

LLC MICROFINANCE ORGANIZATION CREDO

**Financial Statements for the year ended
December 31, 2008, and Independent Auditors' Report**

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საქართველოს აუდიტორული და საკონსულტაციო კომპანია
Georgian Audit & Consulting Company

A Horwath Business Alliance Association

INDEPENDENT AUDITOR'S REPORT

To the founders of LLC Microfinance Organization Credo

We have audited the accompanying Financial Statement of *LLC Microfinance Organization Credo* ("The Organization"), Which comprise the balance sheet as at 31 December 2008 and related statements of income, cash flows and statements of changes in equity for the year then ended and summary of significant accounting policies.

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.

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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Organization as of December 31, 2008 and the results of its operations for the year then ended, in accordance with International Financial Reporting Standards.

Georgian Audit & Consulting Company (GACC)
A Horwath Business Alliance Associate

June 22, 2009

LLC MICROFINANCE ORGANIZATION CREDO**Balance Sheet** for the year ended 31 December 2008 *(In US Dollars)*

	Notes	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	2	2,172,589	28,103
Loans to customers	3	25,493,353	14,094,126
Other debtors and receivables	4	1,152,699	453,484
Property, plant and equipment, net	5	1,075,982	426,829
TOTAL ASSETS		29,894,623	15,002,543
LIABILITIES			
Short-term borrowings	7	5,275,164	2,365,890
Other creditors and liabilities	6	1,213,020	458,418
Interest Payable		361,086	160,514
Long-term borrowings	7	19,380,915	9,884,430
Deferred Tax liability	8	25,700	-
TOTAL LIABILITIES		26,255,885	12,869,252
TOTAL EQUITY		3,638,739	2,133,291
TOTAL LIABILITIES AND EQUITY		29,894,623	15,002,543

On behalf of the Management

Ljiljana Spasojevic, Executive Director

The accompanying notes are an integral part of these financial statements.

LLC MICROFINANCE ORGANIZATION CREDO
Income Statement As at 31 December 2008 *(In US Dollars)*

	Notes	from 1 January - to 31 December 2008	from 1 January - to 31 December 2007
Interest income		7,842,269	394,890
Interest expense		(2,125,326)	(104,459)
Net interest income		5,716,943	290,430
Provision for loan impairment	3	(591,906)	(1,497)
Funds recovered from loans written-off		11,002	882
Net interest income after provision for loan impairment		5,136,039	289,815
Other income		9,331	545
Administrative and other operating expenses	9	(3,743,177)	(325,011)
Foreign exchange loss		(418,139)	(26,262)
Operating profit		984,054	(60,913)
<i>Profit tax</i>	8	<i>(140,402)</i>	-
Net Profit/lose		843,652	(60,913)
Net income for the period		843,652	(60,913)

On behalf of the Management

Ljiljana Spasojevic, Executive Director

The accompanying notes are an integral part of these financial statements.

LLC MICROFINANCE ORGANIZATION CREDO**Cash Flow Statement** for the year ended 31 December 2008 *(In US Dollars)*

CASH FLOWS FROM OPERATING ACTIVITIES	31 December 2008	31 December 2007
Net income before taxes	843,652	(60,913)
Loans to customers net	(11,399,227)	(14,094,126)
Other debtors and receivables	(699,215)	(453,484)
Deferred Tax liability	25,700	-
Other liabilities	955,174	618,932
Translation difference	(156,250)	-
Net cash from / (used in) operating activities	(10,430,166)	(13,989,591)
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in fixed assets (net)	(649,153)	(426,829)
Net cash from / (used in) investing activities	(649,153)	(426,829)
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in Short-term borrowings	2,909,274	2,365,890
Changes in Statutory funds	580,218	2,194,204
Changes in Long-term borrowings	9,496,485	9,884,430
Revaluation Reserve Fixed Assets	237,828	-
Net cash from / (used in) financing activities	13,223,805	14,444,524
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,144,486	28,103
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	28,103	-
CASH AND CASH EQUIVALENTS END OF YEAR	2,172,589	28,103

On behalf of the Management

Ljiljana Spasojevic, Executive Director

The accompanying notes are an integral part of these financial statements.

