

Microfinance Organization Credo LLC

**Financial Statements
for the year ended 31 December 2010**

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Independent Auditors' Report

To the Management Board
Microfinance Organization Credo LLC

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 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Tbilisi branch of KPMG CIS Limited

Tbilisi Branch of KPMG Limited
10 June 2011

Microfinance Organization Credo LLC
Statement of Financial Position as at 31 December 2010


	Notes	2010 GEL'000	2009 GEL'000
ASSETS			
Cash and cash equivalents	9	14,769	5,772
Loans to customers	10	59,838	34,253
Property and equipment	11	2,022	1,845
Deferred tax asset	8	-	51
Other assets	12	1,354	923
Total assets		77,983	42,844
LIABILITIES			
Loans and borrowings	13	61,908	33,070
Income tax payable		264	205
Deferred tax liability	8	53	-
Other liabilities	14	3,938	2,261
Total liabilities		66,163	35,536
EQUITY			
Charter capital	15	4,365	4,365
Retained earnings		7,455	2,943
Total equity		11,820	7,308
Total liabilities and equity		77,983	42,844

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 Comprehensive Income for the year ended 31 December 2010

	Notes	2010 GEL'000	2009 GEL'000
Interest income	4	17,203	13,639
Interest expense	4	(4,382)	(3,713)
Net interest income		12,821	9,926
Fee and commission income	5	1,048	636
Fee and commission expense		(308)	(53)
Net fee and commission income		740	583
Net foreign exchange loss		(135)	(20)
Other expense		(26)	(157)
Operating income		13,400	10,332
Impairment reversals/(losses)	10	837	(887)
Personnel expenses	6	(5,901)	(4,505)
Other general administrative expenses	7	(3,338)	(3,247)
Profit before income tax		4,998	1,693
Income tax expense	8	(486)	(236)
Profit and total comprehensive income for the year		4,512	1,457

These financial statements were approved by the Management Board on 10 June 2011 and were signed on its behalf by:



 Ljiljana 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 Changes in Equity for the year ended 31 December 2010

GEL'000	Charter capital	Retained earnings	Total equity
Balance as at 1 January 2009	4,365	1,486	5,851
Profit and total comprehensive income for the year	-	1,457	1,457
Balance as at 31 December 2009	4,365	2,943	7,308
Balance as at 1 January 2010	4,365	2,943	7,308
Profit and total comprehensive income for the year	-	4,512	4,512
Balance as at 31 December 2010	4,365	7,455	11,820

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

Microfinance Organziation Credo LLC
Statement of Cash Flows for the year ended 31 December 2010

	Notes	2010 GEL'000	2009 GEL'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		4,512	1,457
<i>Adjustments for:</i>			
Impairment (reversals)/losses		(837)	887
Net foreign exchange loss		135	20
Depreciation		440	340
Loss on disposal of property and equipment		26	1
Interest income from loans to customers		(16,351)	(12,773)
Interest income on deposits		(852)	(866)
Interest expense		4,382	3,713
Income tax expense		486	236
Change in operating assets and liabilities			
Loans to customers		(23,011)	10,010
Other assets		(429)	(290)
Other liabilities		1,677	495
Interest received		16,937	11,903
Interest paid		(4,114)	(3,891)
Income tax paid		(323)	(244)
Cash flows (used in)/provided by operations		(17,322)	10,998
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(643)	(546)
Proceeds from sale of property and equipment		-	154
Cash flows used in investing activities		(643)	(392)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		39,983	12,028
Repayment of borrowings		(13,021)	(20,484)
Cash flows provided by/(used in) financing activities		26,962	(8,456)
Net increase in cash and cash equivalents		8,997	2,150
Cash and cash equivalents as at the beginning of the year		5,772	3,622
Cash and cash equivalents as at the end of the year	9	14,769	5,772

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

1 Background

(a) Business environment

Georgia is 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.

(b) Organisation 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 controlling party 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.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The financial statements are prepared on the historical cost basis.

(b) 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.

(c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Certain comparative amounts have been reclassified to conform with the current year presentation (see note 4).

(a) 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 GEL at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised 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 GEL at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

(b) Financial instruments

(i) 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 bank balances that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

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

(ii) 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.

(iii) 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.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. 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.

(iv) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms' length transaction on the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When a transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(v) *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.

(vi) *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.

(vii) *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.

(c) *Property, plant and equipment*

(i) *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.

(ii) *Leased assets*

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

(iii) *Depreciation*

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods 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 |

(d) Impairment

(i) *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, 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.

(ii) Non financial assets

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.

(e) 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.

