CredEX

MICROFINANCE ORGANIZATION

Annual Report 2013

Contents

Chief executives' statement

2012-2013 was a very successful year for our company. Despite of its youthful age, we were able to take a worthy place on the microfinance business market and create the basis for long-term development of the CREDEX.

Success was due primarily to proper human resource policy, the CREDEX was staffed with qualified and motivated personnel with great experience in banking and financial sectors, the motivation policy was developed, the functions of each working unit were formed and documentary described, further improvements are planned in 2014-2015. Also has been developed and introduced the credit products which fully meet the market and our clients' requirements and promotes the long-term mutually beneficial cooperation.

Expansion of the branch network is planned for the near future, by the end of 2014 the CREDEX will be represented by three branches - two of them in Tbilisi and one in Gori, the network will continue to expand in 2015 and two more branches in Tbilisi and region will be added.

Together with the plans to expand the branch network, we are planning to offer full-scale financial services to our clients: currency exchange, money transfer, different credit products, utility payments and etc.

Existing financial results of CREDEX are strong ground for successful implementation of planned development and for further improvement of mentioned indices, in conditions of risk minimizing and service quality improvement.

Scincerley

ZURAB AKHALAIA

CEO OF LLC MFO CREDEX

Important events

- Pursuant to the Order N1101 of October 29 2012 of the National Bank of Georgia, the registration number 691012 of microfinance organization has been granted to "Credex".
- On December 1 2012, an agreement has been concluded with "Credit Info Georgia" on the exchange of data bases.
- On November 5 2012, an agreement has been concluded with "Dolphin Software" and the modern network software "Loan Keeper" has been implimented.
- In February 2013, "Credex" joined the Microfinance Organizations Association.
- In April 2013, a new loan product-fast business loan has been introduced, which may be used as a credit line by consumers.
- In December 2013, an agreement has been signed with the audit company "KPMG" (being in the four first audit companies in the world), on the provision of audit service.
- On March 12, 2014, repair works of the new branch have started, where consumers will be provided with full scale financial services.
- On March 12 2014, "Credex" signed the Code of Ethics developed by the Microfinance Organizations Association, which is based on the principles of maximum transparency and smart-company.
- In March 2014, the capital of "Credex" exceeded 1 000 000 GEL.

KPMG Georgia LLC
4, Besiki Street,
Tbilisi, 0108,
Georgia

Telephone +995 (32) 2935695
Fax +995 (32) 2935713
Internet www.kpmg.ge

Independent Auditors' Report

To the Supervisory Board
Microfinance Organization Credex LLC

We have audited the accompanying financial statements of Microfinance Organization Credex LLC (the "Company"), which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period from 23 August 2012 (date of incorporation) to 31 December 2013, 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 2013, and its financial performance and its cash flows for the period from 23 August 2012 (date of incorporation) to 31 December 2013 in accordance with International Financial Reporting Standards.

KPMG Georgia LLC

KPMG Georgia LLC
3 April 2014

Statement of profit or loss and other comprehensive income
for the period from 23 August 2012 (date of incorporation) to 31 December 2013

GEL	Notes	23 August 2012 (date of incorporation) to 31 December 2013
Interest income	4	395,871
Interest expense	4	(51,651)
Net interest income	4	**344,220**
Impairment losses	9	(14,088)
Net interest income after provision for loan impairment		**330,132**
Fee and commission income		34,921
Net foreign exchange gain		3,695
Other operating income		29,753
Other operating expenses		(6,986)
Personnel expenses	5	(165,428)
Other general administrative expenses	6	(62,089)
Depreciation and amortization expenses	10	(8,108)
Profit before income tax		**155,890**
Income tax expense	7	(22,343)
Profit and total comprehensive income for the period		**133,547**

The financial statements as set out on pages 4 to 30 were approved by management on 1 April 2014 and were signed on its behalf by:

Zurab Akhalaia
Chief Executive Officer

Nino Tavdishvili
Chief Accountant

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

Statement of Financial Position as at 31 December 2013

GEL	Notes	2013
ASSETS		
Cash and cash equivalents	8	49,898
Loans to customers	9	1,394,697
Property, equipment and intangible assets	10	31,619
Deferred tax assets	7	335
Other assets	11	285,080
Total assets		**1,761,629**
LIABILITIES		
Loans and borrowings	12	602,262
Current tax liability		22,678
Other liabilities		3,142
Total liabilities		**628,082**
EQUITY		
Charter capital	13	1,000,000
Retained earnings	13	133,547
Total equity		**1,133,547**
Total liabilities and equity		**1,761,629**

