Microfinance Organization Credex LLC

Financial Statements for the year ended 31 December 2017

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Independent Auditors’ Report

To the Shareholders of Microfinance Organisation Credex LLC

Opinion

We have audited the financial statements of Microfinance Organization Credex LLC (the “Company”), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement of Management Report

Management is responsible for the Management Report. The Management Report is expected to be made available to us after the date of this auditors’ report.

Our opinion on the financial statements does not cover the Management Report and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management Report when it becomes available and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Management Report, we conclude whether the other information:

— is consistent with the financial statements and does not contain material misstatement;

— contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

KPMG Georgia LLC, a company incorporated under the Laws of Georgia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

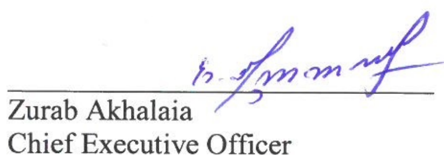
The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan

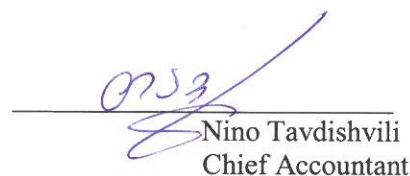
KPMG Georgia LLC
Tbilisi, Georgia
28 May 2018

GEL	Notes	2017	2016
Interest income	4	1,543,462	1,211,518
Interest expense	4	(355,170)	(346,500)
Net interest income		**1,188,292**	**865,018**
Impairment losses	9	(109,569)	(30,939)
Net interest income after provision for loan impairment		**1,078,723**	**834,079**
Net foreign exchange (loss)/gain		(49,393)	135,983
Net loss on financial instruments at fair value through profit or loss		(7,866)	-
Other operating income		4,939	3,872
Other operating expenses		(1,629)	(698)
Personnel expenses	5	(294,733)	(234,293)
Other general administrative expenses	6	(248,900)	(205,628)
Depreciation and amortization expenses	10	(30,729)	(30,012)
Profit before income tax		**450,412**	**503,303**
Income tax expense	7	(68,597)	(73,413)
Profit and total comprehensive income for the year		**381,815**	**429,890**

The financial statements as set out on pages 5 to 41 were approved by management on 28 May 2018 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.

GEL	Notes	2017	2016
ASSETS			
Cash and cash equivalents	8	423,601	576,929
Loans to customers	9	4,055,793	3,959,160
Property, equipment and intangible assets	10	72,572	90,453
Deferred tax assets	7	26,913	12,836
Other assets	11	132,662	107,185
Total assets		**4,711,541**	**4,746,563**
LIABILITIES			
Financial instruments at fair value through profit or loss	13	7,866	-
Loans and borrowings	12	2,796,179	3,067,505
Current tax liability		47,481	47,101
Other liabilities		29,352	15,741
Total liabilities		**2,880,878**	**3,130,347**
EQUITY			
Charter capital	14	1,000,000	1,000,000
Retained earnings	14	830,663	616,216
Total equity		**1,830,663**	**1,616,216**
Total liabilities and equity		**4,711,541**	**4,746,563**

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

GEL	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		450,412	503,303
Adjustments for:			
Net loss on financial instruments at fair value through profit or loss		7,866	-
Depreciation and amortization		30,728	30,012
Interest income		(1,543,462)	(1,211,518)
Interest expenses		355,170	346,500
Foreign exchange loss/(gain) from revaluation		54,764	(128,155)
		(644,522)	**(459,858)**
Changes in:			
(Increase)/decrease in loans to customers		(197,944)	162,279
Increase in other assets		(30,584)	(34,187)
Increase/(decrease) in other liabilities		12,059	(338)
Cash used in operating activities		**(860,991)**	**(332,104)**
Interest received		1,515,740	1,234,963
Interest paid		(354,964)	(341,506)
Income tax paid		(82,294)	(68,458)
Cash from operations		**217,491**	**492,895**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of property and equipment		-	(9,835)
Purchases of intangible assets		(12,847)	-
Cash flows used in investing activities		**(12,847)**	**(9,835)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of unpaid charter capital	14(a)	6,000	-
Receipts from loans and borrowings		5,575,712	2,862,064
Repayment of loans and borrowings		(5,759,780)	(2,655,019)
Dividends paid		(167,368)	(247,289)
Cash flows used in financing activities		**(345,436)**	**(40,244)**
Net (decrease)/increase in cash and cash equivalents		**(140,792)**	**442,816**
Effect of changes in exchange rates on cash and cash equivalents		(12,536)	59,385
Cash and cash equivalents as at the beginning of the year		576,929	74,728
Cash and cash equivalents as at the end of the year	8	**423,601**	**576,929**

