

**CREDAGRO LIMITED  
LIABILITY NON-BANK  
CREDIT ORGANIZATION**

**Financial Statements**

Years ended December 31, 2007 and  
December 31, 2006 with Report of  
Independent Auditors

# CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders and the Board of Directors of CredAgro Limited Liability Non-Bank Credit Organization:

### ***Report on the Financial Statements***

We have audited the financial statements of CredAgro Limited Liability Non-Bank Credit Organization, which comprise the balance sheet as at 31 December 2007, and the income statement, statements of changes in equity and 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 Generally Accepted Accounting Principles in United States of America ("US GAAP"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### ***Auditor's 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 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 CredAgro Limited Liability Non-Bank Credit Organization as at 31 December 2007, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles in United States of America (“US GAAP”).

15 February, 2008  
Baku, Azerbaijan

# CRE DAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## BALANCE SHEET

(Amounts presented are in Azerbaijan Manats)

	Notes	31 December 2007	31 December 2006 (restated)
<b>Assets</b>			
Current assets::			
Cash and cash equivalents	5	795,816	72,764
Loans and advances to banks, net	6	3,850,459	-
Loans and advances to customers, net	7	27,247,354	8,419,382
Deferred tax asset	15	23,533	16,814
Other current assets	8	188,199	24,946
Total current assets		32,105,361	8,533,906
Non-current assets:			
Property and equipment, net	9	803,638	126,900
Intangible assets, net	10	74,942	54,301
Total non-current assets		878,580	181,201
<b>Total assets</b>		<b>32,983,941</b>	<b>8,715,107</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Accrued interest expense	12	367,282	61,716
Other current liabilities	11	108,676	110,278
Total current liabilities		475,958	171,994
Non-current liabilities:			
Long-term borrowings	12	26,490,484	3,921,300
Other non-current liabilities		26,892	44,013
Total non-current liabilities		26,517,376	3,969,331
<b>Total liabilities</b>		<b>26,993,334</b>	<b>4,137,307</b>
Shareholders' equity:			
Charter capital		4,523	4,523
Capital reserves		2,593,968	2,593,968
Retained earnings		3,392,116	1,979,309
<b>Total shareholders' equity</b>		<b>5,990,607</b>	<b>4,577,800</b>
<b>Total liabilities and shareholders' equity</b>		<b>32,983,941</b>	<b>8,715,107</b>

On behalf of the Management Board:

\_\_\_\_\_  
Eldar Jafarov  
General Manager

\_\_\_\_\_  
Zulfiyya Jafarova  
Chief Accountant

15 February, 2008

15 February, 2008

The notes on pages 7-22 form an integral part of these financial statements.

# CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## INCOME STATEMENT

(Amounts presented are in Azerbaijan Manats)

	Notes	Year ended 31 December, 2007	Year ended 31 December, 2006 (restated)
Interest income	13	4,649,173	1,422,384
Interest expense	13	<u>(1,167,691)</u>	<u>(154,984)</u>
<b>Net interest income</b>		3,481,482	1,267,400
Impairment of interest earning assets		<u>(308,969)</u>	<u>(56,749)</u>
		<u>3,172,513</u>	<u>1,210,651</u>
Fee and commission income		-	-
Fee and commission expense		<u>(40,652)</u>	<u>(23,000)</u>
<b>Fees and commissions</b>		<u>(40,652)</u>	<u>(23,000)</u>
<b>Non interest income</b>		13,819	2,929
Salaries and benefits		(927,453)	(345,647)
Administrative and operating expenses	14	(401,562)	(215,909)
Depreciation and amortization	9,10	(67,381)	(41,393)
Losses from foreign currency transactions		<u>43,588</u>	<u>(169,300)</u>
<b>Non interest expense</b>		(1,352,808)	(772,249)
Grant		<u>43,909</u>	<u>35,812</u>
<b>Income before income taxes</b>		1,836,781	454,143
Income tax expense	15	<u>(423,974)</u>	<u>(95,953)</u>
<b>Net income</b>		<u>1,412,807</u>	<u>358,190</u>

On behalf of the Management Board:

Eldar Jafarov  
General Manager

Zulfiyya Jafarova  
Chief Accountant

15 February, 2008

15 February, 2008

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# CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts presented are in Azerbaijan Manats)