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

Statement of cash flows
for the period from 23 August 2012 (date of incorporation) to 31 December 2013

GEL	Notes	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax		155,890
Adjustments for:		
Depreciation and amortization		8,108
Interest income		(395,871)
Interest expenses		51,651
Foreign exchange gain		(3,695)
		(183,917)
Changes in:		
Increase in loans to customers		(1,355,561)
Increase in other assets		(5,275)
Increase in other liabilities		3,142
Net cash flows used in operations before income taxes and interests		**(1,541,611)**
Interest received		364,468
Interest paid		(48,413)
Cash flows used in operations		**(1,225,556)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment		(18,881)
Purchases of intangible assets		(20,846)
Cash used in investing activities		**(39,727)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributed from shareholders		720,195
Receipts from loans and borrowings		652,173
Repayment of loans and borrowings		(57,932)
Cash flows from financing activities		**1,314,436**
Net increase in cash and cash equivalents		**49,153**
Effect of changes in exchange rates on cash and cash equivalents		745
Cash and cash equivalents as at the beginning of the period		-
Cash and cash equivalents as at the end of the period	8	**49,898**

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

Statement of Changes in Equity
for the period from 23 August 2012 (date of incorporation) to 31 December 2013

GEL	Charter capital	Retained earnings	Total
Balance as at 23 August 2012 (date of incorporation)	-	-	-
Total comprehensive income for the period			
Profit and total comprehensive income for the period	-	133,547	133,547
Transactions with owners, recorded directly in equity			
Increase in charter capital	1,000,000	-	1,000,000
Balance as at 31 December 2013	**1,000,000**	**133,547**	**1,133,547**

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

Notes to the financial statements
for the period from 23 August 2012 (date of incorporation) to 31 December 2013

1 BACKGROUND

(a) Organization and operations

Microfinance Organization Credex LLC ("the Company") was established on 23 August 2012 to provide sustainable lending services to those individual entrepreneurs who are not able to access credit facilities through the conventional banking system. The Company provides credit facilities to very small entrepreneurs to grow their businesses and improve their economic situation.

The legal address of the Company is 14 Khizanishvili Street, Tbilisi, Georgia.

The supreme governing body of the Company is the Shareholders Board. The supervision of the Company's operations is conducted by the Supervisory Board, members of which are appointed by the Shareholder's Board. Daily management of the Company is carried out by the Chief Executive Officer appointed by the Supervisory Board.

The Company was founded by Georgian citizens Vakhtang Bartaia, Mikheil Tsogoshvili and Zurab Akhalaia with 70%, 20% and 10% shares, respectively, in the Company's charter capital.

In 2013, Vakhtang Bartaia's shares were transferred to Sophio Devdariani (40%) and Natalia Kekelidze (30%).

The majority of funding of the Company is from, and credit exposures are to, these shareholders. As a result the Company is economically dependent upon the shareholders and the activities of the Company are closely linked with the requirements of the shareholders.

The shareholders have the power to direct the transactions of the Company at their own discretion and for their own benefit. They also have a number of other business interests outside the Company.

Related party transactions are disclosed in note 17.

(b) Georgian business environment

The Company's operations are located in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The financial statements reflect management's assessment of the impact of Georgian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2 BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Company is the Georgian Lari (GEL) as, being the national currency of Georgia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The GEL is also the presentation currency for the purposes of these financial statements. All financial information presented in GEL is rounded to the nearest currency unit.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS 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 could differ from those estimates.

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the note 9 (b) relating to loan impairment estimates.

(e) Changes in accounting policies and presentation

The Company has adopted new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

(i) IFRS 13 Fair value measurements

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures*.

As a result, the Company adopted a new definition of fair value, as set out in note 3(c)(v). The change had no significant impact on the measurements of assets and liabilities. However, the Company included new disclosures in the financial statements that are required under IFRS 13. Comparatives were restated.