(f) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(g) 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.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(h) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures* (2010) 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 phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2011. The Company recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Company's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Company does not intend to adopt this standard early.

- 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 2011. The Company has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2010	2009
	GEL'000	GEL'000
Interest income		
Loans to customers	16,351	12,773
Placements with banks	852	866
Total interest income	17,203	13,639
Interest expense - loans and borrowings	(4,382)	(3,713)
Net interest income	12,821	9,926

Change in classification

During the year the Company modified the statement of comprehensive income presentation of loan origination fees received. They were previously recorded as fee and commission income and are now shown within interest income to reflect more appropriately the recognition of these fees as an integral part of the effective yield of loans. Comparative amounts were reclassified for consistency, which resulted in GEL 1,601 thousand being reclassified from fee and commission income to interest income for the year ended 31 December 2009.

5 Fee and commission income

	2010	2009
	GEL'000	GEL'000
Settlement	527	636
Other	521	-
	1,048	636

6 Personnel expenses

	2010	2009
	GEL'000	GEL'000
Employee compensation	5,901	4,505

7 Other general administrative expenses

	2010	2009
	GEL'000	GEL'000
Occupancy expenses	867	873
Travel and transportation expenses	539	458
Depreciation	440	340
Professional services	287	317
Training expenses	273	179
Communications and information services	257	276
Office supplies	211	270
Advertising and marketing	200	127
Repairs and maintenance	84	204
Bank charges	49	65
Insurance	44	35
Taxes other than on income	40	17
Security	26	24
Other expenses	21	62
	3,338	3,247

8 Income tax expense

	2010	2009
	GEL'000	GEL'000
Current tax expense		
Current year tax expense	512	330
Over provided in prior years	(130)	-
	382	330
Deferred tax expense		
Origination and reversal of temporary differences	104	(94)
Total income tax expense	486	236

The applicable tax rate for current and deferred tax is 15% (2009: 15%).

Reconciliation of effective tax rate:

	2010		2009	
	GEL'000	%	GEL'000	%
Profit before income tax	4,998		1,693	
Income tax at the applicable tax rate	750	15%	254	15%
Non-taxable income	(134)	(3%)	(18)	(1%)
Over provided in prior years	(130)	(2%)	-	-
	486	10%	236	14%

(a) 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 2010 and 2009, respectively.

Movements in temporary differences during the years ended 31 December 2010 and 2009 are presented as follows:

GEL'000	Balance 1 January 2010	Recognized in profit or loss	Balance 31 December 2010
Loans to customers	267	(93)	174
Property and equipment	(208)	(28)	(236)
Other liabilities	(8)	17	9
	51	(104)	(53)

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

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:

	2010 GEL'000	2009 GEL'000
Call deposits		
Rated B	11,501	3,695
Bank balances		
Rated B	3,268	2,077
Total cash and cash equivalents	14,769	5,772

The above ratings are per Fitch ratings.

None of cash and cash equivalents are impaired or past due.

As at 31 December 2010 the Company has 2 banks (2009: 1 bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2010 is GEL 14,769 thousand (2009: GEL 5,772 thousand).

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

	2010	2009
	GEL'000	GEL'000
Commercial loans - loans to small businesses	60,205	34,702
Impairment allowance	(367)	(449)
Net loans to customers	59,838	34,253

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

	2010	2009
	GEL'000	GEL'000
Balance at the beginning of the year	449	912
Net (reversal) charge for the year	(837)	887
Recoveries of written-off loans	1,061	457
Write-offs	(306)	(1,807)
Balance at the end of the year	367	449

As at 31 December 2010, interest accrued on impaired loans amount to GEL 195 thousand (31 December 2009: GEL 81 thousand).

(a) Credit quality of the loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	GEL'000	GEL'000	GEL'000	%
Loans without individual signs of impairment	59,972	295	59,677	0.5%
Impaired loans:				
- overdue less than 90 days	228	67	161	29.4%
- overdue more than 90 days and less than 1 year	5	5	-	100.0%
Total impaired loans	233	72	161	30.9%
Total loans	60,205	367	59,838	0.6%

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

	Gross loans	Impairment allowance	Net loans	Impairment to gross loans
	GEL'000	GEL'000	GEL'000	%
Loans without individual signs of impairment	33,733	-	33,733	-
Impaired loans:				
- overdue less than 90 days	625	184	441	29.4%
- overdue more than 90 days and less than 1 year	344	265	79	77.0%
Total impaired loans	969	449	520	46.3%
Total loans	34,702	449	34,253	1.3%

(b) Key assumptions and judgments for estimating the loan impairment

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 0.6%
- 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. For example, to the extent that the net present value of the estimated cash flows differs by minus one percent, the impairment allowance on loans to retail customers as at 31 December 2010 would be GEL 598 thousand higher (2009: GEL 343 thousand).