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

GEL	Charter capital	Retained earnings	Total
Balance as at 1 January 2016	1,000,000	433,615	1,433,615
Total comprehensive income for the year			
Profit and other comprehensive income for the year	-	429,890	429,890
Transactions with owners, recorded directly in equity			
Dividends declared	-	(247,289)	(247,289)
Balance as at 31 December 2016	**1,000,000**	**616,216**	**1,616,216**
Balance as at 1 January 2017	1,000,000	616,216	1,616,216
Total comprehensive income for the year			
Profit and other comprehensive income for the year	-	381,815	381,815
Transactions with owners, recorded directly in equity			
Dividends declared	-	(167,368)	(167,368)
Balance as at 31 December 2017	**1,000,000**	**830,663**	**1,830,663**

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

1 Background

(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 7 Chabukiani Street, Tbilisi, Georgia. The registration number of the Company is 400058030.

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.

The Company had the following shareholders:

As at 31 December 2017:	**As at 31 December 2016:**
Sophio Devdariani – 40%;	Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;	Natalia Kekelidze – 30%;
Zurab Akhalaia – 30%.	Zurab Akhalaia – 30%.

In 2016, Mikheil Tsogoshvili's shares were transferred to Zurab Akhalaia (20%).

As at 31 December 2017 the Company has received 34% of funding from these shareholders (2016: 32%). 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 18.

(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 to develop, 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 the Georgian business environment on the operations and 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 except that financial instruments at fair value through profit or loss are stated at fair value.

(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 presentations

The Company has adopted the following amendments to standards with a date of initial application of 1 January 2017:

- *Disclosure Initiative (Amendments to IAS 7).* IAS 7 *Statement of Cash Flows* has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways.
- *Recognition of Deferred Tax Asset for Unrealized Losses (Amendments to IAS 12).* The amendments to IAS 12 *Income Taxes* clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference. The amendments show that the entity can recognise a deferred tax asset if the future bottom line of its tax return is expected to be a loss if certain conditions are met.

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 functional currency of the Company 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 amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary 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 recognised in profit or loss.

(b) Cash and cash equivalents

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

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category.

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, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on their sale or other disposal, except for loans and receivables which are measured at amortized cost using the effective interest method

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

(iv) ***Amortized 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 amortization using the effective interest method of any difference between the initial amount recognized 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 maximize the use of relevant observable inputs and minimize 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 recognized 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***

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss.

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 DE recognition that is created or retained by the Company is recognized as a separate asset or liability in the statement of financial position. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company writes off assets deemed to be uncollectible.

(viii) Derivative financial instruments

Derivative financial instruments include foreign currency contracts.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Company trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(ix) 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 and 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:

- computers and hardware	3 years;
- office equipment	5 years;
- leasehold improvements	5 years;
- other	7 years.

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives. 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 amortization 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 10 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 group 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 group 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 Company 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 related to a Company 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 to customers 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 Company of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate.

Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of 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 related 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 recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(f) Charter capital

(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 expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

(i) Current tax

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. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2019 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

(iii) Deferred tax

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- initial recognition of goodwill not deductible for tax purposes;
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2019, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1 January 2019 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1 January 2019 and hence, no deferred income tax assets and liabilities will arise, there on.

(h) Income and expense recognition

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

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related 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 recognized in profit or loss when the corresponding service is provided.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

(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 2017, 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.

The following standards are expected to have a material impact on the Company's financial statements in the period of initial application.

a) IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Company will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS of the opening balance of the Company's equity at 1 January 2018 is approximately GEL 58,822, representing:

- a reduction of approximately GEL 69,202 related to loan loss provision and cash and cash equivalents;
- an increase of approximately 10,380 related to tax impacts.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Company to revise its accounting processes and internal controls and these changes are not yet complete;
- the Company is refining and finalising its models for Expected Credit Loss (ECL) calculations; and
- the new accounting policies, assumptions, judgments and estimation techniques employed are subject to change until the Company finalises its first financial statements that include the date of initial application.