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Company entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include unrestricted current accounts held with banks with original maturities of less than three months. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(c) 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, other than those that the Company:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

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, in the case of a financial asset or liability not at fair value through profit or loss, 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 their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for loans and receivables which are measured at amortized cost using the effective interest method.
All financial liabilities are measured at amortized cost.

(iv) Amortised cost

The amortized 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.

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

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 transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vi) 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.

(vii) Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability in the statement of financial position.

The Company writes off assets deemed to be uncollectible.

(viii) 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.

(d) Property, equipment and intangible assets

(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) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

- computer equipment 3 years
- office equipment 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iii) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life is 5 years.

(e) Impairment

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or Company of financial assets is impaired. If any such evidence exists, the Company determines the amount of any impairment loss.

A financial asset or a Company of financial assets 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 financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or Company of financial assets 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 financial asset or group of financial assets that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans as presented in Note 9 and other receivables as presented in note 11. The Company reviews its loans and receivables to assess impairment on a regular basis.

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 or receivable 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 recognised 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 an 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 uncollectable, 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

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised 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 amortisation, if no impairment loss had been recognized.

(f) Equity

(i) Charter capital

Charter capital comprises the capital of the Company authorized by shareholders at the Company's incorporation. Charter capital is classified as equity.

(ii) Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Georgian legislation.

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

(g) Taxation

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

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

Deferred tax is 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 assets and liabilities are not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.
The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

(h) Income and expense recognition

Interest income and expense are recognised 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 transaction 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 recognised in profit or loss when the corresponding service is provided.

(i) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Company plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* 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 Octo*ber 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The final standard is expected to be issued in 2014 and will be effective for years beginning on or after 1 January 2018. 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 the 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.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Company has not yet analysed the likely impact of the new standard on its financial position or performance.

- Various *Improvements to IFRS* are 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 2014. The Company has not yet analysed the likely impact of the improvements on its financial position or performance.

4 NET INTEREST INCOME

GEL	23 August 2012 (date of incorporation) to 31 December 2013
Interest income	
Loans to customers	393,439
Cash and cash equivalents	2,432
	395,871
Interest expense	
Loans and borrowings	**(51,651)**
Net interest income	**344,220**

5 PERSONNEL EXPENSES

GEL	23 August 2012 (date of incorporation) to 31 December 2013
Employee compensation	**165,428**

6 OTHER GENERAL ADMINISTRATIVE EXPENSES

GEL	23 August 2012 (date of incorporation) to 31 December 2013
Operating lease expense	18,250
Commission and fee expense	15,563
Office supplies	6,328
Advertising and marketing	8,420
Professional services	4,909
Communications and information services	2,404
Security	1,350
Other	4,865
	62,089

7 TAXATION

GEL	23 August 2012 (date of incorporation) to 31 December 2013
Current tax expense	
Current period	22,678
Deferred tax benefit	
Origination and reversal of temporary differences	(335)
Tax expense for the period	**22,343**

In 2013, the applicable tax rate for current and deferred tax is 15%

Reconciliation of effective tax rate for the year ended 31 December 2013:

GEL	23 August 2012 (date of incorporation) to 31 December 2013	
Profit before tax	155,890	%
Income tax at the applicable tax rate	23,383	15
Non-taxable income	(1,040)	(1)
	22,343	**14**

(a) Deferred tax assets and liabilities

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 as at 31 December 2013.

Movements in temporary differences during the years ended 31 December 2013 and 2012 are presented as follows.

	Balance 23 August 2012 (date of incorporation)	Recognised in profit or loss	Balance 31 December 2013
Loans to customers	-	2,113	2,113
Property, equipment and intangible assets	-	(2,263)	(2,263)
Loans and borrowings	-	485	485
	-	**335**	**335**

8 CASH AND CASH EQUIVALENTS

GEL	2013
Bank balances	49,898
Total cash and cash equivalents	**49,898**

No cash and cash equivalents are impaired or past due. All of the Company's bank balances are with the bank rated by Fitch as BB- .

As at 31 December 2013 the Company has no bank, whose balances exceed 10% of equity.

