JSC MICROFINANCE ORGANISATION

MICRO BUSINESS CAPITAL

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the year ended 31 December 2016

CONTENTS:

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

BDO

T: +995 32 254 58 45
T: +995 32 218 81 88
bdo@bdo.ge
www.bdo.ge

2 Tarkhnishvili Str.
Vere Business Centre
0179 Tbilisi
Georgia

INDEPENDENT AUDITORS' REPORT

To the Management of JSC MFO MICRO BUSINESS CAPITAL

Opinion

We have audited the financial statements of **JSC MFO MICRO BUSINESS CAPITAL**, (hereinafter - the Organisation) which comprise the statement of financial position as at 31 December 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organisation 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 (IFRSs).

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organisation 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.

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 IFRSs, 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 Organisation'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 Organisation's financial reporting process.

Auditor's 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 auditor's 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 Organisation'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 Organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Organisation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Tbilisi, Georgia

BDO LLC

10 April 2017

JSC MICROFINANCE ORGANISATION MICRO BUSINESS CAPITAL

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(In Georgian Lari)

	Note	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	6	3,893,062	1,138,140
Loans to customers	7	27,757,210	17,161,803
Property and equipment	8	458,543	312,591
Intangible assets	8	197,975	25,349
Other assets		106,690	109,372
Deferred tax asset	9	147,553	87,784
Total assets		**32,561,033**	**18,835,039**
Liabilities			
Borrowings	10	23,376,689	13,691,634
Subordinated debts	10	3,823,202	2,231,834
Current income tax liability		106,580	202,504
Other liabilities		426,471	181,346
Total liabilities		**27,732,942**	**16,307,318**
Equity			
Share capital	11	2,100,000	1,613,500
Share premium	11	718,814	218,643
Retained earnings		2,009,277	695,578
Total equity		**4,828,091**	**2,527,721**
Total liabilities and equity		**32,561,033**	**18,835,039**

Signed on behalf of management on 10 April 2017 by:

General Director		Gia Petriashvili
Finance Director		Tatia Jajanashvili

The notes on pages 9-32 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(In Georgian Lari)

	Note	2016	2015
Interest income	12	5,554,903	3,727,955
Interest expense	12	(2,389,349)	(1,637,004)
Net interest income before impairment		**3,165,554**	**2,090,951**
Loan impairment	7	(330,256)	(278,943)
Net interest income		**2,835,298**	**1,812,008**
Fee and commission income		469,864	277,379
Salaries and other employee benefits		(1,237,430)	(843,263)
General and administrative expenses	13	(1,054,174)	(608,158)
Net gain on foreign exchange operations		562,888	341,984
Profit before income tax		**1,576,446**	**979,950**
Income tax expense	9	(262,747)	(154,839)
Total comprehensive income for the year		**1,313,699**	**825,111**

The notes on pages 9-32 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(In Georgian Lari)

	Share capital	Share premium	Retained earnings / (Accumulated deficit)	Total
At 31 December 2014	**742,500**	**-**	**(129,533)**	**612,967**
Increase of the share capital	871,000	218,643	-	**1,089,643**
Total comprehensive income for the year	-	-	825,111	**825,111**
At 31 December 2015	**1,613,500**	**218,643**	**695,578**	**2,527,721**
Increase of the share capital	486,500	500,171	-	**986,671**
Total comprehensive income for the year	-	-	1,313,699	**1,313,699**
At 31 December 2016	**2,100,000**	**718,814**	**2,009,277**	**4,828,091**

The notes on pages 9-32 form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2016

(In Georgian Lari)

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**1,576,446**	**979,950**
Adjustments for:			
Loan impairment charge	7	330,256	278,943
Net change in interest accruals	12	(3,165,554)	(2,090,951)
Depreciation and amortisation	13	115,101	62,733
Net gain on foreign exchange operations		(562,888)	(341,984)
Cash outflow from operating activities before changes in operating assets and liabilities		**(1,706,639)**	**(1,111,309)**
(Increase)/decrease in operating assets:			
Loans to customers		(10,157,040)	(8,142,027)
Other assets		2,682	(39,612)
Increase in operating liabilities:			
Other liabilities		245,123	129,961
Cash outflow from operating activities before taxation		**(11,615,874)**	**(9,162,987)**
Interest received		5,179,527	3,429,111
Income tax paid		(418,438)	(26,669)
Net cash outflow from operating activities		**(6,854,785)**	**(5,760,545)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	8	(232,921)	(183,882)
Purchase of intangible assets	8	(200,758)	-
Net cash outflow from investing activities		**(433,679)**	**(183,882)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings and subordinated debt		41,359,447	14,006,494
Repayment of borrowings and subordinated debt		(32,216,429)	(8,939,448)
Proceeds from increase of the share capital		986,671	1,089,643
Net cash inflow from financing activities		**10,129,689**	**6,156,689**
Net increase in cash and cash equivalents		**2,841,225**	**212,262**
Cash and cash equivalents at the beginning of the year	6	1,138,140	835,610
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies		(86,303)	90,268
Cash and cash equivalents at the end of the year		**3,893,062**	**1,138,140**

The notes on pages 9-32 form an integral part of these financial statements.

