months	From 3 to 12 months	More Than 1 year	Overdue/ No stated maturity	Total
Assets						
Cash & cash equiv.	42,062	-	140,000	-	-	182,062
Loans to customers	82,686	102,101	2,113,670	2,346,913	14,032	4,659,402
Other debtors	45,109	14,217	167,662	2,522	-	229,510
Prop. plant & equip.	-	-	-	136,294	-	136,294
Total assets	169,857	116,318	2,421,332	2,485,729	14,032	5,207,268
Liabilities						
ST borrowings	27,500	11,875	1,895,000	-	-	1,934,375
Other creditors	118,800	12,913	9,892	-	-	141,605
LT borrowings	-	-	16,000	1,357,300	-	1,373,300
Deferred tax liability	-	-	-	34,468	-	34,468
Total liabilities	146,300	24,788	1,920,892	1,391,768	-	3,483,748
Net liquidity gap	23,557	91,530	500,440	1,093,961	14,032	1,723,520

14. Financial Risk Management (continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Organization. It is unusual for Financial Institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Organization and its exposure to changes in interest and exchange rates.

The table below summarizes the effective interest rates for major monetary financial instruments. The analysis has been prepared based on period-end effective rates used for amortization of respective assets/liabilities.

	<u>USD</u>
Assets	
Loans to customers	36.0%
Other debtors and receivables	9.3%
Liabilities	
Short-term borrowings	8.0%
Long-term borrowings	9.3%
Other creditors and liabilities	0.0%

The sign “-“ in the table above means that the Organization does not have the respective assets or liabilities in corresponding currency.

15. Fair Value of Financial Instruments

Fair value is the amount, at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Organization using available market information, where it exists, and appropriate valuation methodologies.

However, judgment is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents are carried on the balance sheet at their fair value.

Loans originated carried at amortized cost less provision for impairment. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Liabilities carried at amortized cost. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

16. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance, not merely the legal form.

16. Related Party Transactions (continued)

Transactions are entered into in the normal course of business with founders, directors, subsidiaries, associates and companies with whom the Organization has significant founders in common and other related parties. These transactions are priced predominantly at preferential rates. The outstanding balances as at year-end, as well as income and expenses for the year with related parties are as follows:

In United States Dollars

	Period from 1 January 2006 to 31 December 2006	Period from 24 January 2005 to 31 December 2005
Directors remuneration (salaries)	25,808	20,047
Interest Expense on WV MEERO Loan	13,893	15,941
Interest Expense on WV Canada Loan	2,089	3,579
Interest Expense on VFI Loans	96,665	13,251

In United States Dollars

Borrowings from Related Parties	Nature of relationship	31-Dec-06	31-Dec-05
WV Canada	Common control	11,875	59,375
WV MEERO	Common control	125,500	263,000
VisionFund International	Parent	1,745,000	750,000

In United States Dollars

Accounts Receivable from Related Parties	Nature of relationship	31-Dec-06	31-Dec-05
Accounts receivable – WVG Headquarters	Common control	6,210	5,303
World vision AzerCredit LLC	Common control	151,378	-

17. Commitments and Contingent Liabilities

Legal proceedings. As at 31 December 2006, the Organization was not engaged in any litigation proceedings. On the basis of own estimates and internal and external professional advice the management is of the opinion that no material losses will be incurred, and, accordingly, no provision has been made in these financial statements.

Tax legislation. Tax, currency and customs legislation of Georgia is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Organization may be challenged by the relevant tax authorities. As a result, significant additional taxes, penalties and interest may be assessed.

The tax consequence of transactions for Georgian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Georgian Accounting Rules. The Organization's Management believes that its interpretation of the relevant legislation is appropriate and the Organization's tax, currency and customs positions will be sustained. Accordingly, as at 31 December 2006 no provision for potential tax liabilities had been recorded.

Capital commitments. As at 31 December 2006 the Organization had no significant capital commitments.

Operating lease commitments. As at 31 December 2006 the Organization had no significant operating lease commitments.