9 LOANS TO CUSTOMERS

GEL	2013
Loans to individuals	
Loans collateralized by real estate	1,359,252
Other consumer loans	49,533
Total loans to customers	**1,408,785**
Gross loans to customers	**1,408,785**
Impairment allowance	(14,088)
Net loans to customers	**1,394,697**

Movements in the loan impairment allowance by classes of loans to customers for the period ended 31 December 2013 are as follows:

GEL	Loans to customers
Balance at the beginning of the period	-
Net charge	14,088
Balance at the end of the period	**14,088**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2013:

GEL	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Loans collateralized by real estate				
- not overdue	1,260,788	6,304	1,254,484	0.5%
- overdue less than 30 days	47,194	944	46,250	2.0%
- overdue 30-89 days	48,597	2430	46,167	5.0%
- overdue 90-179 days	2,673	534	2,139	20.0%
Total loans collateralized by real estate	**1,359,252**	**10,212**	**1,349,040**	**0.8%**

GEL	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Other consumer loans				
- not overdue	42,145	843	41,302	2.0%
- overdue less than 30 days	662	66	596	10.0%
- overdue 30-89 days	3,006	902	2,104	30.0%
- overdue more than 180 days	2,672	1,336	1,336	50.0%
- overdue more than 365 days	1,048	729	319	70.0%
Total other consumer loans	**49,533**	**3,876**	**45,657**	**7.8%**
Total loans to customers	**1,408,785**	**14,088**	**1,394,697**	**1.0%**

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

Loans to customers

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 that 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 the loan agreement
- significant difficulties in the financial conditions of the borrower

The Company estimates loan impairment for loans to customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

The significant assumptions used by management in determining the impairment losses for loans to customers include:

Loans collateralised by real estate:

- 0.5% collective provision considering the economic environment and market loss experience for not overdue loans;
- for loans with individual signs of impairment a delay of 6-12 months in obtaining proceeds from the foreclosure of collateral and a discount of between 10% and 20% to the originally appraised value if the property pledged is sold.

Other consumer loans:

- 2.0% collective provision considering the economic environment and market loss experience for not overdue loans;
- for loans with individual signs of impairment loans provision rates of 10% -70% were applied depending on the overdue days of the loans as at the reporting date.

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 plus minus three percent, the impairment allowance on loans to customers as at 31 December 2013 would be GEL 41,841 lower/higher.

(c) Analysis of collateral and other credit enhancements

The following tables provides information on collateral and other credit enhancements securing loans, by types of collateral:

31 December 2013 **GEL**	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of loan inception date**
Real estate	1,349,040	1,349,040
Third party guarantee	45,657	45,657
Total loans to customers	**1,394,697**	**1,394,697**

The tables above are presented on the basis of excluding overcollateralization.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Company does not necessarily update the valuation of collateral as at each reporting date.

The Company's policy is to issue loans collateralised by real estate with a loan-to-value ratio at the date of loan issuance to be maximum 50%. Due to the low loan-to-value ratio, the management does not expect the negative movements in market prices to have significant impact on recoverability of the loans. Loans collateralised by real estate comprise more than 95% of total portfolio as at 31 December 2013.

Sureties and/or third party guarantees received from individuals are not considered for impairment assessment purposes. Accordingly, such loans are presented as loans without collateral as other consumer loans.

(d) Industry and geographical analysis of the loan portfolio

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

GEL	**2013**
Loans to individuals	
Consumer loans	855,077
Retail trade	415,023
Agriculture	45,772
Services	19,811
Transportation	18,115
Manufacturing	6,701
Others	34,198
Total loans to customers	**1,394,697**

(e) Significant credit exposures

As at 31 December 2013 no individual loan balances or groups of connected borrowers' balances exceed 10% of equity.

(f) Loan maturities

The maturity of the loan portfolio is presented in note 14 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

10 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

GEL	Computer and hardware	Office equipment	Intangible assets	Total
Cost				
Balance at 23 August 2012 (date of incorporation)	-	-	-	-
Additions	5,212	13,669	20,846	39,727
Balance at 31 December 2013	**5,212**	**13,669**	**20,846**	**39,727**
Depreciation and amortization				
Balance at 23 August 2012 (date of incorporation)	-	-	-	-
Depreciation and amortization for the period	(2,244)	(3,258)	(2,606)	(8,108)
Balance at 31 December 2013	**(2,244)**	**(3,258)**	**(2,606)**	**(8,108)**
Carrying amount				
At 31 December 2013	**2,968**	**10,411**	**18,240**	**31,619**

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2013.

