JSC MFO Micro Business Capital

Financial Statements

for the year ended 31 December 2017

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Independent Auditors' Report

To the Shareholders of JSC MFO Micro Business Capital

Opinion

We have audited the financial statements of JSC MFO Micro Business Capital (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Other Matter

The financial statements of the Company as at and for the year ended 31 December 2016 were audited by other auditors who expressed an unmodified opinion on those statements on 10 April 2017.

Statement of Management Report

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

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

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

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

- is consistent with the financial statements and does not contain material misstatement;
- contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Andrew Coxshall

KPMG Georgia LLC

KPMG Georgia LLC
Tbilisi, Georgia
23 July 2018

	Notes	2017 GEL'000	2016 GEL'000
ASSETS			
Cash and cash equivalents	8	1,134	1,820
Loans to customers	9	33,464	27,757
Property and equipment	10	1,363	459
Intangible assets		228	197
Deferred tax assets	7	167	148
Current tax asset		151	-
Other assets	11	1,554	2,180
Total assets		**38,061**	**32,561**
LIABILITIES			
Subordinated borrowings and other borrowed funds	12	31,946	27,200
Current tax liability		-	107
Other liabilities		411	426
Total liabilities		**32,357**	**27,733**
EQUITY			
Share capital	13	2,155	2,100
Share premium		795	719
Retained earnings		2,754	2,009
Total equity		**5,704**	**4,828**
Total liabilities and equity		**38,061**	**32,561**

The financial statements as set out on pages 5 to 44 were approved by management on 23 July 2018 and were signed on its behalf by:

Gia Petriashvili
General Director

Tatia Jajanashvili
Financial Director

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

	Notes	2017 GEL'000	2016 GEL'000
Interest income	5	8,243	5,555
Interest expense	5	(3,439)	(2,389)
Net interest income		**4,804**	**3,166**
Fee and commission income		830	470
Net foreign exchange (loss)/gain		(797)	524
Net income from trading in foreign currency		239	39
Operating income		**5,076**	**4,199**
Impairment losses	9	(601)	(330)
Personnel expenses		(2,034)	(1,239)
General administrative expenses	6	(1,545)	(1,054)
Profit before income tax		**896**	**1,576**
Income tax expense	7	(151)	(263)
Profit for the year		**745**	**1,313**
Total comprehensive income for the year		**745**	**1,313**

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.

	Notes	2017 GEL'000	2016 GEL'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**896**	**1,576**
Adjustments for:			
Loan and repossessed asset impairment charge	9,11	635	394
Net interest income		(4,804)	(3,166)
Depreciation and amortization		189	115
Bonus and audit fee accrual		295	181
Net foreign exchange loss/(gain)		797	(524)
(Increase)/ decrease in operating assets			
Loans to customers		(7,002)	(8,545)
Other assets		592	(1,532)
Increase /(decrease) in operating liabilities			
Other liabilities		(223)	(121)
Interest received		8,004	5,452
Interest paid		(3,439)	(2,293)
Net cash used in operating activities before income tax paid		**(4,060)**	**(8,463)**
Income tax paid		(429)	(418)
Cash flows used in operations		**(4,489)**	**(8,881)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		(1,045)	(236)
Purchases of intangible assets		(152)	(66)
Proceeds from disposal of property and equipment		-	2
Cash flows used in investing activities		**(1,197)**	**(300)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of subordinated borrowings and other borrowed funds		50,284	36,704
Repayment of subordinated borrowings and other borrowed funds		(45,290)	(27,492)
Proceeds from issuance of share capital		131	987
Cash flows from financing activities		**5,125**	**10,199**
Net (decrease)/ increase in cash and cash equivalents		**(561)**	**1,018**
Effect of changes in exchange rates on cash and cash equivalents		(125)	264
Cash and cash equivalents as at the beginning of the year		1,820	538
Cash and cash equivalents as at the end of the year	8	**1,134**	**1,820**

