

**Microfinance Organization Credo
LLC**

Financial Statements
for the year ended 31 December 2009

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Independent Auditors' Report

To the Management Board
Microfinance Organization Credo LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Microfinance Organization Credo LLC (the "Company"), which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 principles 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the Company as at and for the year ended 31 December 2008 were audited by other auditors whose report dated 22 June 2009 expressed an unmodified opinion on those statements.

Tbilisi branch of KPMG CIS Limited

Tbilisi Branch of KPMG CIS Limited
24 June 2010

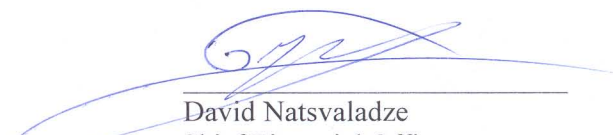
Microfinance Organization Credo LLC
Statement of Comprehensive Income for the year ended 31 December 2009

	Notes	2009 GEL'000	2008 GEL'000
Interest income	4	12,038	9,899
Interest expense	4	(3,713)	(3,127)
Net interest income		8,325	6,772
Fee and commission income	5	2,237	1,811
Fee and commission expense		(53)	(40)
Net fee and commission income		2,184	1,771
Net foreign exchange loss		(20)	(623)
Other (expense)/income		(157)	324
Operating income		10,332	8,244
Impairment losses	10	(887)	(893)
Personnel expenses	6	(4,505)	(3,267)
Other general administrative expenses	7	(3,247)	(2,235)
Profit before income tax		1,693	1,849
Income tax expense	8	(236)	(261)
Profit and total comprehensive income for the year		1,457	1,588

The financial statements were approved by the Management Board on 24 June 2010 and were signed on its behalf by:



 Ejljana Spasojevic
 Chief Executive Officer



 David Natsvaladze
 Chief Financial Officer

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

Microfinance Organization Credo LLC
Statement of Financial Position as at 31 December 2009

	Notes	2009 GEL'000	2008 GEL'000
ASSETS			
Cash and cash equivalents	9	5,772	3,622
Loans to customers	10	34,253	43,434
Property and equipment	11	1,845	1,794
Deferred tax asset	8	51	-
Other assets	12	923	633
Total assets		42,844	49,483
LIABILITIES			
Loans and borrowings	13	33,070	41,704
Income tax payable		205	119
Deferred tax liability	8	-	43
Other liabilities	14	2,261	1,766
Total liabilities		35,536	43,632
EQUITY			
Charter capital	15	4,365	4,365
Retained earnings		2,943	1,486
Total equity		7,308	5,851
Total liabilities and equity		42,844	49,483

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

Microfinance Organization Credo LLC
Statement of Cash Flows for the year ended 31 December 2009

	Notes	2009 GEL'000	2008 GEL'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		1,457	1,588
<i>Adjustments for:</i>			
Impairment losses		887	893
Net foreign exchange loss		20	623
Depreciation		340	203
Loss on disposal of property and equipment		1	2
Interest income from loans to customers		(11,172)	(9,869)
Interest income on deposits		(866)	(30)
Interest expense		3,713	3,127
Income tax expense		236	261
(Increase) decrease in operating assets			
Loans to customers		8,409	(21,584)
Other assets		(290)	(355)
Increase in operating liabilities			
Other liabilities		495	1,036
Interest received		11,903	9,153
Interest paid		(3,891)	(2,780)
Income tax paid		(244)	(96)
Cash flows from/(used in) operations		10,998	(17,828)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(546)	(1,356)
Proceeds from sale of property and equipment		154	36
Cash flows used in investing activities		(392)	(1,320)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of charter capital		-	1,121
Proceeds from borrowings		12,028	40,765
Repayment of borrowings		(20,484)	(19,161)
Cash flows (used in)/provided by financing activities		(8,456)	22,725
Net increase in cash and cash equivalents		2,150	3,577
Cash and cash equivalents as at the beginning of the year		3,622	45
Cash and cash equivalents as at the end of the year	9	5,772	3,622

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

Microfinance Organization Credo LLC
Statement of Changes in Equity for the year ended 31 December 2009