	Charter capital	Capital Reserves	Retained Earnings of Previous Years	Total
<b>Balance as at 31 December, 2005</b>	<u>4,523</u>	<u>2,593,968</u>	<u>1,621,119</u>	<u>4,219,610</u>
Current Year Profit	-	-	392,452	392,452
Restatement ( <i>Note 4</i> )			(34,262)	(34,262)
<b>Balance as at December 31, 2006 (restated)</b>	<u>4,523</u>	<u>2,593,968</u>	<u>1,979,309</u>	<u>4,577,800</u>
Current Year Profit	-	-	1,412,807	1,412,807
<b>Balance as at December 31, 2007</b>	<u>4,523</u>	<u>2,593,968</u>	<u>3,392,116</u>	<u>5,990,607</u>

On behalf of the Management Board:

\_\_\_\_\_  
Eldar Jafarov  
General Manager

\_\_\_\_\_  
Zulfiyya Jafarova  
Chief Accountant

15 February, 2008

15 February, 2008

The notes on pages 7-22 form an integral part of these financial statements.

# CRE DAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## STATEMENTS OF CASH FLOWS

*(Amounts presented are in Azerbaijan Manats)*

	Notes	Year ended 31 December, 2007	Year ended 31 December, 2006  (restated)
<b>Operating activities</b>			
Gain before taxation		1,836,781	454,143
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		67,381	41,393
Allowance for loans to customer losses		268,626	50,361
Allowance for loans to banks losses		38,894	-
Loss on foreign exchange translation		43,588	(169,300)
Net change in accruals		61,083	17,948
Operating profit before changes in operating assets		2,316,353	394,545
Changes in operating assets and liabilities:			
Loans and advances to customers		(18,574,518)	(3,402,279)
Loans and advances to banks		(3,880,480)	-
Other current assets		(95,779)	(16,000)
Other current liabilities		90,509	(59,827)
Other non current liabilities		(17,121)	25,613
Long-term borrowings		22,232,906	3,126,856
<b>Net cash flow from operating activities before income tax</b>		2,071,870	68,908
Income taxes paid		(587,286)	(16,357)
<b>Net cash provided by operating activities</b>		1,484,584	52,551
<b>Investing activities</b>			
Purchases of property and equipment		(780,465)	(80,709)
Purchases of intangible assets		(32,086)	(26,195)
Proceeds from the sale of equipment		47,791	4,748
<b>Net cash used in investing activities</b>		(764,760)	(102,156)
<b>Financing activities</b>			
<b>Net cash used in financing activities</b>		-	-
Effect of exchange loss on cash and cash equivalents		3,228	7,092
<b>Net increase/(decrease) in cash and cash equivalents</b>		723,052	(42,513)
<b>Cash and cash equivalents at beginning of year</b>	5	72,764	115,277
<b>Cash and cash equivalents at end of year</b>	5	795,816	72,764

**On behalf of the Management Board:**

\_\_\_\_\_  
**Eldar Jafarov**  
 General Manager

\_\_\_\_\_  
**Zulfiyya Jafarova**  
 Chief Accountant

15 February, 2008

15 February, 2008

The notes on pages 7-22 form an integral part of these financial statements

# **CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

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### **1. DESCRIPTION OF BUSINESS**

CredAgro Limited Liability Non-Bank Credit Organization (the “Company”) is engaged in provision of credits to agricultural sector in the Azerbaijan Republic and was established in accordance with the laws and regulations of the Azerbaijan Republic on August 28, 2000.

The founder of the Company is ACDI/VOCA, a company registered and existing under the laws of United States of America, owning 100% of the Company’s shareholders’ capital.

The registered office of the Company is on 63, Hasan Aliyev Street, Baku, the Azerbaijan Republic.

The Company was established as a result of granting to ACDI/VOCA of 5,314,205 US Dollars (AZN 4,739,208) by United States Agency for International Development (“USAID”) to provide support for a program in Azeri Rural Credit Project. The Company is regulated by the National Bank of the Azerbaijan (the “NBA”) and conducts its business under limited license number 06/06-1891 dated August 28, 2006. The Company’s primary business consists of originating loans.