1. GENERAL INFORMATION

ORGANISATION

Microfinance Organisation Micro Business Capital is a Joint Stock Company (the "Organisation") which was established on 6 December 2012.

The Organisation conducts its business under the Law on Microfinance Activity and is regulated by the National Bank of Georgia ("NBG").

As The Organisation's principal business activity Micro Business Capital provides micro and small loans (up to GEL 50,000) to customers in Georgia. From 2015 the Organisation also provides business loans. At the end of 2016 year business loans comprised around 20% in total loan portfolio.

With the head office located on 41 Sulkhan Tsintsadze Street, Tbilisi, Georgia, the Organisation had four other service centres in Tbilisi and one in Rustavi as at 31 December 2016 (2015: three).

As at 31 December 2016 and 2015 the following shareholders owned shares of the Organisation:

	31 December 2016		31 December 2015	
Shareholder	**Percentage of total shares**	**Number of shares**	**Percentage of total shares**	**Number of shares**
Petriashvili Gia	33.6%	706,000	34.1%	550,000
Rukhadze Otari	15.5%	325,000	12.4%	200,000
Ambroladze Murmani	8.6%	180,000	9.3%	150,000
Maziashvili Tengizi	10.0%	209,500	9.3%	150,000
Nijaradze Tarasi	7.1%	150,000	9.3%	150,000
Meladze Goderdzi	7.1%	150,000	9.3%	150,000
Gotoshia Giorgi	7.1%	150,000	9.3%	150,000
Vachnadze Giorgi	5.9%	123,500	6%	100,000
JB LLC	2.9%	60,000	0%	-
Ghvaladze Giorgi	0.8%	16,000	0%	7,500
Chachibaia Eteri	0.9%	18,000	0%	6,000
Jajanashvili Tatia	0.6%	12,000	0%	-
Total shares issued	**100.0%**	**2,100,000**	**100.0%**	**1,613,500**

For more information about the Organisation's share capital, refer to Note 11.

CHANGES IN GEORGIAN LEGISLATION

On 29 December 2016 the President of Georgia signed decision regarding the following amendments to the Civil Code of Georgia:

- After issuing loan, effective interest rate between the parties should not exceed 100% during the year, even if the loan extension is agreed later.
- It is now forbidden to grant the loan less than GEL100,000 to individual in any other currency, than Georgian Lari (GEL).
- It is now forbidden to receive the loan less than GEL100,000 from individuals.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs).

The Organisation maintains its records and prepares financial statements in Georgian Lari (GEL) in accordance with International Financial Reporting Standards (IFRS) as required by Georgian legislation.

The reporting period for the Organisation is the calendar year from January 1 to December 31.

Amounts in the financial statements are presented without rounding, unless otherwise stated.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying The Organisation's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 4.

BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost basis.

CHANGES IN ACCOUNTING POLICIES

a) New standards, interpretations and amendments effective from 1 January 2016

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2016. None of the amendments to Standards that are effective from that date had a significant effect on the Organisation's financial statements.

b) New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Organisation's future financial statements:

- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers. In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise 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 and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 15, the transition can involve one or more than one date of initial application for different requirements.

2. BASIS OF PREPARATION (CONTINUED)

IFRS 9 Financial Instruments. IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets**. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities**. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss.
- **Hedge accounting**. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

The effects of IFRS 15 Revenues from Contracts with Customers and IFRS 9 Financial Instruments are still being assessed, as these new standards may have a significant effect on the Organisation’s future financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal accounting policies applied in the preparation of these financial statements are set out below. These policies are consistently applied to all the years presented, unless otherwise stated.

FINANCIAL INSTRUMENTS

(a) Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets. The Organisation determines the classification of its financial assets upon initial recognition.

Fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss. They are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss.