	Charter capital	Retained earnings	Total equity
	GEL'000	GEL'000	GEL'000
Balance as at 1 January 2008	3,244	(102)	3,142
Total comprehensive income for the year			
Profit for the year	-	1,588	1,588
Transactions with owners, recorded directly in equity			
Contributions by owners			
Increase in charter capital	1,121	-	1,121
Balance as at 31 December 2008	4,365	1,486	5,851
Balance as at 1 January 2009	4,365	1,486	5,851
Total comprehensive income for the year			
Profit for the year	-	1,457	1,457
Balance as at 31 December 2009	4,365	2,943	7,308

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

Organization and operations

Microfinance Organization Credo LLC (the “Company”) was established in 2007 as the successor of VisionFund Credo, a relief and development organization founded by World Vision International, to provide sustainable lending services to those individual entrepreneurs who are not able to access credit facilities through the conventional banking system. The Company helps in the development of the economy of Georgia by providing credit to very small entrepreneurs to grow their businesses and improve their economic situation.

The Company was registered by the National Bank of Georgia on 6 December 2007. The legal address of the Company is 4, Pekini Street, Tbilisi, Georgia.

The Company is wholly-owned by VisionFund Caucasus LLC. The ultimate parent of the Company is World Vision International. The activities of the Company are closely linked with requirements of the ultimate parent. Related party transactions are detailed in note 19.

Georgian business environment

Georgia has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. The conflict between Georgia and the Russian Federation has created additional uncertainty. The Company’s operations and assets could be at risk as a result of negative changes in the political, economic or business environment within Georgia and between Georgia and the Russian Federation. Consequently, operations in Georgia involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the economy of Georgia has further increased the level of economic uncertainty in the environment. These financial statements reflect management’s assessment of the impact of the Georgian business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

2 Basis of preparation

Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (“IFRSs”).

Basis of measurement

The financial statements are prepared on the historical cost basis.

Functional and presentation currency

The national currency of Georgia is the Georgian lari (“GEL”), which is the Company’s functional currency and the currency in which these financial statements are presented. All financial information presented in GEL is rounded to the nearest thousand.

Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets, liabilities, income and expenses to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 10 relating to loan impairment estimates.

3 Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the financial statements. Changes in accounting policies are described at the end of this note.

Foreign currency transactions

Transactions in foreign currencies are translated to GEL at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Financial instruments

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Loans and borrowings are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these loans and borrowings liabilities are measured at amortized cost using the effective interest method.

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method.

All financial liabilities are measured at amortized cost. Amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognized immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognized over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

Gains and losses on subsequent measurement

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognized when it is extinguished.

The Company also derecognizes certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Operating leases and the leased assets are not recognized in the statement of financial position.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition.

The estimated useful lives are as follows:

- | | |
|----------------------|--------------|
| - Buildings | 20 years |
| - Office equipment | 5 to 7 years |
| - Computer equipment | 2 to 5 years |
| - Motor vehicles | 5 years |
| - Other | 2 to 5 years |

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Company reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Company uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. The Company writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Charter capital

Charter capital is classified as equity.

Dividends in relation to charter capital are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method. Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Changes in accounting policies and presentation

Starting from 1 January 2009 the Company adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the income statement is replaced by a statement of comprehensive income that also includes all non-owner changes in equity. The balance sheet is renamed to the statement of financial position and the cash flow statement is renamed to the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Comparative information is reclassified to conform to changes in presentation in the current year.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2009, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective. The Company has not yet analyzed the likely impact of these new standards on its financial statements.

- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Company has not yet determined the potential effect of the amendment.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The impact of these changes will be analyzed by the Company during the course of the project as further phases of the standard are issued.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010. The Company has not yet analyzed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2009 GEL'000	2008 GEL'000
Interest income		
Loans to customers	11,172	9,869
Placements with banks	866	30
Total interest income	12,038	9,899
Interest expense - loans and borrowings	(3,713)	(3,127)
Net interest income	8,325	6,772