### **2. BASIS OF PRESENTATION**

#### **Accounting basis**

These financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Principles in United States of America (“US GAAP”) issued by the Financial Accounting Standards Board (“FASB”)

These financial statements are presented in Azerbaijan Manats (“AZN”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention.

The Company maintains its accounting records in accordance with Azerbaijan law. These financial statements have been prepared from the Azerbaijan statutory accounting records and have been adjusted to conform with US GAAP. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

# CRE DAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

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### Foreign currency translation

The functional currency of these financial statements is the Azerbaijan Manat (“AZN”). Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The exchange rates at the year-end used by the Company in the preparation of the financial statements are as follows:

	31 December 2007	31 December 2006
AZN/1 US Dollar	0.8453	0.8714

### 3 SIGNIFICANT ACCOUNTING POLICIES

#### Use of estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts. Such estimates and assumptions are based on the information available to the management as of the date of the financial statements. Therefore, actual results could differ from those estimates and assumptions. Estimates that are particularly susceptible to change relate to the provisions for impairment losses.

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand and corresponding accounts with banks and other financial institutions.

#### Loans and Leases

Loans are reported at their outstanding principal balances net of unamortized deferred fees and costs on originated loans. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to income over the lives of related loans.

The Company provides equipment financing to its customers through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments receivables plus estimated residual value of the leased property less unearned income.

Financial leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

**CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)**

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**Allowance for Credit Losses**

The Company reviews its loans to assess impairment on a regular basis. A loan is impaired and impairment losses are incurred if it is probable that the Company will be unable to collect all amounts due or the recorded investment in the impaired loan is less than the present value of expected future cash flows discounted at the loan’s effective interest rate.

The Company first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and collectively for loans that are not individually significant. The Company includes loans that are not individually significant in a Company of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as management’s estimate based but not limited to contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions.

In some cases the observable data required to estimate the amount of an impairment loss on a loan 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 are few 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.

**Property and equipment**

Property, plant and equipment and intangible assets are carried at historical cost less accumulated depreciation.

Depreciation is calculated on a straight line basis and charged on the carrying value of property, plant and equipment to write off assets over their useful economic lives. The estimated useful lives are as follows:

Buildings	40 years
Furniture and fixtures	5 years
Computers and accessories	4 years
Vehicles	4 years
Other Fixed assets	5 years

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

# **CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)**

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### **Intangible assets**

Intangible assets, which are acquired by the Company, are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets - 8 years.

Intangible Assets subject to amortization are evaluated for impairment in accordance with SFAS No.144 "Accounting for the Impairment or Disposal of Long-Lived Assets." An impairment loss will be recognised if the carrying amount of the Intangible Asset is not recoverable and exceeds fair value. The carrying amount of the intangible is considered not recoverable if its exceeds the sum of the undiscountd cash foows expected to result from the use of the asset.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

### **Borrowings**

Borrowings are initially recognised at cost net of transaction costs incurred. In subsequent periods, borrowings are measured at amortized cost using the effective interest rate method.

Borrowings are initially recognized at cost. Subsequently any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings.

### **Recognition of income and expense**

Interest income and expense are recognized in the income statement as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortization of differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan organization 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 the interest income over the estimated live of the financial instrument using the effective interest rate method.

### **Income taxes**

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS 109) resulting in two components of Income Tax Expense: current and deferred. Current income tax expense approximates to be paid or refunded for the current period. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. These gross deferred tax assets and liabilities represents decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences in the bases of assets and liabilities as measured by tax laws and their bases as reported in the financial statements. For additional information on income taxes, see Note 15 of the Financial Statements.

# CRE DAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

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### Retirement and other benefit obligations

In accordance with the requirements of the Azerbaijan legislation state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension fund. The Company does not have any pension arrangements separate from the State pension system of the Azerbaijan Republic. In addition, the Company has no post-retirement benefits or other significant compensated benefits requiring accrual.