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. See (viii) for the transition requirements relating to classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Company will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit

risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company will consider:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specified assets – e.g. non-recourse asset arrangements;
- Features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

A significant part of the Company's loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

- Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- Loans and advances to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

The Company has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of these changes (before tax) is a reduction in the Company's equity of approximately GEL 58,822.

ii. Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Company will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive;
- *financial assets that are credit-impaired at the reporting date:* the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- *financial guarantee contracts:* the present value of the expected payments to reimburse the holder less any amounts that the Company expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Definition of default

Under IFRS 9, the Company will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Company. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Company will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company will consider reasonable and supportable information that is relevant and available without undue cost or effort,

including both quantitative and qualitative information and analysis based on the Company's historical experience, expert credit assessment and forward-looking information.

The Company will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

Generating the term structure of Probability of Default ("PD")

The Company will collect performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower. For some portfolios, information purchased from external credit reference agencies may also be used.

The Company will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be GDP growth.

The Company's approach to incorporating forward-looking information into this assessment is discussed below.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- the remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Company Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Companmy's forbearance policy, the estimate of PD will reflect whether the modification has improved or restored the Company's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Company will evaluate the borrower's payment performance against the modified contractual terms and consider various behavioural indicators. Restructuring is a qualitative indicator of significant increase in credit risk, as well as default and credit impairment. So the Company considers such client as modified and loss allowance is measured at an amount equal to lifetime ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. The Company will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

- instrument type;
- collateral type;
- date of initial recognition;
- remaining term to maturity.

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Forward-looking information

Under IFRS 9, the Company will incorporate forward-looking information into its measurement of ECLs. The Company has not performed an analysis how macro-economic information could be incorporated in default rate, however, to be more point-in-time the Company derived PD from the recent years average of 2016-17.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is GDP forecasts. Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 4 years.

Impact assessment

The most significant impact on the Company's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Company has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of the increase in loss allowances (before tax) will be approximately GEL 58,822. Loss allowances on unsecured products with longer expected lives such as overdrafts and credit cards will be most affected by the new impairment requirements.

i. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

ii. Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Company will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Company does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Company expects an immaterial impact from adopting these new requirements.

iii. Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs.

iv. Impact on capital planning

Currently the Company assesses that the adoption of IFRS 9 will not have impact on statutory capital of the Company; however, further developments in the regulatory environment in respect of this aspect may take place in the near future.

v. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
- The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt investment security has low credit risk at 1 January 2018, then the Company will determine that the credit risk on the asset has not increased significantly since initial recognition.

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company has not adopted this standard early. IFRS 15 is not expected to have a significant impact on the Company's financial statements.

4 Net interest income

GEL	2017	2016
Interest income		
Loans to customers	**1,543,462**	**1,211,518**
Interest expense		
Loans and borrowings	**(355,170)**	**(346,500)**
Net Interest income	**1,188,292**	**865,018**

Included within interest income for the year ended 31 December 2017 is a total of GEL 94,024 (2016: GEL 26,188) relating to overdue loans to customers.

5 Personnel expenses

GEL	2017	2016
Employee compensation	**294,733**	**234,293**

6 Other general administrative expenses

GEL	2017	2016
Professional services	74,680	60,350
Operating lease expense	72,280	62,000
Office supplies	30,348	39,484
Advertising and marketing	28,207	17,467
Communications and information services	10,467	5,803
Security	5,880	5,369
Other	27,038	15,155
	248,900	**205,628**

The professional fees above also include fees paid to the audit firms of about GEL 45,864, for the provision of audit and other professional services.

7 Taxation

GEL	2017	2016
Current year tax expense	82,674	82,293
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(14,077)	(8,880)
Total income tax expense	**68,597**	**73,413**

In 2017 the applicable tax rate for current and deferred tax is 15% (2016: 15%).

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

GEL	2017	%	2016	%
Profit before tax	450,412	100	503,303	100
Income tax at the applicable tax rate	67,562	15.0	75,495	15.0
Non-deductible expense (non-taxable income)	1,035	0.2	(2,082)	(0.4)
	68,597	**15.2**	**73,413**	**14.6**

(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 assets as at 31 December 2017 and 2016.

Movements in temporary differences during the years ended 31 December 2017 and 2016 are presented as follows.