5 Fee and commission income

	2009 GEL'000	2008 GEL'000
Commissions from loans to customers	1,601	1,443
Settlement	636	358
Other	-	10
	2,237	1,811

6 Personnel expenses

	2009 GEL'000	2008 GEL'000
Employee compensation	3,606	2,454
Payroll related taxes	899	813
	4,505	3,267

7 Other general administrative expenses

	2009	2008
	GEL'000	GEL'000
Occupancy expenses	873	455
Travel and transportation expenses	458	393
Depreciation	340	203
Professional services	317	167
Communications and information services	276	213
Office supplies	270	236
Repairs and maintenance	204	78
Training expenses	179	192
Advertising and marketing	127	101
Bank charges	65	87
Insurance	35	14
Security	24	19
Taxes other than on income	17	19
Other expenses	62	58
	3,247	2,235

8 Income tax expense

	2009	2008
	GEL'000	GEL'000
Current year tax expense	330	218
Deferred tax expense		
Origination and reversal of temporary differences	(94)	43
Total income tax expense	236	261

The applicable tax rate for current tax is 15% (2008: 15%). The Company applied a 15% deferred tax rate (2008: 15%).

Reconciliation of effective tax rate:

	2009	%	2008	%
	GEL'000		GEL'000	
Profit before tax	1,693	100%	1,849	100%
Income tax at the applicable tax rate	254	15%	277	15%
non-taxable income	(18)	(1)%	(16)	(1)%
	236	14%	261	14%

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities and assets as of 31 December 2009 and 2008, respectively.

Movements in temporary differences during the years ended 31 December 2009 and 2008 are presented as follows:

GEL'000	Balance	Recognized	Balance
	1 January 2009	in profit or loss	31 December 2009
Loans to customers	148	119	267
Property and equipment	(191)	(17)	(208)
Other liabilities	-	(8)	(8)
	(43)	94	51

GEL'000	Balance	Recognised	Balance
	1 January 2008	in profit or loss	31 December 2008
Loans to customers	-	148	148
Property and equipment	-	(191)	(191)
	-	(43)	(43)

9 Cash and cash equivalents

Cash and cash equivalents as at 31 December as shown in the statement of cash flows are composed of the following items:

	2009 GEL'000	2008 GEL'000
Call deposits		
Rated B	3,695	2,834
Bank balances		
Rated B	2,077	788
Total cash and cash equivalents	5,772	3,622

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 16.

10 Loans to customers

	2009 GEL'000	2008 GEL'000
Commercial loans - loans to small businesses	34,702	44,346
Impairment allowance	(449)	(912)
Net loans to customers	34,253	43,434

Movements in the loan impairment allowance for the year ended 31 December are as follows:

	2009 GEL'000	2008 GEL'000
Balance at the beginning of the year	912	29
Net charge for the year	887	893
Recoveries	457	16
Write-offs	(1,807)	(26)
Balance at the end of the year	449	912

As at 31 December 2009, interest accrued on impaired loans amount to GEL 81 thousand (31 December 2008: GEL 96 thousand).

Credit quality of the loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2009:

	Gross loans GEL'000	Impairment allowance GEL'000	Net loans GEL'000	Impairment to gross loans %
Loans without individual signs of impairment	33,733	-	33,733	-
Impaired loans:				
- overdue less than 90 days	625	184	441	29%
- overdue more than 90 days and less than 1 year	344	265	79	77%
Total impaired loans	969	449	520	46%
Total loans	34,702	449	34,253	1.3%

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2008:

	Gross loans GEL'000	Impairment allowance GEL'000	Net loans GEL'000	Impairment to gross loans %
Loans without individual signs of impairment	41,547	-	41,547	-
Impaired loans:				
- overdue less than 90 days	2,442	685	1,757	28%
- overdue more than 90 days and less than 1 year	357	227	130	64%
Total impaired loans	2,799	912	1,887	33%
Total loans	44,346	912	43,434	2.1%

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment include the following:

- overdue payments under loan agreement
- significant difficulties in the financial conditions of the borrower

The Company estimates the loan impairment for loans based on an analysis of the future cash flows (including estimated foreclosure value of collateral in case the Company will conclude that cash flows from the business activity of the borrower are not sufficient to repay the loan) for impaired or overdue loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified.

In determining the impairment allowance for loans, management made the following key assumptions:

- historic annual loss rate of 2%
- a delay of 6 to 12 months in obtaining proceeds from the foreclosure of collateral for loans with individual signs of impairment.