### Transactions with related parties

Related parties or transactions with related parties, as defined by SFAS No. 57 "Related party disclosures", represent:

- a) Affiliates of the enterprise
- b) Entities for which investments are accounted for by the equity method by the enterprise
- c) Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
- d) Principal owners of the enterprise
- e) Members of the immediate families of principal owners of the enterprise and its management and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Transactions between related parties commonly occur in the normal course of business. Some examples of common types of transactions with related parties are: sales, purchases, and transfers of realty and personal property; services received or furnished, for example, accounting, management, engineering, and legal services; use of property and equipment by lease or otherwise; borrowings and lendings; guarantees; maintenance of bank balances as compensating balances for the benefit of another; intercompany billings based on allocations of common costs; and filings of tax returns. Transactions between related parties are considered to be related party transactions even though they may not be given accounting recognition.

# CRE DAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

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### New accounting pronouncements

In February 2007, the FASB has issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No.115". This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. The fair value option in this Statement is similar, but not identical, to the fair value option in IAS 39, Financial Instruments: Recognition and Measurement. This Statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, Fair Value Measurements, and No. 107, Disclosures about Fair Value of Financial Instruments.

In December 2007, the FASB has issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51". The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary.

In December 2007, the FASB has issued SFAS No. 141 (revised 2007), Business Combinations. The objective of this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects.

In February 2007, the FASB has issued FSP SFAS No. 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides". This FASB Staff Position (FSP) updates the illustrations contained in Appendix B of FASB Statement No. 87, *Employers' Accounting for Pensions*, Appendix B of FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and Appendix C of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, to reflect the provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

In April 2007, the FASB issued FSP FIN No. 39-1, "Amendment of FASB Interpretation No. 39". This FASB Staff Position (FSP) addresses: certain modifications to FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*; whether a reporting entity that is party to a master netting arrangement can offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments that have been offset under the same master netting arrangement in accordance with paragraph 10 of Interpretation 39.

In May 2007, the FASB issued FSP FIN No/ 48-1 "Definition of Settlement in FASB Interpretation No. 48". This FASB Staff Position (FSP) amends FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits.

# CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

In May 2007, the FASB issued FSP FIN No. 46(R)-7, "Application of FASB Interpretation No. 46(R) to Investment Companies" This FASB Staff Position (FSP) addresses the application of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, by an entity that accounts for its investments in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, Investment Companies

### 4. PRIOR PERIOD ADJUSTMENTS

In 2007 the Company's management discovered errors in the balance sheet as at 31 December 2006. Certain types of transactions such as deferral of loan origination fee were not properly recorded. In accordance with SFAS No.154 "Accounting Changes and Error Corrections" the correction of the errors was done retrospectively. Comparative amounts were restated and the corrections were made to the earliest prior period presented.

The effect of the adjustments made to the balance sheet as at 31 December 2006 is as follows:

Type of correction	Amount of correction	Financial statements item	As previously reported 31 December 2006	As restated 31 December 2006
Deferral of loan origination fee for prior reporting period	(55,094)	Loans to Customers/ Fee and Commission Income	8,474,476	8,419,382
Changes in deferred tax balance for prior reporting period	20,832	Deferred tax liability/ Deferred tax asset	(4,018)	16,814

### Reclassifications

Certain reclassifications have been made to the financial statements as at 31 December 2006 and for the year then ended to conform to the presentation as at 31 December 2007 and for the year then ended as current year presentation provides more fair view of the financial statements.

Nature of reclassification	Amount	Income statement line as per the previous report	Income statement line as per current report
Loan origination fee is reclassified to interest income	21,536	Fee and Commission Income	Interest Income

# CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

### 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Cash on hand in National Currency	9,233	1,759
Correspondent bank accounts in National Currency	50,710	24,716
Correspondent bank accounts in Foreign Currency	735,873	46,289
	<b>795,816</b>	<b>72,764</b>
	<b>795,816</b>	<b>72,764</b>

### 6. LOANS AND ADVANCES TO BANKS

Loans and advances to Banks comprised of the following:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Advances to local banks in Foreign Currency	3,888,380	-
Accrued interest income	973	-
	(38,894)	-
Less: allowance for impairment losses	<b>3,850,459</b>	-
	<b>3,850,459</b>	-