2017 GEL	1 January 2017	Recognized in profit or loss	31 December 2017
Loans to customers	12,524	13,291	25,815
Property, equipment and intangible assets	(2,632)	840	(1,792)
Loans and borrowings	2,944	(54)	2,890
	12,836	**14,077**	**26,913**

2016 GEL	1 January 2016	Recognized in profit or loss	31 December 2016
Loans to customers	5,280	7,244	12,524
Property, equipment and intangible assets	(3,433)	801	(2,632)
Loans and borrowings	2,109	835	2,944
	3,956	**8,880**	**12,836**

(b) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

GEL	Assets		Liabilities		Net	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Loans to customers	25,815	12,524	-	-	25,815	12,524
Property, equipment and intangibles	-	-	(1,792)	(2,632)	(1,792)	(2,632)
Loans and borrowings	2,890	2,944	-	-	2,890	2,944
Net tax assets (liabilities)	**28,705**	**15,468**	**(1,792)**	**(2,632)**	**26,913**	**12,836**

The management believes that recognition of deferred tax assets is appropriate as management considers it probable that future taxable profits would be available against which the deferred tax assets can be utilised.

8 Cash and cash equivalents

GEL	2017	2016
Cash on hand	51,741	86,011
Bank balances	371,860	490,918
Total cash and cash equivalents	**423,601**	**576,929**

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

As at 31 December 2017, TBC Bank's balance is 12% of total equity. As at 31 December 2016, Bank of Georgia's balance was 22% of the Company's total equity.

9 Loans to customers

GEL	2017	2016
Loans to individuals		
Loans collateralized by real estate	2,829,007	3,370,958
Other consumer loans	1,426,547	678,394
Total loans to customers	**4,255,554**	**4,049,352**
Gross loans to customers	4,255,554	4,049,352
Impairment allowance	(199,761)	(90,192)
Net loans to customers	**4,055,793**	**3,959,160**

Movements in the loan impairment allowance for the year ended 31 December 2017 are as follows:

GEL	2017	2016
Balance at the beginning of the year	90,192	59,253
Net charge	109,569	30,939
Balance at the end of the year	**199,761**	**90,192**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2017:

GEL	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Loans collateralized by real estate				
- not overdue	2,686,581	(16,119)	2,670,462	1%
- overdue less than 30 days	42,616	(852)	41,764	2%
- overdue 30-89 days	13,932	(1,115)	12,817	8%
- overdue 90-179 days	69,062	(6,906)	62,156	10%
- overdue 180-365 days	16,816	(4,331)	12,485	26%
Total loans collateralized by real estate	**2,829,007**	**(29,323)**	**2,799,684**	**1%**
Other consumer loans				
- not overdue	1,034,726	(6,208)	1,028,518	1%
- overdue less than 30 days	71,862	(4,120)	67,742	6%
- overdue 30-89 days	109,397	(32,819)	76,578	30%
- overdue more than 90-179 days	39,942	(17,974)	21,968	45%
- overdue 180-365 days	33,656	(20,194)	13,462	60%
- overdue more than 365 days	136,964	(89,123)	47,841	65%
Total other consumer loans	**1,426,547**	**(170,438)**	**1,256,109**	**12%**
Total loans to customers	**4,255,554**	**(199,761)**	**4,055,793**	**5%**

The following table provides information on the credit quality of the loans to customers as at 31 December 2016:

GEL	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Loans collateralized by real estate				
- not overdue	3,010,818	(16,704)	2,994,114	1%
- overdue less than 30 days	107,406	(1,129)	106,277	1%
- overdue 30-89 days	168,931	(24,665)	144,266	15%
- overdue 90-179 days	45,104	(10,732)	34,372	24%
- overdue more than 180 days	32,046	(7,941)	24,105	25%
- overdue more than 365 days	6,653	(1,484)	5,169	22%
Total loans collateralized by real estate	**3,370,958**	**(62,655)**	**3,308,303**	**2%**
Other consumer loans				
- not overdue	601,695	(3,898)	597,797	1%
- overdue less than 30 days	39,520	(2,516)	37,004	6%
- overdue 30-89 days	37,179	(21,123)	16,056	57%
Total other consumer loans	**678,394**	**(27,537)**	**650,857**	**4%**
Total loans to customers	**4,049,352**	**(90,192)**	**3,959,160**	**2%**

(b) Key assumptions and judgments for estimating loan impairment

(i) 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:

- 0.55% collective provision considering the economic environment and market loss experience for not overdue loans;
- for loans with individual signs of impairment a delay of more than 12 months in obtaining proceeds from the foreclosure of collateral and a discount of between 30% and 50% to the originally appraised value if the property pledged is sold.