Changes in these estimates could affect the loan impairment provision. To the extent that the net present value of the estimated cash flows differs by minus one percent, the loan impairment provision on loans to legal entities as of 31 December 2009 would be 343 GEL thousand higher (31 December 2008: GEL 434 thousand).

Analysis of collateral

The following table provides the analysis of the commercial loan portfolio, net of impairment for the year ended 31 December:

	2009 GEL'000	% of loan portfolio	2008 GEL'000	% of loan portfolio
Loans with no collateral	25,048	73%	21,703	50%
Loans with collateral	9,205	27%	21,731	50%
Total	34,253	100%	43,434	100%

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Collateral mainly consist of home appliances and agricultural assets.

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Georgia who operate in the following economic sectors:

	2009 GEL'000	2008 GEL'000
Agriculture	16,111	15,953
Services	9,284	11,717
Trade	7,933	14,350
Manufacturing	1,316	2,230
Other	58	96
	34,702	44,346
Impairment allowance	(449)	(912)
	34,253	43,434

Significant credit exposures

As at 31 December 2009 and 2008 no individual loan balances exceeded 10% of loans to customers.

Loan maturities

The maturity of the loan portfolio is presented in note 21, which shows the remaining period from the reporting date to the contractual maturity of the loans.

11 Property and equipment

GEL'000	<u>Land and buildings</u>	<u>Office equipment</u>	<u>Computer equipment</u>	<u>Motor vehicles</u>	<u>Other</u>	<u>Total</u>
Cost						
At 1 January 2009	793	145	334	527	187	1,986
Additions	-	169	141	222	14	546
Disposals	(60)	(11)	(18)	(7)	(90)	(186)
At 31 December 2009	733	303	457	742	111	2,346
Depreciation						
At 1 January 2009	23	22	76	45	26	192
Depreciation charge	38	44	86	139	33	340
Disposals	(2)	(3)	(12)	(4)	(10)	(31)
At 31 December 2009	59	63	150	180	49	501
Carrying value						
At 31 December 2009	674	240	307	562	62	1,845
GEL'000	<u>Land and buildings</u>	<u>Office equipment</u>	<u>Computer equipment</u>	<u>Motor vehicles</u>	<u>Other</u>	<u>Total</u>
Cost						
At 1 January 2008	302	87	164	84	65	702
Additions	491	58	176	502	129	1,356
Disposals	-	-	(6)	(59)	(7)	(72)
At 31 December 2008	793	145	334	527	187	1,986
Depreciation						
At 1 January 2008	2	2	10	4	4	22
Depreciation charge	21	20	72	64	26	203
Disposals	-	-	(6)	(23)	(4)	(33)
At 31 December 2008	23	22	76	45	26	192
Carrying value						
At 31 December 2008	770	123	258	482	161	1,794
At 31 December 2007	300	85	154	80	61	680

12 Other assets

	2009	2008
	GEL'000	GEL'000
Prepayments	660	603
Other taxes receivable	191	5
Other receivable	72	25
	923	633

13 Loans and borrowings

This note provides information about the contractual terms of interest-bearing loans and borrowings, which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risk, see note 16.

	2009	2008
	GEL'000	GEL'000
<i>Non-current liabilities</i>		
Unsecured loans from other financial institutions	11,502	31,947
Unsecured loans from parent company	3,172	61
Secured bank loan	-	300
	14,674	32,308
<i>Current liabilities</i>		
Unsecured loans from other financial institutions	18,395	6,320
Unsecured loans from parent company	1	3,076
	18,396	9,396
Total loans and borrowings	33,070	41,704

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

GEL'000	Currency	Nominal interest rate	Year of maturity	31 December 2009		31 December 2008	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured loans from other financial institutions	USD	Libor + 2% - 12.5%	2010 - 2020	29,897	29,897	38,267	38,267
Unsecured loans from parent company	USD	9.3% - 9.6%	2011	3,173	3,173	3,137	3,137
Secured bank loan	GEL	19.0%	2010	-	-	300	300
				33,070	33,070	41,704	41,704

(b) Breaches of loan covenants

The Company has an unsecured loan from Rural Impulse Fund with a balance of GEL 843 thousand at 31 December 2009. According to the terms of the agreement, the loan is repayable in 2011. As at 31 December 2009 the Company was in breach of 2 loan covenants stating that upon request the Company's Write-off Ratio (Written off loans / average gross portfolio) should not exceed 2% and Risk Coverage Ratio ((Impairment loss allowance / (Portfolio at risk greater than 30 days and rescheduled loans)) should not be less than 75%.

