Microfinance Organization Credex LLC

Financial Statements

for the year ended 31 December 2016

Contents

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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 2016, 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 2016, 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), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management 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.

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.

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
16 May 2017

GEL	Notes	2016	2015
Interest income	4	1,211,518	1,054,836
Interest expense	4	(346,500)	(288,054)
Net interest income	4	**865,018**	**766,782**
Impairment losses	9	(30,939)	(44,633)
Net interest income after provision for loan impairment		**834,079**	**722,149**
Net foreign exchange gain		135,983	122,650
Other operating income		3,872	1,823
Other operating expenses		(698)	(4,985)
Personnel expenses	5	(234,293)	(231,916)
Other general administrative expenses	6	(205,628)	(158,153)
Depreciation and amortization expenses	10	(30,012)	(30,388)
Profit before income tax		**503,303**	**421,180**
Income tax expense	7	(73,413)	(62,545)
Profit and total comprehensive income for the year		**429,890**	**358,635**

The financial statements as set out on pages 5 to 36 were approved by management on 16 May 2017 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	2016	2015
ASSETS			
Cash and cash equivalents	8	576,929	74,728
Loans to customers	9	3,959,160	3,812,411
Property, equipment and intangible assets	10	90,453	110,630
Deferred tax assets	7	12,836	3,956
Other assets	11	107,185	72,880
Total assets		**4,746,563**	**4,074,605**
LIABILITIES			
Loans and borrowings	12	3,067,505	2,594,322
Current tax liability		47,101	33,266
Other liabilities		15,741	13,402
Total liabilities		**3,130,347**	**2,640,990**
EQUITY			
Charter capital	13	1,000,000	1,000,000
Retained earnings	13	616,216	433,615
Total equity		**1,616,216**	**1,433,615**
Total liabilities and equity		**4,746,563**	**4,074,605**

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

GEL	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		503,303	421,180
Adjustments for:			
Depreciation and amortization		30,012	30,388
Interest income		(1,211,518)	(1,052,385)
Interest expenses		346,500	288,054
Foreign exchange gain from revaluation		(128,155)	(115,393)
		(459,858)	**(428,156)**
Changes in:			
Decrease/(increase) in loans to customers		162,279	(1,131,410)
(Increase)/decrease in other assets		(34,187)	6,608
Decrease in other liabilities		(338)	(7,436)
Cash used in operating activities		**(332,104)**	**(1,560,394)**
Interest received		1,234,963	1,037,552
Interest paid		(341,506)	(282,715)
Income tax paid		(68,458)	(50,900)
Cash from (used in) operations		**492,895**	**(856,457)**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of property and equipment		(9,835)	(2,353)
Cash flows used in investing activities		**(9,835)**	**(2,353)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributed from shareholders		-	19,591
Receipts from loans and borrowings		2,862,064	1,904,521
Repayment of loans and borrowings		(2,655,019)	(989,834)
Dividends paid		(247,289)	(103,500)
Cash flows (used in) from financing activities		**(40,244)**	**830,778**
Net increase (decrease) in cash and cash equivalents		**442,816**	**(28,032)**
Effect of changes in exchange rates on cash and cash equivalents		59,385	14,346
Cash and cash equivalents as at the beginning of the year		74,728	88,414
Cash and cash equivalents as at the end of the year	8	**576,929**	**74,728**

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

	Charter capital	Retained earnings	Total
Balance as at 1 January 2015	1,000,000	178,480	1,178,480
Total comprehensive income for the year			
Profit and other comprehensive income for the period	-	358,635	358,635
Transactions with owners, recorded directly in equity			
Dividends declared	-	(103,500)	(103,500)
Balance as at 31 December 2015	**1,000,000**	**433,615**	**1,433,615**
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**

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

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

In 2016, Mikheil Tsogoshvili's shares were transferred to Zurab Akhalaia (20%). In 2013, Vakhtang Bartaia's shares were transferred to Sophio Devdariani (40%) and Natalia Kekelidze (30%).

The Company had the following shareholders:

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

As at 31 December 2015:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 10%;
Mikheil Tsogoshvili – 20%.