Loans not collateralised by real estate (include all loans which are not uder real estate) :

- 0.55% collective provision considering the economic environment and market loss experience for not overdue loans;
- 100% when loan becomes overdue by more than 180 days.

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 2017 would be GEL 121,674 (2016: GEL 118,775) lower/higher.

(c) Analysis of collateral and other credit enhancements

(i) Loans to customers

The following table provides the analysis of the collateral as at 31 December 2017:

GEL	Loans to customer, carrying amount	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment			
Real estate	2,670,283	2,670,283	-
Motor vehicles	8,546	8,546	-
Third party guarantee	1,019,138	-	1,019,138
Loans without collateral	1,013	-	1,013
Total loans without individual signs of impairment	**3,698,980**	**2,678,829**	**1,020,151**
Overdue or impaired loans			
Real estate	129,400	129,400	-
Third party guarantee	134,258	-	134,258
Loans without collateral	93,155	-	93,155
Total overdue or impaired loans	**356,813**	**129,400**	**227,413**
Total loans to customers	**4,055,793**	**2,808,229**	**1,247,564**

The following table provides the analysis of the collateral as at 31 December 2016:

GEL	Loans to customer, carrying amount	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment			
Real estate	2,994,211	2,994,211	-
Motor vehicles	1,329	1,329	-
Precious metals	2,540	2,540	-
Third party guarantee	576,190	-	576,190
Loans without collateral	10,387	-	10,387
Total loans without individual signs of impairment	**3,584,657**	**2,998,080**	**586,577**
Overdue or impaired loans			
Real estate	314,154	314,154	-
Third party guarantee	60,349	-	60,349
Total overdue or impaired loans	**374,503**	**314,154**	**60,349**
Total loans to customers	**3,959,160**	**3,312,234**	**646,926**

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

Loans with collateral are mainly secured by real estate and sureties.
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 any negative movements in market prices to have a significant impact on recoverability of the loans. Loans collateralised by real estate comprise more than 70% of the total portfolio as at 31 December 2017 (2016: 84%).

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.

(ii) Repossessed collateral

During the year ended 31 December 2017, the Company has obtained assets of GEL 26,139 by taking possession of collateral for loans to customers (2016: Nil). As at 31 December 2017 the repossessed assets GEL 26,500 (2016: GEL 44,942) are presented in other assets (see note 11).

The Company's policy is to sell these assets as soon as it is practicable.

(iii) Assets under lien

As at 31 December 2017, loans to customers with a gross amount of GEL 1,146,369 (2016: GEL 627,969) with underlying collaterals serve as collateral for loans and borrowings from financial institution.

(d) Industry and geographical analysis of the loan portfolio

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

GEL	2017	2016
Loans to individuals		
Consumer loans	1,627,765	1,288,049
Services	663,581	886,281
Retail trade	629,958	910,608
Agriculture	109,627	99,250
Manufacturing	81,693	95,821
Transportation	6,211	63,758
Others	936,958	615,393
Total loans to customers	**4,055,793**	**3,959,160**

(e) Significant credit exposures

As at 31 December 2017 no individual loan balances or groups of connected borrowers' balances exceed 10% of equity (2016: nil).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 15(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

10 Property, equipment and intangible assets

GEL	Computers and hardware	Office equipment	Intangible assets	Leasehold improvements	Other	Total
Cost						
Balance at 1 January 2017	14,213	80,263	39,509	41,286	917	176,188
Additions	-	-	12,847	-	-	12,847
Balance at 31 December 2017	**14,213**	**80,263**	**52,356**	**41,286**	**917**	**189,035**
Depreciation and amortization						
Balance at 1 January 2017	(10,756)	(40,485)	(14,223)	(19,955)	(316)	(85,735)
Depreciation and amortization for the year	(2,130)	(15,510)	(4,700)	(8,257)	(131)	(30,728)
Balance at 31 December 2017	**(12,886)**	**(55,995)**	**(18,923)**	**(28,212)**	**(447)**	**(116,463)**
Carrying amount at 31 December 2017	**1,327**	**24,268**	**33,433**	**13,074**	**470**	**72,572**