(c) Analysis of collateral

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

	2010	% of loan	2009	% of loan
	GEL'000	portfolio	GEL'000	portfolio
Loans with no collateral	46,083	77%	25,048	73%
Loans with collateral	13,755	23%	9,205	27%
Total	59,838	100%	34,253	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 consists of home appliances and agricultural assets.

(d) Industry and geographical analysis of the loan portfolio

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

	2010 GEL'000	2009 GEL'000
Agriculture	35,603	16,111
Services	12,225	9,284
Trade	10,496	7,933
Manufacturing	1,861	1,316
Other	20	58
	60,205	34,702
Impairment allowance	(367)	(449)
	59,838	34,253

(e) Significant credit exposures

As at 31 December 2010 and 2009 no individual loan balances exceeded 10% of equity.

(f) 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	Land and buildings	Office equipment	Computer equipment	Motor vehicles	Other	Total
Cost						
Balance at 1 January 2010	733	303	457	742	111	2,346
Additions	59	102	223	211	48	643
Disposals	-	(5)	(27)	-	(26)	(58)
Balance at 31 December 2010	792	400	653	953	133	2,931
Depreciation						
Balance at 1 January 2010	59	63	150	180	49	501
Depreciation charge	37	58	121	203	21	440
Disposals	-	(3)	(27)	-	(2)	(32)
Balance at 31 December 2010	96	118	244	383	68	909
Carrying value						
At 31 December 2010	696	282	409	570	65	2,022
GEL'000						
GEL'000	Land and buildings	Office equipment	Computer equipment	Motor vehicles	Other	Total
Cost						
Balance at 1 January 2009	793	145	334	527	187	1,986
Additions	-	169	141	222	14	546
Disposals	(60)	(11)	(18)	(7)	(90)	(186)
Balance at 31 December 2009	733	303	457	742	111	2,346
Depreciation						
Balance 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)
Balance at 31 December 2009	59	63	150	180	49	501
Carrying value						
At 31 December 2009	674	240	307	562	62	1,845
At 31 December 2008	770	123	258	482	161	1,794

12 Other assets

	2010 GEL'000	2009 GEL'000
Prepayments	1,023	660
Other receivable	331	263
	1,354	923

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.

	2010 GEL'000	2009 GEL'000
<i>Non-current liabilities</i>		
Unsecured loans from financial institutions	38,391	11,502
Unsecured loans from parent company	2,659	3,172
Secured bank loans	5,943	-
	46,993	14,674
<i>Current liabilities</i>		
Unsecured loans from financial institutions	11,229	18,395
Unsecured loans from parent company	3,338	1
Secured bank loans	348	-
	14,915	18,396
Total loans and borrowings	61,908	33,070

(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 2010		31 December 2009	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured loans from financial institutions	USD	Libor+2%-5.25%	2011-2020	2,467	2,467	4,626	4,626
Unsecured loans from financial institutions	USD	2.5% - 8%	2011-2014	43,540	43,540	25,271	25,271
Unsecured loans from financial institutions	GEL	Libor+2.5%	2020	1,795	1,795	-	-
Unsecured loans from financial institutions	GEL	16%	2011	1,818	1,818	-	-
Unsecured loans from parent company	USD	8.8% - 9.5%	2011-2013	5,997	5,997	3,173	3,173
Secured bank loan	GEL	10%	2010-2012	6,291	6,291	-	-
				61,908	61,908	33,070	33,070

14 Other liabilities

	2010 GEL'000	2009 GEL'000
Prepayments received	3,473	1,620
Salaries payable	181	168
Other payables	284	241
Deferred revenue	-	232
	3,938	2,261

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 2010 the Company had retained earnings of GEL 7,455 thousand (2009: GEL 2,943 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.

(a) 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, while optimizing the return on risk.

(b) 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.

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

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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:

	2010	2009
	GEL'000	GEL'000
Fixed rate instruments		
Financial assets	60,205	34,702
Financial liabilities	(57,646)	(28,444)
	2,559	6,258
Variable rate instruments		
Financial assets	11,501	3,695
Financial liabilities	(4,262)	(4,626)
	7,239	(931)

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 (net of taxes) 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 2010 and 2009 is as follows:

	2010		2009	
	Profit or loss GEL'000	Equity GEL'000	Profit or loss GEL'000	Equity GEL'000
100 bp parallel fall	62	62	(8)	(8)
100 bp parallel rise	(62)	(62)	8	8

(ii) 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's exposure to foreign currency risk was not significant as at 31 December 2010 or 31 December 2009.