The Company has an unsecured loan from Incofin with a balance of GEL 843 thousand at 31 December 2009. According to the terms of the agreement, the loan is repayable in 2011. As at 31 December 2009 the Company was in breach of 2 loan covenants stating that upon request the Company's Write-off Ratio (Written off loans / average gross portfolio) should not exceed 2% and Risk Coverage Ratio ((Impairment loss allowance / (Portfolio at risk greater than 30 days and rescheduled loans)) should not be less than 75%.

The Company has an unsecured loan from DWM Pettelaar with a balance of GEL 1,686 thousand at 31 December 2009. According to the terms of the agreement, the loan is repayable in 2011. As at 31 December 2009 the Company was in breach of a loan covenant stating that upon request the Company's Write-off Ratio (Written off loans / average gross portfolio) should not exceed 2%.

The Company has an unsecured loan from Calvert Social Security Fund with a balance of GEL 1,686 thousand at 31 December 2009. According to the terms of the agreement, the loan is repayable in 2012. As at 31 December 2009 the Company was in breach of 2 loan covenants stating that upon request the Company's Write-off Ratio (Written off loans / average gross portfolio) should not exceed 3% and Risk Coverage Ratio ((Impairment loss allowance / (Portfolio at risk greater than 30 days and rescheduled loans)) should not be less than 75%.

The Company has an unsecured loan from EBRD with a balance of GEL 632 thousand at 31 December 2009. According to the terms of the agreement, the loan is repayable in 2011. As at 31 December 2009 the Company was in breach of a loan covenants stating that upon request the Company's PAR>30 Ratio ((Portfolio at risk > 30 + rescheduled loans + written-off loans) / gross portfolio)) should not exceed 3%, Fixed assets to Subordinated debt and total equity Ratio ((Fixed Assets / (Subordinated Debt + Total Equity)) should not exceed 15%, Overhead Ratio ((Non-interest expenses (excluding provision for loan losses) / ((Operational income (excluding grants and donations) - Financial expenses)) should not exceed 75% and Equity to Total Assets Ratio (Total Equity / Total Assets) should not be less than 20%.

As a result of the above breaches, the lenders can request repayment on demand and the Company has classified the loans as current liabilities.

14 Other liabilities

	2009	2008
	GEL'000	GEL'000
Prepayments received	1,620	1,686
Deferred revenue	232	-
Accounts payable	171	42
Salary payable	168	-
Other taxes payable	41	12
Other payable	29	26
	2,261	1,766

15 Equity

(a) Charter capital

Charter capital represents the nominal amount of capital in the founding documentation of the Company and is subject to state registration.

(b) Dividends

In accordance with Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRSs. As at 31 December 2009 the Company had retained earnings of GEL 2,943 thousand (2008: GEL 1,486 thousand).

16 Risk management

Management of risk is fundamental to the microfinance business and is an essential element of the Company's operations. The major risks faced by the Company are those related to market risk, credit risk and liquidity risk.

Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Council has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

Management is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The Chief Executive Officer (CEO) is responsible for the overall risk management and compliance

functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The CEO reports directly to the Supervisory Council.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risks comprise currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

Overall authority for market risk is vested with Management. Market risks are approved by Management.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt).

Management does not have a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Company over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	2009	2008
	GEL'000	GEL'000
Fixed rate instruments		
Financial assets	33,700	43,156
Financial liabilities	(29,401)	(37,518)
	4,299	5,638
Variable rate instruments		
Financial assets	3,695	2,834
Financial liabilities	(3,245)	(3,584)
	450	(750)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit and loss.