The Organisation does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Held to maturity investments

Non derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when The Organisation has positive intention and ability to hold them upon maturity. The Organisation does not have any investments held to maturity.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally The Organisation's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities as well as corporate bonds. They are carried at fair value with changes in fair value generally recognised in other comprehensive income and accumulated in the available-for-sale reserve; Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive income, is recognised in profit or loss.

Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available-for-sale reserve. On sale, the cumulative gain or loss recognised in other comprehensive income is reclassified from the available-for-sale reserve to profit or loss. The Organisation does not have any assets classified as available-for-sale.

Derecognition of financial assets

The Organisation derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) The Organisation has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial liabilities

Financial liabilities are classified as due to organisation and customer accounts. Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Organisation derecognises financial liabilities when, and only when, The Organisation's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

(c) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

(d) IFRS 7 fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

The Organisation has no financial assets or liabilities measured at fair value; accordingly they are not presented under the IFRS 7 fair value measurement hierarchy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that The Organisation considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- Any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the organisation obtains;
- The borrower considers bankruptcy or a financial reorganisation;
- There is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- The value of collateral significantly decreases as a result of deteriorating market conditions.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of sufficient historical loss experience and the success of recovery of overdue amounts. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to reduce the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, and all bank placements or receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation (amortisation) and recognized impairment loss, if any. Depreciation (amortisation) is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. Depreciation (amortisation) is calculated on a straight line basis at the following useful lives:

Historical cost	Useful life (years)
Furniture and equipment	5
Computer equipment and communication devices	5
Leasehold improvements	Lease contract term
Technical equipment	5-7
Software	5

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. The intangible assets with definite useful lives are amortised on a straight line basis over expected useful lives.

BORROWINGS

Borrowings are initially recognised at fair value. Subsequently they are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings, using the effective interest method.

SHARE CAPITAL

Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation. A legal obligation is an obligation that derives from:

- A contract (through its explicit or implicit terms);
- Legislation; or
- Other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

- By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

The term 'contingent liability' is used for liabilities that do not meet the recognition criteria.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policy distinguishes between:

- provisions - which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and
- contingent liabilities - which are not recognised as liabilities because they are either:
  - possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits; or
  - present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Contingent liabilities are not reflected in the financial statements, except for the cases when the outflow of economic benefits is likely to origin and the amount of such liabilities can be reliably measured. The information on contingent liabilities is disclosed in the notes to the financial statements with the exception of cases, when the outflow of economic benefits is likely.

Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Contingent assets are not reflected in the financial statements, but the information on them is disclosed when inflow of economic benefits is possible. If economic benefits are sure to occur, an asset and related income are recognized in the financial statements for the year, when the evaluation change occurred.

TAXATION

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Georgia and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity where there is an intention to settle the balances on a net basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME AND EXPENSE RECOGNITION

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by The Organisation to originate loans at market interest rates are integral to the effective interest rate if it is probable that The Organisation will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

SALARIES AND OTHER EMPLOYEE BENEFITS

Wages, salaries, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of The Organisation.

DIVIDENDS

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period and events before the date of financial statements authorization for issue that provide additional information about The Organisation's financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of The Organisation at the balance sheet date are disclosed in the notes to the financial statements when material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCY TRANSLATION

Items included in the financial statements are measured using the currency of the primary economic environment in which The Organisation operates (‘the functional currency’). Financial statements are presented in Georgian Lari (GEL), which is The Organisation’s functional and presentation currency.

Monetary assets and liabilities are translated into The Organisation’s functional currency at the official exchange rate of the National Bank of Georgia.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Organisation’s functional currency at year-end official exchange rates are recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Table below presents the closing exchange rates by the National Bank of Georgia As at 31 December 2016 and 2015:

	USD / GEL	EUR / GEL
Exchange rate as at 31 December 2016	2.6468	2.7940
Exchange rate as at 31 December 2015	2.3949	2.6169

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Organisation makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

ALLOWANCE FOR IMPAIRMENT OF LOANS AND RECEIVABLES

The Organisation regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Organisation makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets in the Organisation. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The primary factor that is currently used for estimating the general loan impairment allowance is the delinquency status of the loan and the type of the loan with the following prescribed rates:

Delinquency status	Rate in %
Current and less than 30 days overdue	2
31 to 60 days overdue	10
61 to 120 days overdue	30
121 to 150 days overdue	50
More than 150 days overdue	100

INCOME TAXES

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, The Organisation recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite The Organisation's belief that its tax return positions are supportable, The Organisation believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result The Organisation minimizes the risks related to this fact. The Organisation believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events.