GEL	Computers and hardware	Office equipment	Intangible assets	Leasehold improvements	Other	Total
Cost						
Balance at 1 January 2016	12,210	72,431	39,509	41,286	917	166,353
Additions	2,003	7,832	-	-	-	9,835
Balance at 31 December 2016	**14,213**	**80,263**	**39,509**	**41,286**	**917**	**176,188**
Depreciation and amortization						
Balance at 1 January 2016	(8,308)	(25,259)	(10,273)	(11,697)	(186)	(55,723)
Depreciation and amortization for the year	(2,448)	(15,226)	(3,950)	(8,258)	(130)	(30,012)
Balance at 31 December 2016	**(10,756)**	**(40,485)**	**(14,223)**	**(19,955)**	**(316)**	**(85,735)**
Carrying amount at 31 December 2016	**3,457**	**39,778**	**25,286**	**21,331**	**601**	**90,453**

There are no capitalized borrowing costs related to the acquisition or construction of plant and equipment during 2017 (2016: nil).

11 Other assets

GEL	2017	2016
Cash restricted for contracts of financial instruments at fair value (note 13)	36,615	-
Receivable from shareholders	20,000	26,000
Total other financial assets	**56,615**	**26,000**
Prepayments	49,547	36,223
Repossessed assets	26,500	44,962
Total other non-financial assets	**76,047**	**81,185**
Total other assets	**132,662**	**107,185**

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 15(d).

GEL	2017	2016
Non-current Liabilities		
Secured loans from financial institutions	1,389,232	1,439,978
Unsecured loans from financial institutions	259,220	-
Unsecured loans from related parties	583,245	489,081
Unsecured loans from individuals	53,218	32,465
	2,284,915	**1,961,524**
Current Liabilities		
Secured loans from financial institutions	13,359	310,552
Unsecured loans from financial institutions	130,479	-
Unsecured loans from related parties	366,990	482,957
Unsecured loans from individuals	436	312,472
	511,264	**1,105,981**
Total loans and borrowings	**2,796,179**	**3,067,505**

As at 31 December 2017, loans to customers were collateralised for loans and borrowings from financial institution (note 9(c)(iii)).

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans as at 31 December 2017 are as follows:

				31 December 2017	
GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Secured loans from financial institutions	GEL	13%	2020	1,402,591	1,402,591
Unsecured loans from related parties	USD	13%	2018-2019	950,235	950,235
Unsecured loans from financial institutions	USD	12.6%-13%	2018-2019	389,699	389,699
Unsecured loans from individuals	USD	13%	2019	27,441	27,441
Unsecured loans from individuals	GEL	13%	2019	26,213	26,213
Total interest-bearing liabilities				**2,796,179**	**2,796,179**

Terms and conditions of outstanding loans as at 31 December 2016 are as follows:

				31 December 2016	
GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Secured loans from financial institutions	USD	11-15%	2017-2019	923,939	923,939
Secured loans from financial institutions	GEL	13.5%	2019	826,591	826,591
Unsecured loans from related parties	USD	13%	2017-2018	972,038	972,038
Unsecured loans from individuals	USD	12.6%-13%	2017-2019	318,746	318,746
Unsecured loans from individuals	GEL	13%	2017-2019	26,191	26,191
Total interest-bearing liabilities				**3,067,505**	**3,067,505**

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

GEL	**2017**
Balance at 1 January 2017	**3,067,505**
Proceeds from borrowed funds	5,575,712
Repayment of borrowed funds	(5,759,780)
Interest expense	355,170
Interest paid	(354,964)
Effect of changes in foreign exchange rates	(87,464)
Balance at 31 December 2017	**2,796,179**

13 Financial instruments at fair value through profit or loss

GEL	**2017**	**2016**
LIABILITY		
Derivative financial instruments		
Foreign currency contracts	7,866	-
	7,866	**-**

Financial instruments at fair value through profit or loss comprise foreign currency contracts. No financial assets at fair value through profit or loss are past due or impaired.

Foreign currency contracts

The table below summarizes, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2017, with details of the weighted average contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates in effect at the reporting date. The resultant unrealized gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
GEL	**2017**	**2016**	**2017**	**2016**
Buy USD sell GEL				
Less than 3 months	293,008	-	2.66	-

14 Equity

(a) Charter capital

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

GEL	2017	2016
Issued and paid charter capital	980,000	974,000
Unpaid charter capital	20,000	26,000
Total authorised charter capital as at 31 December	**1,000,000**	**1,000,000**

As at 31 December 2017 the Company has GEL 20,000 (2016: GEL 26,000) 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 statutory financial statements prepared in accordance with IFRS. As at 31 December 2017 the Company had retained earnings of GEL 830,663 (2016: GEL 616,216).