### 7. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers comprised of the following:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Loans to customers	26,080,940	8,307,656
Net investments in finance lease	1,545,623	222,309
	(379,209)	(110,583)
Less: allowance for impairment losses	<b>27,247,354</b>	<b>8,419,382</b>
	<b>27,247,354</b>	<b>8,419,382</b>

  

	<b>31 December 2007</b>	<b>31 December 2006</b>
Trade	12,786,838	3,882,997
Consumer loans	6,218,768	1,606,941
Agriculture	2,081,888	1,034,017
Autoloans	1,711,421	334,627
Leasing	1,545,624	224,291
Manufacture	747,820	436,204
Other	2,534,204	1,010,888
	(379,209)	(110,583)
Less allowance for impairment losses	<b>27,247,354</b>	<b>8,419,382</b>
	<b>27,247,354</b>	<b>8,419,382</b>

# CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

### 8. OTHER CURRENT ASSETS

Other current assets are comprised of the following:

	31 December 2007	31 December 2006
Deferred commitment fees	103,667	-
Prepaid income tax	64,200	2,604
Other prepayments	10,322	11,323
Other receivables	10,010	11,019
	<b>188,199</b>	<b>24,946</b>
	<b>188,199</b>	<b>24,946</b>

### 9. PROPERTY, PLANT AND EQUIPMENT

Property and equipment are comprised of the following:

	Land	Buildings	Furniture and fixtures	Computer s and Communi cation equipmen t	Vehicles	Fixed Assets in Progress	Total
<b>Cost:</b>							
<b>As of December 31, 2006</b>	-	61,393	11,610	65,443	61,730	-	200,176
Additions	134,072	294,443	32,910	92,815	77,425	148,800	780,465
Disposals	-	(39,773)	(1,448)	(18,881)	(7,716)	-	(67,818)
<b>As of December 31, 2007</b>	<b>134,072</b>	<b>316,063</b>	<b>43,072</b>	<b>139,377</b>	<b>131,439</b>	<b>148,800</b>	<b>912,823</b>
	<b>134,072</b>	<b>316,063</b>	<b>43,072</b>	<b>139,377</b>	<b>131,439</b>	<b>148,800</b>	<b>912,823</b>
<b>Accumulated depreciation:</b>							
<b>As of December 31, 2006</b>	-	854	2,593	25,614	44,215	-	73,276
Charge	-	4,558	3,770	25,458	22,150	-	55,936
Disposals	-	(994)	(454)	(16,168)	(2,411)	-	(20,027)
<b>As of December 31, 2007</b>	-	<b>4,418</b>	<b>5,909</b>	<b>34,904</b>	<b>63,954</b>	-	<b>109,185</b>
	-	<b>4,418</b>	<b>5,909</b>	<b>34,904</b>	<b>63,954</b>	-	<b>109,185</b>
<b>Net book value:</b>							
<b>As of December 31, 2007</b>	<b>134,072</b>	<b>311,645</b>	<b>37,163</b>	<b>104,473</b>	<b>67,485</b>	<b>148,800</b>	<b>803,638</b>
	<b>134,072</b>	<b>311,645</b>	<b>37,163</b>	<b>104,473</b>	<b>67,485</b>	<b>148,800</b>	<b>803,638</b>
<b>As of December 31, 2006</b>	-	60,539	9,017	39,829	17,515	-	126,900
	-	<b>60,539</b>	<b>9,017</b>	<b>39,829</b>	<b>17,515</b>	-	<b>126,900</b>

# CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

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### 10. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	<b>Software</b>
<b>Cost:</b>	
As of December 31, 2006	60,803
Additions	<u>32,086</u>
<b>As of December 31, 2007</b>	<b><u>92,889</u></b>
<b>Accumulated amortization:</b>	
As of December 31, 2006	6,502
Charge	<u>11,445</u>
<b>As of December 31, 2007</b>	<b><u>17,947</u></b>
<b>Net book value:</b>	
As of December 31, 2007	<u>74,942</u>
As of December 31, 2006	<u>54,301</u>

### 11. OTHER CURRENT LIABILITIES

Other current liabilities are comprised of the following:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Payables to staff	45,284	300
Accrued expenses	26,863	1,549
Insurance payables per collected premiums	26,015	14,737
Taxes payable	8,067	92,392
Items in suspense	2,063	1,300
Other payables	<u>384</u>	<u>-</u>
	<b><u>108,676</u></b>	<b><u>110,278</u></b>

# CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

### 12. LONG-TERM BORROWINGS

Long-term borrowings comprised of the following:

	31 December 2007		31 December 2006	
	Amount	Accrued interest	Amount	Accrued interest
DWM Securitizations S.A.	7,607,700	120,983	871,400	4,793
Texnikabank JSCB	4,276,000	42,477	-	-
GMF	3,381,200	18,343	-	-
European Bank for Reconstruction and Development (“EBRD”).	3,212,140	41,995	871,400	5,621
Blue Orchard	2,535,900	11,834	-	-
Triple Jump	2,113,250	-	-	-
Finethic Microfinance S.C.A.	1,056,625	26,031	435,700	6,829
Dexia Fund	845,300	37,926	348,560	3,116
Oikocredit, Ecumenical Development Cooperative Society U.A.	828,394	14,583	522,840	16,426
Symbiotics	633,975	-	871,400	24,931
ASN Novib Funds	-	36,163	-	-
Dual Return Fund	-	9,815	-	-
Credit Suisse	-	7,132	-	-
	<u>26,490,484</u>	<u>367,282</u>	<u>3,921,300</u>	<u>61,716</u>

### 13. NET INTEREST INCOME

	31 December 2007	31 December 2006
Interest income from loans to customers	4,448,267	1,395,574
Interest income on finance lease	155,428	26,810
Interest income on loans and advances to banks	45,478	-
<b>Total interest income</b>	<u>4,649,173</u>	<u>1,422,384</u>
Interest expense on long-term borrowings	1,163,745	154,984
Interest expense on overdrawn correspondent accounts	3,946	-
<b>Total interest expense</b>	<u>1,167,691</u>	<u>154,984</u>
<b>Net interest income</b>	<u>3,481,482</u>	<u>1,267,400</u>

# CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

### 14. ADMINISTRATIVE AND OPERATING EXPENSES

Administrative and operating expenses are comprised of the following:

	Year ended December 31, 2007	2006
Office Rent	105,351	65,406
Consultancy, audit and other professional fees	77,309	18,578
Communication	40,248	25,062
Vehicles running costs	33,667	18,942
Office supplies	27,405	10,916
Business trips	20,467	17,634
Representation	12,587	5,350
Repair and maintenance	9,515	1,161
Advertisement and marketing costs	9,191	5,263
Utilities	6,706	2,804
Insurance on properties and equipment	4,023	2,763
Other	55,093	42,030
	<u>401,562</u>	<u>215,909</u>

### 15. INCOME TAXES

The Azerbaijan Republic was the only tax jurisdiction in which the Company's income was subject to taxation in 2006. The Company was not subject to income taxes in 2005, in accordance with the Decree of Ministry of Taxes on Non Bank Credit Organizations.

Provisions for income taxes are comprised of the following:

	Year ended December 31, 2007	Year ended December 31, 2006
Current income tax expense	430,694	112,767
Deferred income tax benefit	(6,720)	(16,814)
<b>Total income taxes</b>	<u>423,974</u>	<u>95,953</u>

The reconciliation between the income taxes reported in the financial statements versus the income tax expense computed by applying the Azerbaijani enacted statutory tax rate of 22% in 2006, to the income before taxes is as follows:

	Year ended December 31, 2007
Income tax expense computed on income before taxes at statutory tax rate	404,092
Tax effect of permanent differences:	(19,882)
Non-deductible expenses and other permanent differences	-
<b>Income tax expense reported in the financial statements</b>	<u>423,974</u>

# CRE DAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

The deferred tax balances were calculated by applying the presently enacted statutory tax rate applicable to the period in which the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, which are expected to reverse. Deferred taxes in the financial statements are comprised of the following:

	<b>December 31, 2007</b>
Deferred tax assets	
Intangibles	1,254
Loans to Customers, net	18,277
Other current liabilities	5,576
	<u>25,107</u>
Deferred tax liabilities:	
Property, plant and equipment	(1,574)
	<u>(1,574)</u>
<b>Total deferred tax asset</b>	<u><u>(23,533)</u></u>

### 16. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Company's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Company's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