As at 31 December 2016 32% funding has received the Company from these shareholders (2015: 34%). The shareholders have the power to direct the transactions of the Company at their own discretion and for their own benefit. They also have a number of other business interests outside the Company.

Related party transactions are disclosed in note 17.

(b) Georgian business environment

The Company's operations are located in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, 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.

(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.

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

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 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

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.

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

(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

(i) Income tax

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.

(ii) 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: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect 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.

(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 2016, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Company plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard was finalized and published in July 2014. The final phase relates to a new expected credit loss model for calculating impairment. The Company recognizes that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Company has not analyzed the impact of these changes yet. The Company does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Amendments to IAS 7 Disclosure Initiative (Amendments to IAS 7) 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. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2017. The Company has not yet analyzed the likely impact of the improvements on its financial position or performance.

4 Net interest income

GEL	2016	2015
Interest income		
Loans to customers	1,211,518	1,054,836
	1,211,518	**1,054,836**
Interest expense		
Loans and borrowings	(346,500)	(288,054)
	865,018	**766,782**

Included within interest income for the year ended 31 December 2016 is a total of GEL 26,188 (2015: GEL 23,352) relating to overdue loans to customers.

5 Personnel expenses

GEL	2016	2015
Employee compensation	**234,293**	**231,916**

6 Other general administrative expenses

GEL	2016	2015
Operating lease expense	62,000	57,000
Professional services	60,350	46,561
Office supplies	39,484	22,897
Advertising and marketing	17,467	7,320
Security	5,369	4,920
Communications and information services	5,803	4,447
Other	15,155	15,008
	205,628	**158,153**

7 Taxation

GEL	2016	2015
Current year tax expense	82,293	69,387
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(8,880)	(6,842)
Total income tax expense	**73,413**	**62,545**

In 2016 the applicable tax rate for current and deferred tax is 15% (2015: 15%).

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

GEL	2016	%	2015	%
Profit before tax	503,303	100	421,180	100
Income tax at the applicable tax rate	75,495	15.0	63,177	15.0
Non-taxable income	(2,082)	(0.4)	(632)	(0.2)
	73,413	**14.6**	**62,545**	**14.8**

(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 2016 and 2015.

Movements in temporary differences during the years ended 31 December 2016 and 2015 are presented as follows.

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**

2015 GEL	**1 January 2015**	**Recognized in profit or loss**	**31 December 2015**
Loans to customers	1,182	4,098	5,280
Property, equipment and intangible assets	(5,170)	1,737	(3,433)
Loans and borrowings	1,102	1,007	2,109
	(2,886)	**6,842**	**3,956**

(b) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

GEL	**Assets**		**Liabilities**		**Net**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Loans to customers	12,524	5,280	-	-	12,524	5,280
Property, equipment and intangibles	-	-	(2,632)	(3,433)	(2,632)	(3,433)
Loans and borrowings	2,944	2,109	-	-	2,944	2,109
Net tax assets (liabilities)	**15,468**	**7,389**	**(2,632)**	**(3,433)**	**12,836**	**3,956**

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	**2016**	**2015**
Cash on hand	86,011	17,491
Bank balances	490,918	57,237
Total cash and cash equivalents	**576,929**	**74,728**

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 2016, Bank of Georgia's balance is 22% of total equity. In 2015 the Company had no bank whose balances exceed 10% of equity.

9 Loans to customers

GEL	2016	2015
Loans to individuals		
Loans collateralized by real estate	3,370,958	3,773,330
Other consumer loans	678,394	98,334
Total loans to customers	**4,049,352**	**3,871,664**
Gross loans to customers	4,049,352	3,871,664
Impairment allowance	(90,192)	(59,253)
Net loans to customers	**3,959,160**	**3,812,411**

Movements in the loan impairment allowance for the year ended 31 December 2016 are as follows:

GEL	2016	2015
Balance at the beginning of the period	59,253	24,223
Written off loans	-	(9,603)
Net charge	30,939	44,633
Balance at the end of the period	**90,192**	**59,253**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of 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	0.6%
- overdue less than 30 days	107,406	(1,129)	106,277	1.1%
- overdue 30-89 days	168,931	(24,665)	144,266	14.6%
- overdue 90-179 days	45,104	(10,732)	34,372	23.8%
- overdue more than 180 days	32,046	(7,941)	24,105	24.8%
- overdue more than 365 days	6,653	(1,484)	5,169	22.3%
Total loans collateralized by real estate	**3,370,958**	**(62,655)**	**3,308,303**	**1.9%**
Other consumer loans				
- not overdue	601,695	(3,898)	597,797	0.7%
- overdue less than 30 days	39,520	(2,516)	37,004	6.4%
- overdue 30-89 days	37,179	(21,123)	16,056	56.8%
Total other consumer loans	**678,394**	**(27,537)**	**650,857**	**4.1%**
Total loans to customers	**4,049,352**	**(90,192)**	**3,959,160**	**2.2%**

The following table provides information on the credit quality of the loans to customers as at 31 December 2015:

GEL	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans, %
Loans collateralized by real estate				
- not overdue	3,349,522	(18,038)	3,331,484	0.5%
- overdue less than 30 days	127,207	(633)	126,574	0.5%
- overdue 30-89 days	185,226	(21,716)	163,510	11.7%
- overdue 90-179 days	111,375	(18,318)	93,057	16.4%
Total loans collateralized by real estate	**3,773,330**	**(58,705)**	**3,714,625**	**1.56%**
Other consumer loans				
- not overdue	98,022	(527)	97,495	0.5%
- overdue less than 30 days	312	(21)	291	6.7%
Total other consumer loans	**98,334**	**(548)**	**97,786**	**0.56%**
Total loans to customers	**3,871,664**	**(59,253)**	**3,812,411**	**1.53%**

(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:

- 0.5% collective provision considering the economic environment and market loss experience for not overdue loans;
- for loans with individual signs of impairment a delay of 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.

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 2016 would be GEL 118,775 (2015: GEL 114,372) 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 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 following table provides the analysis of the collateral as at 31 December 2015:

GEL	Loans to customer, carrying amount	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Real estate	3,331,486	3,331,486	-
Precious metals	2,795	2,795	-
Third party guarantee	42,212	-	42,212
Loans without collateral	52,486	-	52,486
Total loans without individual signs of impairment	**3,428,979**	**3,334,281**	**94,698**
Overdue or impaired loans			
Real estate	383,141	383,141	-
Third party guarantee	291	291	-
Total overdue or impaired loans	**383,432**	**383,432**	**-**
Total loans to customers	**3,812,411**	**3,717,713**	**94,698**

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 84% of the total portfolio as at 31 December 2016 (2015: 97%).

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 2016, the Company has not obtained any assets by taking possession of collateral for loans to customers (2015: GEL 44,942). As at 31 December 2016 the repossessed assets GEL 44,942 (2015: 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 2016, loans to customers with a gross amount of GEL 627,969 (2015: nil) 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	2016	2015
Loans to individuals		
Consumer loans	1,288,049	1,432,537
Retail trade	910,608	1,222,874
Services	886,281	735,700
Agriculture	99,250	22,532
Manufacturing	95,821	40,015
Transportation	63,758	7,929
Others	615,393	350,824
Total loans to customers	**3,959,160**	**3,812,411**

(e) Significant credit exposures

As at 31 December 2016 no individual loan balances or groups of connected borrowers' balances exceed 10% of equity (2015: nil).

(f) Loan maturities

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

10 Property, equipment and intangible assets

GEL	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**

GEL	Computers and hardware	Office equipment	Intangible assets	Leasehold improvements	Other	Total
Cost						
Balance at 1 January 2015	10,711	71,577	39,509	41,286	917	164,000
Additions	1,499	854	-	-	-	2,353
Balance at 31 December 2015	**12,210**	**72,431**	**39,509**	**41,286**	**917**	**166,353**
Depreciation and amortization						
Balance at 1 January 2015	(4,745)	(10,773)	(6,322)	(3,440)	(55)	(25,335)
Depreciation and amortization for the year	(3,563)	(14,486)	(3,951)	(8,257)	(131)	(30,388)
Balance at 31 December 2015	**(8,308)**	**(25,259)**	**(10,273)**	**(11,697)**	**(186)**	**(55,723)**
Carrying amount						
At 31 December 2015	**3,902**	**47,172**	**29,236**	**29,589**	**731**	**110,630**