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

GEL'000	Share capital	Share premium	Retained earnings	Total
Balance as at 1 January 2016	1,614	219	696	2,529
Transactions with owners, recorded directly in equity				
Shares issued	486	500	-	986
Total transactions with owners	**486**	**500**	**-**	**986**
Total comprehensive income				
Profit for the year	-	-	1,313	1,313
Total comprehensive income for the year	**-**	**-**	**1,313**	**1,313**
Balance as at 31 December 2016	**2,100**	**719**	**2,009**	**4,828**
Balance as at 1 January 2017	2,100	719	2,009	4,828
Transactions with owners, recorded directly in equity				
Shares issued	55	76	-	131
Total transactions with owners	**55**	**76**	**-**	**131**
Total comprehensive income				
Profit for the year	-	-	745	745
Total comprehensive income for the year	**-**	**-**	**745**	**745**
Balance as at 31 December 2017	**2,155**	**795**	**2,754**	**5,704**

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

1 Background

(a) Organisation and operations

The Company was established in Georgia as joint stock company on 6 December 2012. Its principal activities are credit operations, cash operations, and foreign exchange transactions. The Company's activities are regulated by the National Bank of Georgia (the NBG). The company's registration number is 404967078.

The Company's registered office is 41 Tsintsadze Street, Tbilisi, Georgia.

The Company has 9 branches. All of its assets and liabilities are located in Georgia.

The Company is wholly owned by members of the Shareholder Group. There is no ultimate controlling party of the Company. As at 31 December the following shareholders owned shares of the Company:

	31 December 2017		31 December 2016	
	Percentage of total shares	Number of shares	Percentage of total shares	Number of shares
Gia Petriashvili	33.2%	716,000	33.5%	706,000
Otari Rukhadze	15.1%	325,000	15.5%	325,000
Murmani Ambroladze	8.4%	180,000	8.6%	180,000
Tengizi Maziashvili	9.7%	209,500	10.0%	209,500
Tarasi Nizharadze	8.6%	186,000	7.1%	150,000
Goderdzi Meladze	7.0%	150,000	7.1%	150,000
Giorgi Gotoshia	7.0%	150,000	7.1%	150,000
Giorgi Vachnadze	5.7%	123,500	5.9%	123,500
JB LLC	2.7%	60,000	2.9%	60,000
Giorgi Ghvaladze	0.9%	19,000	0.8%	16,000
Eteri Chachibaia	1.0%	21,000	0.9%	18,000
Tatia Jajanashvili	0.7%	15,000	0.6%	12,000
	100%	**2,155,000**	**100%**	**2,100,000**

Related party transactions are described in detail in note 17.

(b) Business environment

Georgian business environment

The Company's operations are located in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia.

The financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and financial position of the Company. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Company is the Georgian Lari (GEL) as, being the national currency of Georgia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The GEL is also the presentation currency for the purposes of these financial statements.

Financial information presented in GEL is rounded to the nearest thousand.

(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 recognised 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 following notes:

- loan impairment estimates - note 9.
- estimates of fair values of financial assets and liabilities – note 18

(e) Changes in accounting policies and presentation

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

- *Disclosure Initiative (Amendments to IAS 7).* IAS 7 *Statement of Cash Flows* has been amended as part of the IASB’s broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways.
- *Recognition of Deferred Tax Asset for Unrealised Losses (Amendments to IAS 12).* The amendments to IAS 12 *Income Taxes* clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference. The amendments show that the entity can recognise a deferred tax asset if the future bottom line of its tax return is expected to be a loss if certain conditions are met.
- *Annual Improvements to IFRSs 2014–2016 Cycle – various standards (Amendments to IFRS 12).* Amendments to IFRS 12 Disclosure of Interests in Other Entities clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently, except as explained in note 2 (e), which addresses changes in accounting policies.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency 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 assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. 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 balances held with the banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

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

- derivative financial instruments

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company:

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on their sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method.

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

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

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

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

(vi) Gains and losses on subsequent measurement

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

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

For financial assets and liabilities carried at amortized cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

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

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Company writes off assets deemed to be uncollectible.

(viii) Derivative financial instruments

Derivative financial instruments include forwards and spot transactions in foreign exchanges markets.

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.

These instruments do not qualify for hedge accounting.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

(d) Property and equipment

(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) Leased assets

All leases are operating leases.

(iii) 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. Land is not depreciated. The estimated useful lives are as follows:

- buildings	40 years
- furniture and equipment	5 years
- leasehold improvements	7 years

(e) Intangible assets

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

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

(f) Impairment

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group 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 group of financial assets that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Company reviews its loans and receivables to assess impairment on a regular basis.