LLC MICROFINANCE ORGANIZATION CREDO**Statement of Changes in Equity** for the year ended 31 December 2008 *(In US Dollars)*

	Statutory fund	Reserves	Portfolio adjustments	Retained earnings	Total
Balance at 01 January 2007	2,038,164	-	160,626	(65,500)	2,133,291
Addition to Paid in Capital	672,406				672,406
Reserves		237,828			237,828
Net income for the period	-		-	843,652	843,652
Translation difference	-		-	(248,438)	(248,438)
Balance at 31 December 2008	2,710,570	237,828	160,626	529,714	3,638,738

On behalf of the Management

Ljiljana Spasojevic, Executive Director

The accompanying notes are an integral part of these financial statements.

1. Nature of Activities and Significant Accounting Policies

Limited Liability Company Microfinance Organization Credo is established in accordance with the law of Georgia on Entrepreneurs and the Law of Georgia on Microfinance Organizations. Registered office is located at Peking Street 4, Tbilisi, Georgia.

According to the changes described in the note 13 Vision Fund Credo Foundation founded LLC Vision fund Caucasus and Limited Liability Company Microfinance Organization Credo, which continues operations of the Vision Fund Credo Foundation from December 2007.

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 male and female entrepreneurs.

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

Scope of Activities

Granting Micro-loans, including consumers, pawnshop, mortgage, unsecured, group and any other loans (credits) to legal entities and natural persons;
Investing in government and public securities;
Discharging the function of an insurance agent;
Providing consultations as regards to micro-crediting;
Obtaining loans (credits) from resident and nonresident legal entities and natural persons;
Obtaining shares of Carter Capital of nonblank deposit organizations, with the whole amount not exceeding 15% of Microfinance Organization Charter Capital;
Other financial services and transactions provided by the law of Georgia, including micro-leasing, factoring, currency exchange, issue, sale and redemption of obligations and bonds and other operations related thereto;

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.

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

Basis of Preparation and Significant Accounting Policies (continued)

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

Basis of Preparation and Significant Accounting Policies (continued)

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

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.

Basis of Preparation and Significant Accounting Policies (continued)

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

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 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.6670 (Average for the year USD 1 = GEL 1.4902). 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.

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.

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%

Critical Accounting Estimates and Judgments in Applying Accounting Policies
(continued)

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 7) 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. 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.

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.

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.

Financial risk management

Management of risk is fundamental to the microfinance organization and is an essential element of the operations. The main risks inherent to the company's operations are related to credit, liquidity and market changes (interests and foreign exchange rates). Risk management policies of the company are tailored to unpredictable financial market and the main goal of the policy is to reduce impact to the minimal level. Risk management is accomplished by the senior management under the supervision of the Supervisory board.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. A separate Credit department, reporting to the Credit committee, is responsible for oversight of LLC Microfinance Organization Credo's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. authorization limits are allocated to business unit credit Officers. Larger facilities require approval by credit, Head of credit, credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining LLC Microfinance Organization Credo's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Risk.

Liquidity risk

Liquidity risk is the risk that LLC Microfinance Organization Credo will encounter in meeting obligations from its financial liabilities. LLC Microfinance Organization Credo's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to LLC Microfinance Organization Credo's reputation.

Liquidity risk is managed through careful planning of the loan portfolio expansion and settlement of the arising liabilities, which are matched with the funding pipeline. The Asset-liability Management Committee carries the ultimate responsibility for the liquidity risk management.

Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect LLC Microfinance Organization Credo's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Currency risk

LLC Microfinance Organization Credo had no significant hedged currency position at the end of the period. LLC Microfinance Organization Credo has an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarizes the exposure to foreign currency exchange rate risk at 31 December 2008. Assets and liabilities are categorized by currency.

Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with LLC Microfinance Organization Credo's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the LLC Microfinance Organization Credo's operations.

LLC Microfinance Organization Credo's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to LLC Microfinance Organization Credo's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Compliance with LLC Microfinance Organization Credo standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of LLC Microfinance Organization Credo.