11 Other assets

GEL	2016	2015
Receivable from shareholders	26,000	26,000
Total other financial assets	**26,000**	**26,000**
Prepayments	36,223	1,918
Repossessed assets	44,962	44,962
Total other non-financial assets	**81,185**	**46,880**
Total other assets	**107,185**	**72,880**

12 Loans and borrowings

This note provides information about the contractual terms of interest-bearing loans and borrowings which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see note 14 (d).

GEL	2016	2015
Non-current Liabilities		
Secured loans from financial institutions	1,439,978	-
Unsecured loans from related parties	489,081	586,750
Unsecured loans from individuals	32,465	33,949
	1,961,524	**620,699**
Current Liabilities		
Secured loans from financial institutions	310,552	-
Unsecured loans from financial institutions	-	1,239,280
Unsecured loans from related parties	482,957	292,017
Unsecured loans from individuals	312,472	442,326
	1,105,981	**1,973,623**
Total loans and borrowings	**3,067,505**	**2,594,322**

As at 31 December 2016, 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 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	923,938	923,938
Secured loans from financial institutions	GEL	13.50%	2019	826,591	826,591
Unsecured loans from related parties	USD	13%	2017 – 2018	972,039	972,039
Unsecured loans from individuals	USD	12.63 - 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**

Terms and conditions of outstanding loans as at 31 December 2015 are as follows:

				31 December 2015	
GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Unsecured loans from financial institutions	USD	11-16%	2016	1,063,083	1,063,083
Unsecured loans from financial institutions	GEL	11-17.5%	2016	176,197	176,197
Unsecured loans from related parties	USD	13%	2016 – 2018	878,767	878,767
Unsecured loans from individuals	USD	12.63 - 13%	2016 – 2017	446,058	446,058
Unsecured loans from individuals	GEL	13%	2016 - 2017	30,217	30,217
Total interest-bearing liabilities				**2,594,322**	**2,594,322**

13 Equity

(a) Charter capital

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

GEL	**2016**	**2015**
Issued and paid charter capital	974,000	974,000
Unpaid charter capital	26,000	26,000
Total authorised charter capital as at 31 December	**1,000,000**	**1,000,000**

As at 31 December 2016 the Company has GEL 26,000 (2015: 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 2016 the Company had retained earnings of GEL 616,216 (2015: GEL 433,615).

In 2016, dividends of GEL 247,289 were declared and paid to shareholders (2015: GEL 103,500).

14 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 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**

A summary of the interest gap position for major financial instruments as at 31 December 2015 is as follows:

GEL	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
31 December 2015					
ASSETS					
Cash and cash equivalents	57,237	-	-	-	57,237
Loans to customers	242,586	777,739	1,149,799	1,642,287	3,812,411
Other financial assets	26,000	-	-	-	26,000
	325,823	**777,739**	**1,149,799**	**1,642,287**	**3,895,648**
LIABILITIES					
Loans and borrowings	(14,060)	(478,980)	(1,480,582)	(620,700)	(2,594,322)
	311,763	**298,759**	**(330,783)**	**1,021,587**	**1,301,326**

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2016 and 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2016 Average effective interest rate, %		2015 Average effective interest rate, %	
	GEL	**USD**	**GEL**	**USD**
Interest bearing assets				
Loans to customers	67%	25%	34%	26%
Interest bearing liabilities				
Loans from individuals	13%	12%	13%	13%
Loans from financial institutions	14%	12%	17%	15%

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 2016 and 2015, is as follows:

	2016	**2015**
100 bp parallel fall	(4,847)	(2,997)
100 bp parallel rise	4,847	2,997

(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 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 table shows the currency exposure structure of financial assets and liabilities as at 31 December 2015:

GEL	**GEL**	**USD**	**Total**
ASSETS			
Cash and cash equivalents	3,729	53,508	57,237
Loans to customers	210,222	3,602,189	3,812,411
Other financial assets	26,000	-	26,000
Total assets	**239,951**	**3,655,697**	**3,895,648**
LIABILITIES			
Loans and borrowings	206,414	2,387,908	2,594,322
Net position	**33,537**	**1,267,789**	**1,301,326**

The following significant exchange rates were applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
USD 1	2.3667	2.2702	2.684 8	2.394 9

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2016 and 2015, 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	2016	2015
10% appreciation of USD against GEL	103,853	107,762

A strengthening of the GEL against the above currencies at 31 December 2016 and 2015 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	2016	2015
ASSETS		
Loans to customers	3,959,160	3,812,411
Bank balances	490,918	57,237
Other financial assets	26,000	26,000
Total maximum exposure	**4,476,078**	**3,895,648**

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 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 maturity analysis for financial liabilities as at 31 December 2015 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	578,540	300,395	1,334,013	677,109	2,890,057	2,594,322
Total financial liabilities	**578,540**	**300,395**	**1,334,013**	**677,109**	**2,890,057**	**2,594,322**

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	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**

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2015:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Non-derivative assets							
Cash and cash equivalents	74,728	-	-	-	-	-	74,728
Loans to customers	153,993	777,739	1,149,799	1,642,287	-	88,593	3,812,411
Property, equipment and intangible assets	-	-	-	-	110,630	-	110,630
Deferred tax assets	-	-	-	-	3,956	-	3,956
Other assets	27,918	-	-	-	44,962	-	72,880
Total assets	**256,639**	**777,739**	**1,149,799**	**1,642,287**	**159,548**	**88,593**	**4,074,605**
Non-derivative liabilities							
Loans and borrowings	14,060	478,980	1,480,583	620,699	-	-	2,594,322
Current tax liability	-	33,266	-	-	-	-	33,266
Other liabilities	13,402	-	-	-	-	-	13,402
Total liabilities	**27,462**	**512,246**	**1,480,583**	**620,699**	**-**	**-**	**2,640,990**
Net position	**229,177**	**265,493**	**(330,784)**	**1,021,588**	**159,548**	**88,593**	**1,433,615**

15 Capital management

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

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

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

GEL	2016	2015
Total liabilities	3,130,347	2,640,990
Less cash and cash equivalents	(576,929)	(74,728)
Net debt	**2,553,418**	**2,566,262**
Total equity	**1,616,216**	**1,433,615**
Debt to capital ratio	1.58	1.79

16 Contingencies

(a) Insurance

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

(b) Litigation

In the ordinary course of business, the Company is 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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

17 Related party transactions

As at 31 December 2016 and 2015 shareholders of the Company are as follows:

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

As at 31 December 2015:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 10%;
Mikheil Tsogoshvili – 20%.

(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 2016 and for the period from 2015 is as follows:

GEL	2016	2015
Employee compensation	**105,250**	**99,400**

(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 2016	Shareholders 2015
Statement of financial position			
ASSETS			
Loans to customers	9	11,183	-
Other financial assets	11	26,000	26,000
LIABILITIES			
Loans and borrowings	12	(972,134)	(878,767)
Profit (loss)			
Interest expense		(112,653)	(107,979)
Interest Income		610	-

Transactions with related parties are not secured.

18 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

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

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

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

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

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

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

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

- discount rates of 18%-30%are used for discounting future cash flows from loans to customers (2015: 35%-45%);
- discount rates of 11%-15% are used for discounting future cash flows from loans and borrowings (2015: 13%-16%)

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

19 Events after the reporting period

From January 2017 till the issuance date of these financial statements, the Company has repaid loans and borrowings due to financial institutions with total amount of GEL 1,963,976. During the same period the Company obtained loans and borrowings from the financial institutions of GEL 1,661,000.

On 17 January 2017 and on 6 April 2017 the shareholders of the Company made a decision to declare dividends of GEL 36,842 based on the 2016 financial performance results and GEL 31,579 based on 2017 financial performance results, respectively. The whole amount was paid to shareholders as of the date of these financial statements.

As of 28 April 2017 the credit limit of the Company from a financial institution was increased to GEL 1,900,000.