5. PRIOR PERIOD RECLASSIFICATION

Where necessary, the corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications is as follows:

Financial statement area	As previously stated 2015	Restatement	As restated 2015
Statement of comprehensive income			
Interest income	4,005,334	(277,379)	**3,727,955**
Fee and commission income	-	277,379	**277,379**

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2016 and 2015 can be presented as follows:

	31 December 2016	31 December 2015
Cash on hand	634,817	331,991
Restricted cash*	2,072,999	600,059
Cash at Bank in Foreign Currency	1,183,982	196,439
Cash at Bank in Georgian Lari	1,264	9,651
Total cash and cash equivalents	**3,893,062**	**1,138,140**

*Restricted cash is comprised with amounts of USD94,573 and USD688,636, those kept by JSC Basis Bank as a collaterals for borrowings. Those agreements are valid until 27 February 2017 and 11 October 2017, respectively.

Cash and cash equivalents distribution by currency is disclosed in Note 15.

7. LOANS TO CUSTOMERS

Loans to customers as at 31 December 2016 and 2015 can be presented as follows:

	31 December 2016	31 December 2015
Gross loans to customers	28,396,551	17,573,468
Less: allowance for impairment losses	(639,341)	(411,665)
Net loans to customers	**27,757,210**	**17,161,803**

Movements of the loan impairment allowance for the year 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Balance at the beginning of the year	**411,665**	**190,873**
Net charge for the year	330,256	278,943
Recoveries of written-off loans	130,667	79,138
Write-offs during the year	(233,247)	(137,289)
Balance at the end of the year	**639,341**	**411,665**

Breakdown of loans to customers by currencies as at 31 December 2016 and 2015 can be presented as follows:

	31 December 2016		31 December 2015	
	GEL	USD	GEL	USD
Originated loans to customers	3,459,317	24,565,496	2,784,806	14,540,415
Accrued interest	54,663	317,075	39,238	209,009
Gross loans to customers	**3,513,980**	**24,882,571**	**2,824,044**	**14,749,424**
Less: allowance for impairment losses	(80,984)	(558,357)	(60,753)	(350,912)
Net loans receivable	**3,432,996**	**24,324,214**	**2,763,291**	**14,398,512**

7. LOANS TO CUSTOMERS (CONTINUED)

The following table provides information on the credit quality of the loan portfolio:

Originated loans to customers according to the agreement	**31 December 2016**	**31 December 2015**
Current and less than 30 days overdue	28,223,052	17,455,500
31 to 60 days overdue	135,557	24,646
61 to 90 days overdue	25,856	24,877
91 to 150 days overdue	12,086	68,445
Gross loans to customers	**28,396,551**	**17,573,468**
Less: allowance for impairment losses	(639,341)	(411,665)
Net loans to customers	**27,757,210**	**17,161,803**

Information about collaterals as at 31 December 2016 and 2015 can be presented as follows:

Loans to customers are collateralised by:	**31 December 2016**	**31 December 2015**
Real estate	22,902,612	15,306,263
Movable property, including vehicles	4,740,681	1,814,049
Deposits	45,359	21,841
Without collateral	68,558	19,650
Net loans to customers	**27,757,210**	**17,161,803**

8. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets as at 31 December 2016 and 2015 can be presented as follows:

Historical cost	**Furniture and equipment**	**Computer equipment and communication devices**	**Leasehold improvements**	**Technical equipment**	**Total property and equipment**	**Intangible assets**
At 31 December 2014	**73,916**	**65,773**	**63,211**	**19,700**	**222,600**	**45,805**
Additions	19,620	32,438	96,860	34,964	**183,882**	-
At 31 December 2015	**93,536**	**98,211**	**160,071**	**54,664**	**406,482**	**45,805**
Additions	26,438	36,324	97,118	73,041	**232,921**	200,758
At 31 December 2016	**119,974**	**134,535**	**257,189**	**127,705**	**639,403**	**246,563**
Accumulated depreciation and amortisation						
At 31 December 2014	**(13,532)**	**(18,296)**	**(6,281)**	**(2,210)**	**(40,319)**	**(11,295)**
Charge during the year	(16,935)	(16,283)	(15,613)	(4,741)	**(53,572)**	(9,161)
At 31 December 2015	**(30,467)**	**(34,579)**	**(21,894)**	**(6,951)**	**(93,891)**	**(20,456)**
Charge during the year	(21,380)	(23,174)	(29,981)	(12,434)	**(86,969)**	(28,132)
At 31 December 2016	**(51,847)**	**(57,753)**	**(51,875)**	**(19,385)**	**(180,860)**	**(48,588)**
Net book value						
At 31 December 2015	**63,069**	**63,632**	**138,177**	**47,713**	**312,591**	**25,349**
At 31 December 2016	**68,127**	**76,782**	**205,314**	**108,320**	**458,543**	**197,975**