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data 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 recognised 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 recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Company writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(g) Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Dividends

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

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

(i) Taxation

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

(i) Current tax

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

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2023.

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 2008-2017, if those earnings are distributed in 2023 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.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Company. 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; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

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 2023, 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 2023 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 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

(j) Income and expense recognition

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

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(k) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the financial position and performance.

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

(a) IFRS 9 Financial instruments

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

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

The Company will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Company's equity at 1 January 2018 is approximately GEL 673 thousand, representing:

a reduction of approximately GEL 585 thousand related to impairment requirements (see (ii));

a decrease of approximately GEL 88 thousand related to deferred tax impacts.

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

IFRS 9 will require the Company to revise its accounting processes and internal controls and these changes are not yet complete;

the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Company finalises its first financial statements that include the date of initial application.

i. Classification – Financial assets

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

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

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

it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

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

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

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

Business model assessment

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

the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;

how the performance of the portfolio is evaluated and reported to the Company's management;

the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

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

contingent events that would change the amount and timing of cash flows;

leverage features;

prepayment and extension terms;

terms that limit the Company's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and

features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

Majority of the Company's loans contain prepayment features.

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

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

Impact assessment

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

Loans and advances to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

ii. Impairment – Financial assets, loan commitments and financial guarantee contracts

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

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

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

assessing whether the credit risk of an instrument has increased significantly since initial recognition; and

incorporating forward-looking information into the measurement of ECLs.

Measurement of ECLs

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

financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive;

financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

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

Definition of default

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

the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or

the borrower is more than 90 days past due on any material credit obligation to the Company.

In assessing whether a borrower is in default, the Company will consider following backstop and quantitative indicators:

- Loan being past due for more than 90 days;
- Death of the borrower;
- A default, initiation of bankruptcy proceedings (for business borrowers);

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

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Company's historical experience, expert credit assessment and forward-looking information.

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

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

Determining whether credit risk has increased significantly

The Company has established a framework that incorporates backstop indicators based on delinquency and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Company's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its backstop indicators on a timely basis. As a backstop, and as required by IFRS 9, the Company will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Company will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Company will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
the criteria do not align with the point in time when an asset becomes 30 days past due;
the average time between the identification of a significant increase in credit risk and default appears reasonable;
exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Modified financial assets

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

The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. Restructured loans are transferred to stage 2 and lifetime ECL is applied

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Inputs into measurement of ECLs

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

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

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

PD estimates are estimates at a certain date, which will be calculated based on monthly historical migration of the loan segments through delinquency buckets. Migration matrices will be further extrapolated to derive 1 year and lifetime PDs

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

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

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

product type;
collateral type.

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

Forward-looking information

Under IFRS 9, the Company will incorporate forward-looking information into its measurement of ECLs. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, such as the National Bank of Georgia.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and probabilities of default. This key driver is GDP forecasts. Predicted relationships between the key indicator and default and loss rates on various portfolios of loan portfolios have been developed based on analysing historical data over the past 5 years.

Impact assessment

The most significant impact on the Company's financial statements from the implementation of

IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Company has estimated that, on adoption of IFRS 9 at 1 January 2018, the impact of the decrease in loss allowance (before tax) will be approximately GEL 585 thousand.

Classification – Financial liabilities

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

iii. Derecognition and contract modification

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

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

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

iv. Disclosures

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

v. Impact on capital planning

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

vi. Transition

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

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
- The determination of the business model within which a financial asset is held.

(b) IFRS 16 Leases

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's borrowing rate at 1 January 2019, the composition of the Company's lease portfolio at that date, the Company's latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases of office buildings. As at 31 December 2017, the Company's future minimum lease payments under non-cancellable operating leases amounted to GEL 1,398 thousand, on an undiscounted basis (see Note 15).

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the Company's finance leases.

i. Transition

As a lessee, the Company can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company is assessing the potential impact of using these practical expedients.

The Company is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

(c) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

— *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*
— *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*
— *Transfers of Investment Property (Amendments to IAS 40).*
— *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
— *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*
— *IFRIC 23 Uncertainty over Income Tax Treatments.*

4 Comparative Information

Comparative information is reclassified to conform to the presentation of 2017. The company has reclassified cash collateral pledged under credit line agreements (classified as restricted cash) to other assets. The company believes that such classification reflect more accurate disclosure of economic substance of the transaction.