LLC MICROFINANCE ORGANIZATION CREDO**Notes to the Financial Statements** for the year ended 31 December 2008**2. Cash and Cash Equivalents***In US Dollars*

	<u>31-Dec-08</u>	<u>31-Dec-07</u>
Cash on hand in GEL	469	872
Settlement accounts in resident Organizations	472,120	27,231
Deposits at resident Organizations – USD	1,700,000	-
Total cash and cash equivalents	<u>2,172,589</u>	<u>28,103</u>

3. Loans to Customers*In US Dollars*

<u>Business sector</u>	<u>31-Dec-08</u>	<u>31-Dec-07</u>
Retail	7,563,533	6,227,110
Service	6,024,071	3,558,110
Production	1,150,329	984,912
Agriculture	9,137,978	3,242,935
Housing	2,109,732	-
Other Consumption	54,856	-
<i>Accrued interest receivable</i>	<i>713,576</i>	<i>99,437</i>
Loans to customers before impairment provision	26,754,075	14,112,505
Less: loan impairment provision	(547,145)	(18,379)
Total loans to customers, net	<u>26,206,930</u>	<u>14,094,126</u>

Movement in the provision for loan impairment is as follows:

In US Dollars

	<u>31-Dec-08</u>	<u>31-Dec-07</u>
Balance at 1 January 2008	18,379	12,386
Additional provision for loan impairment during the period	578,864	19,660
Loans written off	(16,235)	(13,667)
Translation Difference	(33,863)	-
Balance at 31 December 2008	<u>547,145</u>	<u>18,379</u>

LLC MICROFINANCE ORGANIZATION CREDO

Notes to the Financial Statements for the year ended 31 December 2008

4. Other Debtors and Receivables

<i>In US Dollars</i>	<u>31-Dec-08</u>	<u>31-Dec-07</u>
Origination Fee on Loans from international finance organizations	86,612	-
Interest Receivable	713,576	278,790
Loan to World vision AzerCredit LLC with Accrued Interest	-	52,503
Prepayments	189,096	73,040
Accounts receivable VF Credo	98,029	40,228
Accounts receivable VF Caucasus	1,373	-
Accounts receivable eMerge	1,634	5,082
Other Tax Receivable	62,380	3,841
Total other debtors and receivables	<u>1,152,699</u>	<u>453,484</u>

5. Property, Plant and Equipment, Net

<i>In US Dollars</i>	Real Estate	Vehicles	Computers and communications	Fixtures and equipment	Other assets	Total
Cost						
Balance at 01 January 2008	192,123	73,252	124,615	64,322	82,950	537,262
Additions	64,682	294,434	103,631	33,877	75,405	572,029
Revaluation	228,323	-	-	-	-	228,323
Write offs	-	(14,125)	(3,789)	(48)	(3,634)	(21,596)
Disposals	-	(21,313)	-	-	-	(21,313)
Adjustment	(4,457)	(21,759)	(40,858)	(10,357)	(25,898)	(103,328)
Balance at 31 December 2008	480,670	310,490	183,598	87,794	128,823	1,191,375
Accumulated Depreciation						
Balance at 1 January 2008	3,796	23,275	44,704	10,993	27,664	110,433
Charge for the period	12,507	41,130	37,362	11,904	17,367	120,270
Revaluation	(9,505)	-	-	-	-	(9,505)
Write offs	-	(706)	(489)	(19)	(1,285)	(2,499)
Disposals	-	(6,675)	-	-	-	(6,675)
Adjustment	(2,574)	(20,649)	(39,237)	(9,487)	(24,686)	(96,632)
Balance at 31 December 2008	4,225	36,376	42,341	13,392	19,060	115,393
Net Book Value						
Balance at 1 January 2008	188,327	49,977	79,911	53,329	55,286	426,829
Balance at 31 December 2008	476,445	274,114	141,258	74,403	109,763	1,075,982

LLC MICROFINANCE ORGANIZATION CREDO**Notes to the Financial Statements** for the year ended 31 December 2008**6. Other Creditors and Liabilities**

<i>In US Dollars</i>	31-Dec-08	31-Dec-07
Accounts payable	40,299	40,614
Tax liabilities	161,208	1,005
Payable to VF Caucasus	241	-
Current Liabilities/eMerge	12,314	3,547
Other liabilities/DDA	998,958	413,252
Total other creditors and liabilities	1,213,020	458,418