Cash flow sensitivity analysis for variable rate instruments

An analysis of sensitivity of profit or loss and equity to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2009 and 2008 is as follows:

	2009		2008	
	Profit or loss GEL'000	Equity GEL'000	Profit or loss GEL'000	Equity GEL'000
100 bp parallel fall	4	4	(6)	(6)
100 bp parallel rise	(4)	(4)	6	6

Currency risk

The Company has assets and liabilities denominated in GEL and USD. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the exposure to currency risk at year end refer to note 22.

The Company has no significant exposure to USD to GEL currency risk at 31 December 2009 or 31 December 2008.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Company. The Company has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by management.

The credit policy establishes:

- Procedures for review and approval of loan credit applications
- Methodology for the credit assessment of borrowers
- Methodology for the evaluation of collateral
- Credit documentation requirements
- Procedures for the ongoing monitoring of loans and other credit exposures.

Individual loan credit applications are originated by the relevant loan officers and are then passed on to the senior loan officer, which is responsible for the individual loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Branch Manager and a second opinion is given accompanied by a check that credit policy requirements are met.

The Company continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial information and other information submitted by the borrower, or otherwise obtained by the Company.

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

The maximum exposure to on balance sheet credit risk at the reporting date is as follows:

	2009	2008
	GEL'000	GEL'000
Loans to customers	34,253	43,434
Call deposits	3,695	2,834
Bank balances	2,077	788
Total maximum exposure to on balance sheet credit risk	40,024	47,055

For the analysis of concentration of credit risk in respect of loans to customers refer to note 10.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities

is fundamental to liquidity management. It is unusual for micro finance organizations 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 Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by management.

The Company seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from banks and international financial institutions, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management practice includes the following:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining liquidity and funding contingency plans

The following tables show the undiscounted cash flows on financial assets and liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment. The expected cash flows on these financial assets and liabilities and unrecognized loan commitments can vary significantly from this analysis.

The amounts in this table represent the carrying amounts of the assets and liabilities as at the reporting date and include future interest payments.

The liquidity position as at 31 December 2009 is as follows:

GEL'000	Demand and less than 1 month	More than 1 month and less than 1 year	More than 1 year	Total gross amount outflow	Carrying amount
Financial assets					
Call deposits	3,695	-	-	3,695	3,695
Bank balances	2,077	-	-	2,077	2,077
Loans to customers	-	31,793	7,299	39,092	34,253
Total assets	5,772	31,793	7,299	44,864	40,025
Financial liabilities					
Loans and borrowings	9,910	8,871	15,334	34,115	33,070
Total liabilities	9,910	8,871	15,334	34,115	33,070
Net position	(4,138)	22,922	(8,035)	10,749	6,955

The liquidity position as of demand and less than 1 month is negative as some of the loans were reclassified due to breaches of covenants; however subsequent to 31 December 2009 the Company has received waivers from the lenders stated that they will continue to provide funding to the Company and will not call the loans.

The liquidity position as at 31 December 2008 is as follows:

GEL'000	Demand and less than 1 month	Less than 1 year	More than 1 year	Total gross amount outflow	Carrying amount
Financial assets					
Call deposits	2,834	-	-	2,834	2,834
Bank balances	788	-	-	788	788
Loans to customers	-	42,369	7,261	49,630	43,434
Total assets	3,622	42,369	7,261	53,252	47,056
Financial liabilities					
Loans and borrowings	-	9,190	33,762	42,952	41,704
Total liabilities	-	9,190	33,762	42,952	41,704
Net position	3,622	33,179	(26,501)	10,300	5,352

The key measure used by the Company for managing liquidity risk is the ratio of net liquid assets to loans and borrowings. For this purpose net liquid assets include cash and cash equivalents. The reported ratios of net liquid assets to loans and borrowings at the reporting date are as follows:

	2009	2008
At 31 December	17%	9%

Fair values versus carrying amounts

Management believes that the fair value of financial assets and liabilities approximates their carrying amounts. The basis for determining fair values is disclosed in note 3.

17 Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The debt to capital ratio at the end of the reporting period is as follows:

	2009 GEL'000	2008 GEL'000
Total liabilities	35,536	43,632
Less cash and cash equivalents	(5,772)	(3,622)
Net debt	29,764	40,010
Total equity	7,308	5,851

Debt to capital ratio at 31 December	4.07	6.84
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There were no changes in the Company’s approach to capital management during the year.