	31 December 2016		
GEL'000	**As previously reported**	**Reclassifications**	**As reclassified**
Cash and Cash Equivalents	3,893	(2,073)	1,820
Other Asset	107	2,073	2,180

Comparative information of Cash Flow Statement has been reclassified to conform to the presentation of 2017.

	31 December 2016		
GEL'000	**As previously reported**	**Reclassifications**	**As reclassified**
Profit before income tax	**1,576**		**1,576**
Net gain on foreign exchange operations	(563)	39	(524)
Loan and repossessed asset impairment charge	330	64	394
Bonus and audit fee accrual	-	181	181
Loans to customers	(10,157)	1,612	(8,545)
Other assets	3	(1,535)	(1,532)
Other liabilities	245	(367)	(122)
Interest received	5,179	273	5,452
Interest paid	-	(2,293)	(2,293)
Others	(3,050)	-	(3,050)
Net cash used in operating activities before income tax paid	**(6,437)**	**(2,026)**	**(8,463)**
Income tax paid	(418)	-	(418)
Net cash outflow used in operations	**(6,855)**	**(2,026)**	**(8,881)**
Purchase of intangible assets	(201)	135	(66)
Others	(234)	-	(234)
Net Cash inflow from investing activities	**(435)**	**135**	**(300)**
Proceeds from borrowings and subordinated debt	41,359	(4,655)	36,704
Repayment of borrowings and subordinated debt	(32,216)	4,724	(27,492)
Others	987	-	987
Net cash inflow from financing activities	**10,130**	**69**	**10,199**
Net increase in cash and cash equivalents	**2,840**	**(1,822)**	**1,018**
Effect of changes in exchange rates on cash and cash equivalents	(85)	349	264
Cash and cash equivalents and the beginning of the year	1,138	(600)	538
Cash and Cash equivalent as at the end of the year	**3,893**	**(2,073)**	**1,820**

5 Net interest income

	2017 GEL'000	2016 GEL'000
Interest income		
Loans to customers	8,241	5,553
Placements with banks	2	2
	8,243	**5,555**
Interest expense		
Borrowings from individuals	(2,239)	(1,660)
Borrowings form legal entities	(678)	(487)
Other borrowings	(522)	(242)
	(3,439)	**(2,389)**

6 General administrative expenses

	2017 GEL'000	2016 GEL'000
Advertising and marketing	438	306
Rent	414	276
Depreciation and amortisation	189	115
Consulting	115	76
Bank charges	48	37
Office supplies	74	32
Utilities	50	31
Application inspection	35	25
Communication	35	24
Security	32	21
Tax expense other than income tax	7	18
Other	108	93
	1,545	**1,054**

For 2017, professional fees for financial audit comprised GEL 66 thousand (2016: GEL 34 thousand).

7 Income tax expense

	2017 GEL'000	2016 GEL'000
Current year tax expense	170	323
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(19)	(60)
Total income tax expense	**151**	**263**

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

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

	2017 GEL'000	%	2016 GEL'000	%
Profit before income tax	896		1,576	
Income tax at the applicable tax rate	134	15	236	15
Non-deductible costs	17	2	27	2
	151	**17**	**263**	**17**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2017 and 2016. Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Company's ability to claim deductions in future periods. These future tax benefits are not recognised due to uncertainties concerning their realisation.

The deductible temporary differences do not expire under current tax legislation.

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

2017

GEL'000	Balance 1 January 2017	Recognized in profit or loss	Balance 31 December 2017
Loans to customers	133	81	214
Property and equipment	(40)	(87)	(127)
Intangible assets	(1)	2	1
Other assets	10	5	15
Subordinated debt and other borrowings	12	8	20
Other liabilities	34	10	44
	148	**19**	**167**

2016

GEL'000	Balance 1 January 2016	Recognized in profit or loss	Balance 31 December 2016
Loans to customers	85	48	133
Property and equipment	(28)	(12)	(40)
Intangible assets	-	(1)	(1)
Other assets	-	10	10
Subordinated debt and other borrowings	8	4	12
Other liabilities	23	11	34
	88	**60**	**148**

8 Cash and cash equivalents

	2017 GEL'000	2016 GEL'000
Cash on hand	818	635
Accounts with banks		
- rated BB-	316	1,185
Total cash and cash equivalents	**1,134**	**1,820**

No cash and cash equivalents are impaired or past due.