7. Borrowings

<i>In US Dollars</i>	31-Dec-08	31-Dec-07
Short-term borrowings		
Vision Fund International	1,845,000	500,000
BlueOrchard Finance	500,000	-
ResponsAbility SICAV	-	1,000,000
World Vision MEERO	-	32,000
Finethic Microfinance	500,000	-
Oxfam Novib Triple Jump	250,200	-
Credit Suisse Microfinance Fund Management Company	1,000,000	500,000
Triodos Doen	1,000,000	-
Bank of Georgia	179,964	333,890
	5,275,164	2,365,890
Long-term borrowings		
Vision Fund International	36,830	-
Oxfam Novib Triple Jump	1,000,000	375,300
VISION FUND#8	-	1,881,830
Oikocredit	2,714,285	1,000,000
Global commercial microfinance consortium LTD.	500,000	500,000
Triodos Doen	-	500,000
Pettelaar effectenbewaarbedrijf DWM	1,000,000	1,000,000
BlueOrchard Finance	-	300,000
Triodos Doen	1,000,000	500,000
Deutsche Bank Aktiengesellschaft	1,379,800	1,379,800
BlueOrchard Finance	2,000,000	700,000
Credit Suisse Microfinance Fund Management Company 2	1,500,000	1,000,000
Finethic Microfinance	-	500,000
Calvert Social Investment Foundation, inc	1,000,000	247,500
EBRD	1,500,000	-
Incofin	1,000,000	-
Dual Return Fund	2,000,000	-
Rural Impulse Fund	1,000,000	-
Responsibility SICAV	1,750,000	-
	19,380,915	9,884,430
Total borrowings	24,656,079	12,250,320

8. Income Tax

The income tax rate applicable to the Credo's income is 15%. Reconciliation between the expected and the actual taxation charge is provided below.

Profit before taxation	764,685
	<i>15%</i>
	114,703
<i>Temporary differences</i>	
Loan loss provision expense	(88,786)
Difference between Depreciation Methods	(17,369)
Fixed Asset Expense	136,442
Difference between fixed assets repair	(3,288)
Other general expenses	(1,299)
Total:	25,700
Deferred tax asset (liability)	25,700
Profit tax	140,402

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 15%.

LLC MICROFINANCE ORGANIZATION CREDO**Notes to the Financial Statements** for the year ended 31 December 2008

9. Administrative and Other Operating Expenses*In US Dollars*

	<u>from 1 January 2008 to 31 December 2008</u>	<u>from 1 January 2007 to 31 December 2007</u>
Personnel expense	1,907,356	155,541
Supplies, copying and printing	93,598	2,090
Insurance	9,509	646
Professional fees - advertising, legal, audit	687,405	98,316
Communication expense	142,622	6,801
Occupancy expense	313,857	19,566
Travel and transportation	263,425	11,616
Depreciation	136,195	12,889
Operating fees to other WV entities	39,914	6,544
Staff and board training	124,148	-
Other operating expense	25,148	11,002
Total operating expense	<u>3,743,177</u>	<u>325,011</u>

10. 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.

Currency risk. The Organization had no significant hedged currency position at the end of the period. Credo has an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarizes the exposure to foreign currency exchange rate risk at 31 December 2008. Assets and liabilities are categorized by currency.

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.

Liquidity risk is governed by the management of the fund. As of December 31 fund management believe, that there is no substantial liquidity risk. Because, in case of necessity he can slightly liquidate current assets.

11. 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.

12. 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.

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:

<i>In US Dollars</i>	Period	Period
	December 31, 2008	December 31, 2007
Interest Expense on WV MEERO Loan	457.27	4,397
Interest Expense on WV Canada Loan	-	110
Interest Expense on VFI Loans	217,829.50	182,007

<i>In US Dollars</i>			
Borrowings from Related Parties	Nature of relationship	31-Dec-08	31-Dec-07
WV MEERO	Common control	-	32,000.00
Vision Fund International	Parent	1,881,830	500,000.00

13. Commitments and Contingent Liabilities

Tax legislation. Since 2009 according the Tax Code Georgia, Income tax was reduced from 25% to 20%. The Dividend tax reduced from 10% to 5%, and tax from interest income reduced from 10% to 7.5%.

The following changes took effect in the Georgian Tax Code since the year 2008: The social tax was abolished (20%), while personal income tax was increased from 12% to 25%. Income tax was reduced from 20% to 15%.

According to the amendments made in February 25, 2005 in the Civil Code of Georgia the legal status of microfinance organization was defined.

On July 18, 2006 a new Law on Micro Finance Organizations was adopted which allowed organizations operating micro-lending activities to register as microfinance organizations and conduct their activities in compliance with the established law and regulations.

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.

14. Commitments and Contingent Liabilities

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 2009 no provision for potential tax liabilities had been recorded.