11 OTHER ASSETS

GEL	2013
Receivable from shareholders (note 13)	279,805
Total other financial assets	**279,805**
Prepayments	4,923
Tax assets	352
Total other non-financial assets	**5,275**
Total other assets	**285,080**

12 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 risks, see note 14 (d).

The Company's major lenders include:

GEL	2013
Non-current liabilities	
Unsecured loans from individuals	112,860
Unsecured loans from related parties	312,534
	425,394
Current liabilities	
Unsecured loans from individuals	175,365
Unsecured loans from related parties	1,513
Total loans and borrowings	**176,868**
	602,262

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2013	
GEL	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
Unsecured loans from related parties	USD	13-14.5%	2014-2015	314,047	314,047
Unsecured loans from individuals	USD	13-14.5%	2014-2015	288,225	288,225
Total interest-bearing liabilities				**602,262**	**602,262**

13 EQUITY

(a) Charter capital

Charter capital represents the nominal amount of capital in the founding documentation of the Company.

GEL	2013
Issued and paid charter capital	720,195
Unpaid charter capital	279,805
Total authorised charter capital as at 31 December	**1,000,000**

As at 31 December 2013 the Company recognised the GEL 279,805 as a receivable from its shareholders (see note 11), as according to Georgian legislation the Company's Charter is a legally binding agreement between the partners (shareholders and the Company). The Charter defines payment terms and the amount of the unpaid charter capital.

(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 financial statements prepared in accordance with IFRS. As at 31 December 2013 the Company had retained earnings of GEL 133,547.

14 RISK MANAGEMENT

Management of risk is fundamental to the 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 Board, together with its committees, 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.

The Company's Supervisory Board and CEO are responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The 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. He reports directly to the Supervisory Board.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk for the Company arises from open positions in interest rate 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, whilst optimizing the return on risk.

(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 gap analysis

Interest rate risk is managed principally through monitoring interest rate. A summary of the interest gap position for major financial instruments is as follows:

GEL	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
31 December 2013					
ASSETS					
Cash and cash equivalents	49,898	-	-	-	49,898
Loans to customers	54,028	21,621	402,717	916,331	1,394,697
Other financial assets	-	-	279,805	-	279,805

GEL	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
	103,926	**21,621**	**682,522**	**916,331**	**1,724,400**
LIABILITIES					
Loans and borrowings	3,238	-	173,630	425,394	602,262
	100,688	**21,621**	**508,892**	**490,937**	**1,122,138**

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2013 Average effective interest rate, %	
	GEL	**USD**
Interest bearing assets		
Loans to customers	39.0%	21.0%
Interest bearing liabilities		
Loans and borrowings	-	14.4%

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.

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (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 2013 is as follows:

GEL	2013
100 bp parallel fall	1,919
100 bp parallel rise	(1,919)

(ii) Currency risk

The Company has assets and liabilities denominated in USD.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the currency exposure structure of financial assets and liabilities as at 31 December 2013:

	GEL	USD	Total
ASSETS			
Cash and cash equivalents	33,450	16,448	49,898
Loans to customers	710,439	684,258	1,394,697
Other financial assets	279,805	-	279,805
Total assets	**1,023,694**	**700,706**	**1,724,400**
LIABILITIES			
Loans and borrowings	-	602,262	602,262
Net position	**1,023,694**	**98,444**	**1,122,138**

The following significant exchange rates were applied during the year:

	2013	
In GEL	**Average rate**	**Reporting date spot rate**
USD 1	1.6634	1.7363

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2013 would have increased (decreased) profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

GEL	**2013**
10% appreciation of USD against GEL	8,368

A strengthening of the GEL against the above currencies at 31 December 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company has policies and procedures for the management of credit exposures, including the establishment of a Credit Committee, the analytical bodies responsible for analysing the information in the loan applications, assessing and reducing the credit risks. The credit policy (in the form of the Credit Manual) is reviewed and approved by the Supervisory Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee is authorized to make the final decision about financing or rejecting the loan applications. The loans presented to the Committee for approval are based on limits established by the credit policy.

Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks through application data verification procedures. Eventually the Credit Committee members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

Assessment of the applicant's creditworthiness through monitoring of its business allows timely avoidance the risk of financial loss. Monitoring is performed by credit officers who report the results to the CEO. Regular monitoring of loans is also performed by CEO. The monitoring system helps to manage credit risks and to minimize them in a timely manner.

Exposure to credit risk is also managed by obtaining collateral and personal guarantees. Collateral is one of the main safeguards of the Company in terms of credit risk. Company has a conservative strategy to give all standard loans based on adequate collateral which is assessed either by Credit expert, where observable market data is available for a provided property, or an independent valuation company when the collateral is such that no active market exists for it.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk and Legal Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

GEL	**2013**
ASSETS	
Loans to customers	1,394,697
Bank balances	49,898
Other financial assets	279,805
Total maximum exposure	**1,724,400**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 9.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The 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.

Liquidity position is monitored by the CEO and Supervisory Board. Decisions on liquidity management are made by the Supervisory Board and implemented by the CEO.

The following tables show the undiscounted cash flows on financial liabilities and 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 liabilities.

The maturity analysis for financial liabilities as at 31 December 2013 is as follows:

GEL	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total gross amount outflow	Carrying amount
Loans and borrowings	13,977	28,902	216,254	459,362	718,495	602,262
Total financial liabilities	**13,977**	**28,902**	**216,254**	**459,362**	**718,495**	**602,262**

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2013:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Non-derivative assets							
Cash and cash equivalents	49,898	-	-	-	-	-	49,898
Loans to customers	51,030	21,621	402,717	916,331	-	2,998	1,394,697
Property, equipment and intangible assets	-	-	-	-	31,619	-	31,619
Deferred tax assets	-	-	-	-	335	-	335
Other assets	-	3,810	279,805	-	1,465	-	285,080
Total assets	**100,928**	**25,431**	**682,522**	**916,331**	**33,419**	**2,998**	**1,761,629**
Non-derivative liabilities							
Loans and borrowings	3,238	-	173,630	425,394	-	-	602,262
Current tax liability	-	22,678	-	-	-	-	22,678
Other liabilities	3,142	-	-	-	-	-	3,142
Total liabilities	**6,380**	**22,678**	**173,630**	**425,394**	**-**	**-**	**628,082**
Net position	**94,548**	**2,753**	**508,892**	**490,937**	**33,419**	**2,998**	**1,133,547**

15 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 Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

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

GEL	2013
Total liabilities	**628,082**
Less cash and cash equivalents	49,898
Net debt	**578,184**
Total equity	**1,133,547**
Debt to capital ratio	51%

16 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 its 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 not 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

The taxation system in Georgia continues to evolve 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 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.

17 RELATED PARTY TRANSACTIONS

As at 31 December 2013 shareholders of the Company are as follows:

Mikheil Tsogoshvili – 20%;
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 10%.

(a) Transactions with the members of the Supervisory Board and Management Board

Total remuneration included in personnel expenses and other general administrative expenses for the period from 23 August 2012 (date of incorporation) to 31 December 2013 is as follows:

GEL	2013
Employee compensation	**85,750**

(b) Transactions with other related parties

The outstanding balances and related profit or loss amounts of transactions for the period from 23 August 2012 (date incorporation) to 31 December 2013 with other related parties are as follows:

GEL	Note	Shareholders 2013
Statement of financial position		
ASSETS		
Other financial assets	11	279,805
LIABILITIES		
Loans and borrowings	12	(314,047)
Profit (loss)		
Interest expense		(14,994)

The majority of loans from related parties mature in 2015. Transactions with related parties are not secured.

Receivables from shareholders are due on 31 December 2014 according to the decision of the Shareholders Board meeting held in January 2014.

18 FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

Accounting classifications and fair values

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Company has determined fair values using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 35-45% are used for discounting future cash flows from loans to customers;
- discount rates of 13.0%-14.5% are used for discounting future cash flows from loans and borrowings

The Company estimates the fair value of financial assets and liabilities to be not materially different from their carrying values.

As at 31 December 2013 the Company does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

LLC MFO CREDEX
14/34 Khizanishvili str., Tbilisi, Georgia
Phone: (+995 32) 298 10 10
info@credex.com.ge
www.credex.com.ge