As at 31 December 2017 the Company has no banks (2016: 1 bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2017 is nil (2016: GEL 647 thousand).

(a) Foreign currency contracts

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

	Notional amount		Weighted average contractual exchange rates	
	2017 GEL'000	2016 GEL'000	2017	2016
Buy USD sell GEL'000				
Less than 3 months	15,469	206	2.5884	2.1782
Between 3 and 12 months	1,177	1,502	2.3762	2.1782

9 Loans to customers

	2017 GEL'000	2016 GEL'000
Loans to customers		
Loans collateralized by real estate	19,934	18,501
Business loans	8,871	5,550
Loans collateralized by vehicles	4,621	2,834
Loans collateralized by precious metals	638	1,499
Loans without collateral	350	12
Total loans to customers	**34,414**	**28,396**
Gross loans to customers	**34,414**	**28,396**
Impairment allowance	(950)	(639)
Net loans to customers	**33,464**	**27,757**

As at 31 December 2017 50.6% of loans were disbursed for business purposes (2016: 29.70%).

Movements in the loan impairment allowance are as follows:

Loan impairment allowance	2017 GEL'000	2016 GEL'000
Balance at the beginning of the year	639	412
Net charge	601	330
Write-offs	(432)	(234)
Recoveries	142	131
Balance at the end of the year	**950**	**639**

The following table provides information by types of loan products as at 31 December 2017:

	Gross amount GEL'000	Impairment allowance GEL'000	Carrying amount GEL'000
Loans to customers:			
Loans collateralized by real estate	19,934	(511)	19,423
Business loans	8,871	(225)	8,646
Loans collateralized by vehicles	4,621	(158)	4,463
Loans collateralized by precious metals	638	(43)	595
Loans without collateral	350	(13)	337
Total loans to customers	**34,414**	**(950)**	**33,464**

The following table provides information by types of loan products as at 31 December 2016:

	Gross amount GEL'000	Impairment allowance GEL'000	Carrying amount GEL'000
Loans to customers:			
Loans collateralized by real estate	18,501	(421)	18,080
Business loans	5,550	(116)	5,434
Loans collateralized by vehicles	2,834	(71)	2,763
Loans collateralized by precious metals	1,499	(30)	1,469
Loans without collateral	12	(1)	11
Total loans to customers	**28,396**	**(639)**	**27,757**

(a) Credit quality of loans to customers

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

	Gross loans GEL'000	Impairment allowance GEL'000	Net loans GEL'000	Impairment allowance to gross loans, %
Loans to customers				
Loans collateralized by real estate				
- not overdue	19,494	(470)	19,024	2%
- overdue less than 30 days	264	(19)	245	7%
- overdue 30-89 days	176	(22)	154	13%
Total loans collateralized by real estate	**19,934**	**(511)**	**19,423**	**3%**
Business loans				
- not overdue	8,294	(182)	8,112	2%
- overdue less than 30 days	377	(11)	366	3%
- overdue 30-89 days	144	(14)	130	10%
- overdue 90-179 days	56	(18)	38	32%
Total business loans	**8,871**	**(225)**	**8,646**	**3%**
Loans collateralized by vehicles				
- not overdue	4,331	(89)	4,242	2%
- overdue less than 30 days	109	(2)	107	2%
- overdue 30-89 days	32	(4)	28	13%
- overdue 90-179 days	149	(63)	86	42%
Total loans collateralized by vehicles	**4,621**	**(158)**	**4,463**	**3%**
Loans collateralized by precious metals				
- not overdue	556	(11)	545	2%
- overdue less than 30 days	32	(1)	31	3%
- overdue 30-89 days	18	(4)	14	22%
- overdue 90-179 days	32	(27)	5	84%
Total loans collateralized by precious metals	**638**	**(43)**	**595**	**7%**
Loans without collateral				
- not overdue	316	(6)	310	2%
- overdue less than 30 days	13	(1)	12	8%
- overdue 30-89 days	10	(2)	8	20%
- overdue 90-179 days	11	(4)	7	36%
Total loans without collateral	**350**	**(13)**	**337**	**4%**
Total loans to customers	**34,414**	**(950)**	**33,464**	**3%**