9. TAXATION

The tax effects of the movements in temporary differences recorded at the rate of 15% are as follows:

Temporary differences at a rate of 15% due to:	Balance at 31 December 2014	Credited (charged) to the Income Statement	Balance at 31 December 2015	Credited (charged) to the Income Statement	Balance at 31 December 2016
Loans to customers	**39,299**	45,564	**84,863**	48,116	**132,979**
Property and equipment	**(19,832)**	(7,950)	**(27,782)**	(12,376)	**(40,158)**
Intangible assets	**(212)**	630	**418**	(930)	**(512)**
Other assets	**-**	-	**-**	9,566	**9,566**
Borrowings and subordinated debt	**4,593**	2,858	**7,451**	4,015	**11,466**
Other liabilities	**2,842**	19,992	**22,834**	11,378	**34,212**
Deferred tax asset	**26,690**	**61,094**	**87,784**	**59,769**	**147,553**

Income tax expense for the years ended 31 December 2016 and 2015 comprises the following:

	2016	2015
Current income tax	(322,516)	(215,933)
Effect of temporary differences	59,769	61,094
Income tax expense	**(262,747)**	**(154,839)**

Reconciliation of the Income tax expense based on statutory rate with actual is as follows:

	2016	2015
Profit before income tax	**1,576,446**	**979,950**
Applicable tax rate	15%	15%
Theoretical Income tax expense	**(236,467)**	**(146,993)**
Effect of permanent differences	(26,280)	(7,847)
Income tax expense	**(262,747)**	**(154,839)**

10. BORROWINGS AND SUBORDINATED DEBTS

Borrowings as at 31 December 2016 and 2015 can be presented as follows:

	31 December 2016	31 December 2015
Originated borrowings	23,190,113	13,626,277
Accrued interest	186,576	65,357
Total borrowings	**23,376,689**	**13,691,634**

Subordinated debt as at 31 December 2016 and 2015 can be presented as follows:

	31 December 2016	31 December 2015
Originated subordinated debts	3,815,362	2,227,257
Accrued interest	7,840	4,577
Total subordinated debts	**3,823,202**	**2,231,834**

Breakdown of borrowings and subordinated debt by current and non-current portions can be presented as follows:

	Borrowings		Subordinated debt	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Current portion	16,319,767	8,916,118	1,820,898	4,577
Non-current portion	7,056,922	4,775,516	2,002,304	2,227,257
Total	**23,376,689**	**13,691,634**	**3,823,202**	**2,231,834**

Subordinated debts are received from shareholders with maturity of 4 year, but according to the verbal agreement between the parties there is a perspective of further prolongation of the maturity dates.

Contractual maturity analysis and currency analysis of borrowings is disclosed in Note 15.

Following table details outstanding borrowings and accrued interest as at 31 December 2016 and 2015:

		31 December 2016		31 December 2015	
	Currency	Originated borrowings	Accrued Interest	Originated borrowings	Accrued Interest
JSC Basis Bank	GEL	2,722,322	7,966	3,223,852	13,954
Individuals	GEL	186,146	5,020	71,040	521
Individuals	USD	13,505,564	151,214	9,272,404	44,284
Individuals	EUR	129,921	4,160	53,123	291
Legal entities	GEL	2,271,000	887	1,005,858	6,307
Legal entities	USD	4,375,160	17,329	-	-
Total		**23,190,113**	**186,576**	**13,626,277**	**65,357**

Subordinated debts are totally denominated in USD.

11. SHARE CAPITAL

Total authorised capital as at 31 December 2016 equals to 2,400,000 shares, however not all authorised shares were purchased by the end of reporting period.

During the 2016 year 486,500 shares have been purchased and fully paid by existing and new shareholders as well. Total of 2,100,000 shares were fully paid since establishment till 31 December 2016 with a nominal value of 1 GEL each.

At the date of issue the amounts of nominal value and share premium equalled to GEL2,100,000 (USD1,069,572) and GEL718,814 (USD312,538), respectively.