(c) 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:

	2010	2009
	GEL'000	GEL'000
Loans to customers	59,838	34,253
Call deposits	11,501	3,695
Bank balances	3,268	2,077
Total maximum exposure to on balance sheet credit risk	74,607	40,025

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

(d) 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, other financial institutions and related parties, 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 2010 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 inflow/(outflow)	Carrying amount
Financial assets					
Call deposits	11,501	-	-	11,501	11,501
Bank balances	3,268	-	-	3,268	3,268
Loans to customers	247	34,631	32,999	67,877	59,838
Total assets	15,016	34,631	32,999	82,646	74,607
Financial liabilities					
Loans and borrowings	-	(15,369)	(48,295)	(63,664)	(61,908)
Total liabilities	-	(15,369)	(48,295)	(63,664)	(61,908)
Net position	15,016	19,262	(15,296)	18,982	12,699

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

GEL'000	Demand and less than 1 month	Less than 1 year	More than 1 year	Total gross amount inflow/(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 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:

	2010	2009
At 31 December	24%	17%

(e) 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(b).

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. Capital consists of charter capital and retained earnings.

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

	2010	2009
	GEL'000	GEL'000
Total liabilities	66,163	35,536
Less cash and cash equivalents	(14,769)	(5,772)
Net debt	51,394	29,764
Total equity	11,820	7,308
Debt to capital ratio at 31 December	4.35	4.07

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, 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:

	2010	2009
	GEL'000	GEL'000
Total equity	11,820	7,308
Total assets	77,983	42,844
Total equity to total assets ratio at 31 December	15%	17%

18 Contingencies

(a) 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.

(b) 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.

(c) Taxation contingencies in Georgia

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 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.

(a) Transactions with the Management Board

Total remuneration included in employee compensation for the year ended 31 December:

	2010 GEL'000	2009 GEL'000
Members of the Management Board	178	160

(b) 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 2010 and 2009 with other related parties are as follows:

(i) Parent company

	2010			2009		
	Transaction value GEL'000	Balance GEL'000	Average interest rate, %	Transaction value GEL'000	Balance GEL'000	Average interest rate, %
Statement of financial position						
Assets						
Prepayments	-	233	-	-	144	-
Motor vehicles	119	-	-	-	-	
Liabilities						
Loans received	2,659	5,997	9%	3,059	3,173	9%
Management fee payable	-	-		92	92	-
Payables	-	-		98	13	
Profit or loss						
Interest expense	532	-	-	317	-	-
Management fee	-	-	-	92	-	-
Professional services	51	-	-	98	-	-
Fee and commission expense	173	-	-	-	-	-
	173	-		-	-	

20 Average effective interest rates

The table below displays interest bearing assets and liabilities as at 31 December 2010 and 2009 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.

	2010		2009	
	Average effective interest rate, %		Average effective interest rate, %	
	GEL	USD	GEL	USD
Interest bearing assets				
Call deposits	-	9%	-	14%
Loans to customers	35%	31%	36%	32%
Interest bearing liabilities				
Loans and borrowings	10%	8%	-	9%

21 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2010.

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	14,769	-	-	14,769
Loans to customers	216	30,261	29,361	59,838
Property and equipment	-	-	2,022	2,022
Other assets	-	1,354	-	1,354
Total assets	14,985	31,615	31,383	77,983
LIABILITIES				
Loans and borrowings	-	14,915	46,993	61,908
Income tax payable	-	264	-	264
Deferred tax liability	-	53	-	53
Other liabilities	-	3,938	-	3,938
Total liabilities	-	19,170	46,993	66,163
Net position as at 31 December 2010	14,985	12,445	(15,610)	11,820
Net position as at 31 December 2009	(4,138)	17,983	(6,537)	7,308

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 2010:

GEL'000	GEL	USD	Total
ASSETS			
Cash and cash equivalents	1,639	13,130	14,769
Loans to customers	17,688	42,150	59,838
Property and equipment	2,022	-	2,022
Other assets	957	397	1,354
Total assets	22,306	55,677	77,983
LIABILITIES			
Loans and borrowings	9,904	52,004	61,908
Income tax payable	264	-	264
Deferred tax liability	53	-	53
Other liabilities	1,795	2,143	3,938
Total liabilities	12,016	54,147	66,163
Net on balance sheet positions as of 31 December 2010	10,290	1,530	11,820
Net on balance sheet positions as of 31 December 2009	7,308	-	7,308

The following significant exchange rates applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
USD 1	1.785	1.6704	1.7728	1.6858