The Company also monitors its capital adequacy levels calculated in accordance with the requirements of Deutsche Bank (the “Bank”), as defined in the loan agreement.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Bank, as at 31 December:

	2009 GEL’000	2008 GEL’000
Total equity	7,308	5,851
Total assets	42,844	49,483
Total equity to total assets ratio at 31 December	17%	12%

18 Contingencies

Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company’s property or relating to operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after six years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on

these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

19 Related party transactions

The Company's Parent is VisionFund Caucasus LLC. The party with ultimate control over the Company is World Vision International.

No publicly available financial statements are produced by the Company's parent company. The Company's ultimate parent Company, World Vision International, produces publicly available financial statements.

Transactions with the Management Board

Total remuneration included in employee compensation for the year ended 31 December (see note 6):

	2009	2008
	GEL'000	GEL'000
Members of the Management Board	160	99

Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December and related profit or loss amounts of transactions for the year ended 31 December 2009 and 2008 with other related parties are as follows:

Parent company

GEL'000	2009			2008		
	Transaction value	Balance	Average interest rate	Transaction value	Balance	Average interest rate
Statement of financial position						
Assets						
Prepayments given	-	144	-	134	163	-
Liabilities						
Loans received	3,059	3,173	9%	-	3,137	9%
Management fee payable	92	92	-	-	-	-
Consulting fee Payables	98	13	-	78	-	-
Profit or loss						
Interest expense	317	-	-	325	-	-
Management fee	92	-	-	-	-	-
Consulting expense	98	-	-	78	-	-

Other subsidiaries of the Parent company

	2009			2008		
	Transaction value	Balance	Average interest rate	Transaction value	Balance	Average interest rate
GEL'000						
Statement of financial position						
Assets						
Loans given	-	-	-	281	-	16%
Profit or loss						
Interest income	-	-	-	1	-	-

20 Average effective interest rates

The table below displays interest bearing assets and liabilities as at 31 December 2009 and 2008 and their corresponding average effective interest rates as at these dates. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2009		2008	
	Average effective interest rate, %		Average effective interest rate, %	
	GEL	USD	GEL	USD
Interest bearing assets				
Call deposits	-	14%	-	14%
Loans to customers	36%	32%	34%	30%
Interest bearing liabilities				
Loans and borrowings	-	9%	19%	9%

21 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2009.

GEL'000	Demand and less than 1 month	More than 1 month and less than 1 year	More than 1 year	Total
ASSETS				
Cash and cash equivalents	5,772	-	-	5,772
Loans to customers	-	27,961	6,292	34,253
Property and equipment	-	-	1,845	1,845
Deferred tax asset	-	51	-	51
Other assets	-	923	-	923
Total assets	5,772	28,935	8,137	42,844
LIABILITIES				
Loans and borrowings	9,483	8,913	14,674	33,070
Income tax payable	-	205	-	205
Other liabilities	-	2,261	-	2,261
Total liabilities	9,483	11,379	14,674	35,536
Net position as at 31 December 2009	(3,711)	17,556	(6,537)	7,308
Net position as at 31 December 2008	3,622	26,429	(24,200)	5,851

The amounts in this table represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

22 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2009:

GEL'000	GEL	USD	Total
ASSETS			
Cash and cash equivalents	1,131	4,641	5,772
Loans to customers	4,736	29,517	34,253
Property and equipment	1,845	-	1,845
Deferred tax asset	51	-	51
Other assets	482	441	923
Total assets	8,245	34,599	42,844
LIABILITIES			
Loans and borrowings	-	33,070	33,070
Income tax payable	205	-	205
Other liabilities	732	1,529	2,261
Total liabilities	937	34,599	35,536
Net on balance sheet positions as of 31 December 2009	7,308	-	7,308
Net on balance sheet positions as of 31 December 2008	5,851	-	5,851

The following significant exchange rates applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2009	2008	2009	2008
USD 1	1.6704	1.4904	1.6858	1.6670
EUR 1	2.3315	2.3648	2.4195	2.1855