Share capital as at 31 December 2016 and 2015 can be presented as follows:

	31 December 2016		31 December 2015	
Shareholder	**Nominal value**	**Share premium**	**Nominal value**	**Share premium**
Petriashvili Gia	706,000	266,292	550,000	74,342
Rukhadze Otari	325,000	158,252	200,000	49,151
Ambroladze Murmani	180,000	28,830	150,000	6,451
Maziashvili Tengizi	209,500	75,693	150,000	16,588
Nijaradze Tarasi	150,000	16,588	150,000	16,588
Meladze Goderdzi	150,000	16,588	150,000	16,588
Gotoshia Giorgi	150,000	16,588	150,000	16,588
Vachnadze Giorgi	123,500	38,731	100,000	14,438
JB LLC	60,000	63,126	-	-
Ghvaladze Giorgi	16,000	12,716	7,500	4,335
Chachibaia Eteri	18,000	14,492	6,000	3,574
Jajanashvili Tatia	12,000	10,918	-	-
Total shares issued	**2,100,000**	**718,814**	**1,613,500**	**218,643**

The Organisation has made no dividend payments for the years ended 31 December 2016 and 2015.

12. NET INTEREST INCOME

Net interest income for the years ended 31 December 2016 and 2015 can be presented as follows:

Interest income is arising from:	**2016**	**2015**
Loans to customers	5,553,349	3,723,582
Placements with banks	1,554	4,374
Total interest income	**5,554,903**	**3,727,956**
Interest expense is arising from:		
Borrowings from individuals	(1,660,477)	(1,306,072)
Borrowings from banks	(487,129)	(295,882)
Other borrowings	(241,743)	(35,051)
Total interest expense	**(2,389,349)**	**(1,637,005)**
Net interest income before impairment	**3,165,554**	**2,090,951**

13. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December 2016 and 2015 can be presented as follows:

	2016	2015
Advertising and marketing	(306,442)	(149,784)
Rent	(276,012)	(201,599)
Depreciation and amortisation	(115,469)	(62,733)
Consulting	(75,512)	(51,318)
Bank Charges	(37,246)	(33,398)
Office supplies	(31,982)	(14,705)
Utilities	(30,546)	(18,415)
Application inspection	(25,097)	(24,086)
Communication	(23,984)	(17,319)
Security	(21,080)	(17,400)
Tax expenses other than income tax	(17,977)	(2,649)
Other	(92,827)	(14,752)
Total General and Administrative expenses	**(1,054,174)**	**(608,158)**

14. COMMITMENTS AND CONTINGENCIES

LITIGATION

In the ordinary course of business, organisations are usually subject to legal actions and complaints.

Following the Organisation's customers' failure to meet loan repayment obligations the Organisation is involved in legal disputes against such customers. The highest possible outcome from such legal disputes is the amount of loans receivable from such customers (including accrued interest and other charges).

As it is not certain that all the customers will meet the repayment obligations, the Organisation recognises provision for impairment for such loans, as disclosed in Note 7.

OPERATING LEASE COMMITMENTS

The Organisation leases offices under operating lease. The leases typically run for a period of 6 years, with an option to renew the lease after that date. Non-cancellable operating lease commitments as at 31 December 2016 and 2015 are payable as follows:

	31 December 2016	31 December 2015
Up to 3 months	95,577	66,545
3 months to 1 year	286,732	214,024
1 year to 3 years	512,576	585,793
3 year to 5 years	29,644	507,240
Over 5 years	-	165,248
Financial commitments and contingencies	**924,529**	**1,538,849**

During the year ended 31 December 2016 and 2015 GEL276,012 and GEL201,599 respectively were recognised as expense in respect of operating leases.

15. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

As a financial institution, the Organisation is exposed to risks that arise from its use of financial instruments. This note describes The Organisation's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Financial assets and financial liabilities that are liquid or have a short term maturity it is assumed that the carrying amounts approximate to their fair value.

GENERAL OBJECTIVES, POLICIES AND PROCESSES

The management has overall responsibility for the determination of the Organisation's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the organisations finance function.

The overall objective of the management is to set polices that seek to reduce risks as far as possible without unduly affecting The Organisation's competitiveness and flexibility. Further details regarding these policies are set out below. Through its operations, The Organisation is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk:
  - Currency risk
  - Interest rate risk

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the lending and other transactions with counterparties giving rise to financial assets.

As the Organisation is providing micro-loans to customers as the core business activity credit risk is of crucial importance similar to any Micro Financing Organisations (MFO) risk management process. To avoid significant financial damage caused by this risk the Organisation uses various methods to identify and manage them effectively.

The Organisation has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by management.