In 2017, dividends of GEL 167,368 were declared and paid to shareholders (2016: GEL 247,289).

15 Risk management, corporate governance and internal control

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 gaps. A summary of the interest gap position for major financial instruments as at 31 December 2017 is as follows:

GEL	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
31 December 2017						
ASSETS						
Cash and cash equivalents	371,860	-	-	-	-	371,860
Loans to customers	245,230	15,921	925,711	2,581,764	287,167	4,055,793
Other financial assets	20,000	36,615	-	-	-	56,615
	637,090	**52,536**	**925,711**	**2,581,764**	**287,167**	**4,484,268**
LIABILITIES						
Loans and borrowings	(187,758)	(220,337)	(103,170)	(2,284,914)	-	(2,796,179)
	449,332	**(167,801)**	**822,541**	**296,850**	**287,167**	**1,688,089**

A summary of the interest gap position for major financial instruments as at 31 December 2016 is as follows:

GEL	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
31 December 2016						
ASSETS						
Cash and cash equivalents	490,918	-	-	-	-	490,918
Loans to customers	104,238	407,610	715,175	2,568,278	163,859	3,959,160
Other financial assets	26,000	-	-	-	-	26,000
	621,156	**407,610**	**715,175**	**2,568,278**	**163,859**	**4,476,078**
LIABILITIES						
Loans and borrowings	(25,482)	(293,005)	(787,495)	(1,961,523)	-	(3,067,505)
	595,674	**114,605**	**(72,320)**	**606,755**	**163,859**	**1,408,573**

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2017 and 2016. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2017 Average effective interest rate, %		2016 Average effective interest rate, %	
	GEL	**USD**	**GEL**	**USD**
Interest bearing assets				
Loans to customers	43%	25%	67%	25%
Interest bearing liabilities				
Loans from individuals	13%	13%	13%	12%
Loans from financial institutions	13%	12.8%	14%	12%

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 an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit 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 2017 and 2016, is as follows:

	2017	**2016**
100 bp parallel fall	(5,034)	(4,847)
100 bp parallel rise	5,034	4,847

(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 2017:

GEL	**GEL**	**USD**	**Total**
ASSETS			
Cash and cash equivalents	122,490	249,370	371,860
Loans to customers	2,406,643	1,649,150	4,055,793
Other financial assets	20,000	36,615	56,615
Total assets	**2,549,133**	**1,935,135**	**4,484,268**
LIABILITIES			
Loans and borrowings	1,428,804	1,367,376	2,796,180
Net position	**1,120,329**	**567,759**	**1,688,088**
The effect of derivatives held for risk management	**-**	**285,142**	**285,142**
Net position after derivatives held for risk management purposes	**1,120,329**	**852,901**	**1,973,230**

The following table shows the currency exposure structure of financial assets and liabilities as at 31 December 2016:

GEL	GEL	USD	Total
ASSETS			
Cash and cash equivalents	401,228	89,690	490,918
Loans to customers	612,326	3,346,834	3,959,160
Other financial assets	26,000	-	26,000
Total assets	**1,039,554**	**3,436,524**	**4,476,078**
LIABILITIES			
Loans and borrowings	852,781	2,214,724	3,067,505
Net position	**186,773**	**1,221,800**	**1,408,573**

The following significant exchange rates were applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2017	**2016**	**2017**	**2016**
USD 1	2.5086	2.3667	2.5922	2.6848

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2017 and 2016, would have increased (decreased) profit or loss by the amounts shown below. This analysis is on a 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	2017	2016
10% appreciation of USD against GEL	73,165	103,853

A strengthening of the GEL against the above currencies at 31 December 2017 and 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained 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 analyzing 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	**2017**	**2016**
ASSETS		
Loans to customers	4,055,793	3,959,160
Bank balances	371,860	490,918
Other financial assets	56,615	26,000
Total maximum exposure	**4,484,268**	**4,476,078**