#### *Operating lease commitments*

Where the Company is the lessee, the future minimum lease payments under non cancellable operating leases are as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Not later than 1 year	9,680	5,763
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
	<u>9,680</u>	<u>5,763</u>
<b>Total operating lease commitments</b>	<u><u>9,680</u></u>	<u><u>5,763</u></u>

# CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

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### *Legal proceedings*

From time to time and in the normal course of business, claims against the Company are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements

### *Regulatory environment*

Legislation and regulations regarding taxation, foreign currency transactions, licensing of foreign currency loans and finance leases in the Azerbaijan Republic are constantly evolving as the government manages the transformation from a command to a market-oriented economy. The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors, National Bank officials and the Ministry of Finance. Instances of inconsistent opinions between local and national tax authorities and between the National Bank and the Ministry of Finance are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Azerbaijan's laws, decrees and related regulations are severe. Penalties include confiscation and/or fines at the rates depending on the types of a violation. Interest is assessable at a rate of up to 0.05% per day for a maximum period of one year as of December 31, 2007. As a result, penalties and interest can result in amounts that are multiples of any unreported taxes. In addition, the authorities have the right to seize bank accounts and detain individuals for known or suspected violations.

### *Taxes*

Due to the presence in Azerbaijan's commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Company's business activities was to be challenged by the tax authorities, the Company may be assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for deals' pricing. The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes is unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. The Company's operations and financial position will continue to be affected by Azerbaijani political developments, including the application of existing and future legislation and tax regulations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in the Azerbaijan Republic. Tax years remain open to review by the tax authorities for three years.

### *Pensions and retirement plans*

Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As at 31 December 2007 and 2006, the Company was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

# CREDAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

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### 17. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONCENTRATION OF CREDIT RISK AND RISK MANAGEMENT

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" (SFAS 107), requires the disclosure of the estimated fair value of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments. Since no quoted market prices exist for certain of the Company's financial instruments, the fair values of such instruments have been derived based on historical cost.

The provisions of SFAS 107 do not require the disclosure of the fair value of lease financing arrangements and nonfinancial instruments, including Goodwill and Intangible Assets such as purchased credit card, affinity, and trust relationships.

Management of risk is fundamental to the Company's business and is an essential element of the its operations. The main risks inherent to the Company's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk.

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its performance objectives. Through the risk management framework, the Company manages the risks the following risks:

#### *Credit risk*

The Company is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

#### *Liquidity risk*

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period.

In order to manage liquidity risk, the Company performs daily monitoring of future expected cash flows on its borrowings' and lending operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

# CRE DAGRO LIMITED LIABILITY NON-BANK CREDIT ORGANIZATION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

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### *Market Risk*

Market risk covers interest rate risk, currency risk and other pricing risks to which the Company is exposed. There have been no changes as to the way the Company measures risk or to the risk it is exposed in 2007.

The Company is exposed to interest rate risks as entities in the Company borrow funds at both fixed and floating rates. The risk is managed by the Company maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Company's interest rate position, which provides the Company with a positive interest margin. The Department of Financial Control conducts monitoring of the Company's current financial performance, estimates the Company's sensitivity to changes in interest rates and its influence on the Company's profitability.

The majority of the Company's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Company monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

### *Interest rate risk*

The Company manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Control conducts monitoring of the Company's current financial performance, estimates the Company's sensitivity to changes in fair value interest rates and its influence on the Company's profitability.

### *Currency risk*

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of RUR devaluation and other macroeconomic indicators, which gives the Company an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Company's open currency position with the aim to match the requirements of national (central) banks.

The Company's financial instruments are principally non-derivative assets and non-derivative liabilities. The carrying amounts for financial instruments, consisting of cash and cash equivalents, loans, accrued interest income, other current assets, accrued interest expense, and other current liabilities approximate their fair value.

The Company, in connection with its current activities, is exposed to various financial risks, such as foreign currency risks, interest rate risks and credit risks. The Company manages these risks and monitors their exposure on a regular basis. The Company does not use derivative financial instruments to hedge such risks.

The Company holds available cash with financial institutions in the Azerbaijan Republic. Management periodically reviews the creditworthiness of the banks in which it deposits cash.