The Organisation continuously monitors the performance of individual credit exposures and branches and regularly reassesses the creditworthiness of its customers. The review is based on updated financial information of clients obtained by credit staff from monitoring and later the information is cross-checked on a risk based assessment by Department of Internal and Field Control.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting dates was:

	31 December 2016	31 December 2015
Cash and cash equivalents (excluding cash on hand)	3,258,245	806,149
Loans to customers	27,757,210	17,161,803
Total credit risk exposure	**31,015,455**	**17,967,952**

The Organisation's credit exposure related to loans to customers is disclosed in Note 7.

15. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK

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

In order to manage liquidity risk, The Organisation performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process. An analysis of the liquidity and interest rate risks is presented in the following tables. The presentation below is based upon the information provided by key management personnel of The Organisation.

Liquidity of Financial assets and liabilities as at 31 December 2016 can be presented in the following table:

Financial assets	**Up to 3 months**	**3 months to 1 year**	**1 year to 3 years**	**3 years to 5 years***	**Over 5 years***	**Total**
Cash and cash equivalents	3,893,062	-	-	-	-	**3,893,062**
Loans to customers	3,949,410	3,186,655	5,581,199	5,596,571	9,443,375	**27,757,210**
Total financial assets	**7,842,472**	**3,186,655**	**5,581,199**	**5,596,571**	**9,443,375**	**31,650,272**
Financial liabilities						
Borrowings	3,469,722	12,850,045	7,056,922	-	-	**23,376,689**
Subordinated debt	7,840	1,813,058	648,466	-	1,353,838	**3,823,202**
Total interest bearing financial liabilities	**3,477,562**	**14,663,103**	**7,705,388**	**-**	**1,353,838**	**27,199,891**
Other liabilities	423,990	-	-	-	-	**423,990**
Total financial liabilities	**3,901,552**	**14,663,103**	**7,705,388**	**-**	**1,353,838**	**27,623,881**
Financial commitments and contingencies	95,577	286,732	512,576	29,644	-	**924,529**
Liquidity gap	3,845,343	(11,763,180)	(2,636,765)	5,566,927	8,089,537	3,101,862
Cumulative liquidity gap	**3,845,343**	**(7,917,837)**	**(10,554,602)**	**(4,987,675)**	**3,101,862**	

*Liquidity of financial assets and liabilities are presented above based on their original maturities, however according to actual practice of early repayments of loans from customers assets with original maturities of more than 3-5 years are usually repaid in 1-1.5 years.

To overcome the liquidity risk, the Organisation plans to prolong the maturities of all subordinated loans to 6 year from 2017, while shortening the maturities for loans to customers up to three year.

15. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Liquidity of Financial assets and liabilities as at 31 December 2015 can be presented as follows:

Financial assets	**Up to 3 months**	**3 months to 1 year**	**1 year to 3 years**	**3 years to 5 years***	**Over 5 years***	**Total**
Cash and cash equivalents	1,138,140					**1,138,140**
Loans to customers	636,033	3,647,631	2,952,400	5,308,553	4,617,186	**17,161,803**
Total financial assets	**1,774,173**	**3,647,631**	**2,952,400**	**5,308,553**	**4,617,186**	**18,299,943**
Financial liabilities						
Borrowings	1,352,621	7,563,497	4,775,516	-	-	**13,691,634**
Subordinated debt	4,576	-	1,640,507	586,751	-	**2,231,834**
Total interest bearing financial liabilities	**1,357,197**	**7,563,497**	**6,416,023**	**586,751**	**-**	**15,923,468**
Other liabilities	179,304	-	-	-	-	**179,304**
Total financial liabilities	**1,536,501**	**7,563,497**	**6,416,023**	**586,751**	**-**	**16,102,772**
Financial commitments and contingencies	66,545	214,024	585,793	507,240	165,248	**1,538,849**
Liquidity gap	**171,127**	**(4,129,890)**	**(4,049,416)**	**4,214,562**	**4,451,938**	**658,322**
Cumulative liquidity gap	**171,127**	**(3,958,763)**	**(8,008,179)**	**(3,793,616)**	**658,322**	

*Liquidity of financial assets and liabilities are presented above based on their original maturities, however according to actual practice of early repayments of loans from customers assets with original maturities of more than 3-5 years are usually repaid in 1-1.5 years.

15. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

MARKET RISK

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors. Market risk arises from The Organisation's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk) and interest rates (interest rate risk).