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 2017 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
Non-derivative financial liabilities						
Loans and borrowings	490,857	115,656	213,835	2,284,915	3,105,263	2,796,179
Derivative financial liabilities						
Financial instruments at fair value through profit or loss						
Outflow	*293,008*	-	-	-	*293,008*	*293,008*
Inflow	*(285,142)*	-	-	-	*(285,142)*	*(285,142)*
Total financial liabilities	**498,723**	**115,656**	**213,835**	**2,284,915**	**3,113,129**	**2,804,045**

The maturity analysis for financial liabilities as at 31 December 2016 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	113,650	86,222	145,981	3,047,876	3,393,729	3,067,505
Total financial liabilities	**113,650**	**86,222**	**145,981**	**3,047,876**	**3,393,729**	**3,067,505**

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2017:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	423,601	-	-	-	-	-	-	423,601
Loans to customers	151,206	15,921	925,711	2,581,764	287,167	-	94,024	4,055,793
Property, equipment and intangible assets	-	-	-	-	-	72,572	-	72,572
Deferred tax assets	-	-	-	-	-	26,913	-	26,913
Other assets	23,377	36,615	-	-	-	72,670	-	132,662
Total assets	**598,184**	**52,536**	**925,711**	**2,581,764**	**287,167**	**172,155**	**94,024**	**4,711,541**
Liabilities								
Financial instruments at fair value through profit or loss	-	7,866	-	-	-	-	-	7,866
Loans and borrowings	187,758	220,337	103,170	2,284,914	-	-	-	2,796,179
Current tax liability	-	47,481	-	-	-	-	-	47,481
Other liabilities	29,352	-	-	-	-	-	-	29,352
Total liabilities	**217,110**	**275,684**	**103,170**	**2,284,914**	**-**	**-**	**-**	**2,880,878**
Net position	**381,074**	**(223,148)**	**822,541**	**296,850**	**287,167**	**172,155**	**94,024**	**1,830,663**

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2016:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	576,929	-	-	-	-	-	-	576,929
Loans to customers	104,239	407,610	715,175	2,568,278	163,858	-	-	3,959,160
Property, equipment and intangible assets	-	-	-	-	-	90,453	-	90,453
Deferred tax assets	-	-	-	-	-	12,836	-	12,836
Other assets	29,887	-	-	-	-	77,298	-	107,185
Total assets	**711,055**	**407,610**	**715,175**	**2,568,278**	**163,858**	**180,587**	**-**	**4,746,563**
Non-derivative liabilities								
Loans and borrowings	25,482	293,005	787,495	1,961,523	-	-	-	3,067,505
Current tax liability	-	47,101	-	-	-	-	-	47,101
Other liabilities	15,741	-	-	-	-	-	-	15,741
Total liabilities	**41,223**	**340,106**	**787,495**	**1,961,523**	**-**	**-**	**-**	**3,130,347**
Net position	**669,832**	**67,504**	**(72,320)**	**606,755**	**163,858**	**-**	**180,587**	**1,616,216**

16 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	2017	2016
Total liabilities	2,880,878	3,130,347
Less cash and cash equivalents	423,601	576,929
Net debt	**2,457,277**	**2,553,418**
Total equity	1,830,663	1,616,216
Debt to capital ratio	**1.34**	**1.58**

17 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 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 is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are more significant than in other countries with more developed taxation systems. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

18 Related party transactions

As at 31 December 2017 and 2016 shareholders of the Company are as follows:

As at 31 December 2017:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 30%.

As at 31 December 2016:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 30%.

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

Total remuneration included in personnel expenses (note 5) for the year ended 31 December 2017 and 2016 is as follows:

GEL	2017	2016
Employee compensation	**120,375**	**105,250**

(b) Transactions with other related parties

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

GEL	Notes	Shareholders 2017	Shareholders 2016
Statement of financial position			
ASSETS			
Loans to customers	9	5,705	11,183
Other financial assets	11	20,000	26,000
LIABILITIES			
Loans and borrowings	12	(950,235)	(972,038)
Profit (loss)			
Interest expense		(118,967)	(112,653)
Interest Income		1,669	610

Transactions with related parties are not secured.

19 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 18%-30% are used for discounting future cash flows from loans to customers (2016: 18%-30%);
- discount rates of 12.63%-13% are used for discounting future cash flows from loans and borrowings (2016: 11%-15%)

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

20 Events after the reporting period

On 11 January 2018 the shareholders of the Company made a decision to declare dividends of GEL 52,632 based on the 2017 Q4 financial performance results. The whole amount was paid to shareholders as of the date of these financial statements.