- **CURRENCY RISK**

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

The Organisation's exposure to foreign currency exchange rate risk as at 31 December 2016 is presented in the tables below:

Financial assets	GEL	USD	EUR	Total
Cash and cash equivalents	157,110	3,596,056	139,896	**3,893,062**
Loans to customers	3,432,996	24,324,214	-	**27,757,210**
Total financial assets	**3,590,106**	**27,920,270**	**139,896**	**31,650,272**
Financial liabilities				
Borrowings	5,193,341	18,049,267	134,081	**23,376,689**
Subordinated debt	-	3,823,202	-	**3,823,202**
Other liabilities	40,277	386,018	176	**426,471**
Total financial liabilities	**5,233,618**	**22,258,487**	**134,257**	**27,626,362**
Open balance sheet position	**(1,643,512)**	**5,661,783**	**5,639**	**4,023,910**

The Organisation's exposure to foreign currency exchange rate risk as at 31 December 2015 is presented in the tables below:

Financial assets	GEL	USD	EUR	Total
Cash and cash equivalents	45,300	1,044,537	48,303	**1,138,140**
Loans to customers	2,763,291	14,398,512	-	**17,161,803**
Total financial assets	**2,808,591**	**15,443,049**	**48,303**	**18,299,943**
Financial liabilities				
Borrowings	3,309,372	10,328,848	53,414	**13,691,634**
Subordinated debt	-	2,231,834	-	**2,231,834**
Other liabilities	7,730	170,905	669	**179,304**
Total financial liabilities	**3,317,102**	**12,731,587**	**54,083**	**16,102,772**
Open balance sheet position	**(508,511)**	**2,711,462**	**(5,780)**	**2,197,171**

15. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The following table details The Organisation's sensitivity to a 20% increase and decrease in the foreign currency exchange rates against GEL and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for a 20% change in foreign currency rates. Impact on the statement of comprehensive income and equity based on financial instrument values as at 31 December 2016 and 2015 can be presented as follows:

Sensitivity of the fluctuation of the market exchange rates	(GEL / USD)		(GEL / EUR)	
	2016	**2015**	**2016**	**2015**
20% increase	1,132,357	542,292	1,128	(1,156)
20% decrease	(1,132,357)	(542,292)	(1,128)	1,156

The analysis assumes that all other variables, in particular interest rates, remain constant.

- INTEREST RATE RISK

Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair values of the financial assets and liabilities of the Organisation. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The table below summarises the Organisation's exposure to interest rate risks. The table presents the aggregated amounts of the Organisation's interest bearing financial assets and interest bearing financial liabilities at carrying amounts as at 31 December 2016 and 2015.

	2016	**2015**
Total interest bearing financial assets	27,757,210	17,161,803
Total interest bearing financial liabilities	(27,199,891)	(15,923,468)
Net interest sensitivity gap	**557,319**	**1,238,335**

The information about maturities of interest bearing financial assets and interest bearing financial liabilities is given in liquidity risk quantitative disclosures above.

The Organisation performs analysis of interest rate risk sensitivity.

The Organisation's all interest bearing assets and liabilities are at fixed interest rates, therefore market interest rate fluctuations do not affect The Organisation's income or expenses.

16. MANAGEMENT OF CAPITAL

The Organisation's objectives when maintaining capital are:

- To safeguard the Organisation's ability to continue as a going concern, so that it can continue to operate sufficiently; and
- To comply with the capital requirements set by NBG.
- To provide an adequate return to shareholders.

The Organisation sets the amount of capital it requires in proportion to risk. The Organisation 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 Organisation may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

17. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", could be one or more of the following:

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, The Organisation (this includes parents, subsidiaries and fellow subsidiaries); have an interest in The Organisation that gives then significant influence over The Organisation; and that have joint control over The Organisation;

b) Members of key management personnel of The Organisation or its parent;

c) Close members of the family of any individuals referred to in (a) or (b);

d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between The Organisation and other related parties are disclosed below.

Related party balances and transactions as and for the year ended 31 December 2016:

Financial Statement caption	Shareholders	Key management personnel	Other related parties	Total as per financial statement
Borrowings	6,112,415	-	4,937,297	**23,376,689**
Subordinated debt	3,823,202	-	-	**3,823,202**
Interest expense	(898,496)	-	(368,575)	**(2,389,349)**
Salaries and other employee benefits		(446,601)		**(1,237,430)**

Related party balances and transactions as and for the year ended 31 December 2015:

Financial Statement caption	Shareholders	Key management personnel	Other related parties	Total as per financial statement
Borrowings	4,040,767	-	1,988,265	**13,691,634**
Subordinated debt	2,227,257	-	-	**2,231,834**
Interest expense	(710,504)	-	(253,201)	**(1,637,004)**
Salaries and other employee benefits	-	(336,442)	-	**(843,263)**

18. EVENTS AFTER THE REPORTING PERIOD

There have been no subsequent events that need to be disclosed in the financial statements.