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

	Gross loans GEL'000	Impairment allowance GEL'000	Net loans GEL'000	Impairment allowance to gross loans, %
Loans to customers				
Loans collateralized by real estate				
- not overdue	18,028	(396)	17,632	2%
- overdue less than 30 days	319	(7)	312	2%
- overdue 30-89 days	154	(18)	136	12%
Total loans collateralized by real estate	**18,501**	**(421)**	**18,080**	**2%**
Business loans				
- not overdue	5,470	(114)	5,356	2%
- overdue less than 30 days	75	(1)	74	1%
- overdue 30-89 days	5	(1)	4	20%
Total business loans	**5,550**	**(116)**	**5,434**	**2%**
Loans collateralized by vehicles				
- not overdue	2,731	(57)	2,674	2%
- overdue less than 30 days	54	(2)	52	4%
- overdue 30-89 days	36	(3)	33	8%
- overdue 90-179 days	13	(9)	4	69%
Total loans collateralized by vehicles	**2,834**	**(71)**	**2,763**	**3%**
Loans collateralized by precious metals				
- not overdue	1,470	(28)	1,442	2%
- overdue less than 30 days	25	(1)	24	4%
- overdue 30-89 days	4	(1)	3	25%
Total loans collateralized by precious metals	**1,499**	**(30)**	**1,469**	**2%**
Loans without collateral				
- not overdue	3	-	3	-
- overdue less than 30 days	1	-	1	-
- overdue 30-89 days	2	-	2	-
- overdue 90-179 days	5	(1)	4	20%
- overdue more than 180days	1	-	1	-
Total loans without collateral	**12**	**(1)**	**11**	**8%**
Total loans to customers	**28,396**	**(639)**	**27,757**	**2%**

(b) Key assumptions and judgments for estimating loan impairment

The Company estimates loan impairment for loans to customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to customers include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 48 months
- The Company does not exercise any discount when the foreclosed collateral is sold.

(c) Analysis of collateral and other credit enhancements

Loans collateralized by real estate are secured by the underlying housing real estate. The Company's policy is to issue loans collateralized with real estate with a loan-to-value ratio at the date of loan issuance of a maximum of 60%.

For certain loans collateralized by real estate the Company updates the appraised values of collateral obtained at inception of the loan to the current values, taking into account the approximate changes in property values. The Company may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining loans collateralized by real estate the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Loans collateralized by vehicles are secured by the underlying cars. The Company's policy is to issue loans collateralized by vehicles with a loan-to-value ratio at the date of loan issuance of a maximum of 80%.

Loans collateralized by precious metals are collateralized by underlying precious metals. The Company's policy is to issue loans collateralized by precious metals with a loan-to-value ratio at the date of loan issuance of a maximum of 60%.

Business loans are collateralized by underlying real estate and vehicles. The Company's policy is to issue business loans with a loan-to-value ratio at the date of loan issuance of a maximum of 60%-80%.

Following table provide information on the collateral, securing the loan portfolio, net of impairment

At 31 December 2017	Real estate	Vehicles	Precious metals	No collateral	Total
Loans collateralized by real estate	19,423	-	-	-	19,423
Business loans	7,167	1,479	-	-	8,646
Loans collateralized by vehicles	-	4,463	-	-	4,463
Loans collateralized by precious metals	-	-	595	-	595
Loans without collateral	-	-	-	337	337
Total	**26,590**	**5,942**	**595**	**337**	**33,464**

GEL'000

At 31 December 2017	Real estate	Vehicles	Precious metals	No collateral	Total
Loans collateralized by real estate	18,080	-	-	-	18,080
Business loans	4,975	459	-	-	5,434
Loans collateralized by vehicles	-	2,763	-	-	2,763
Loans collateralized by precious metals	-	-	1,469	-	1,469
Loans without collateral	-	-	-	11	11
Total	**23,055**	**3,222**	**1,469**	**11**	**27,757**

The tables above excludes overcollateralisation. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

(d) Geographical analysis of the loan portfolio

Loans to customers were issued to customers located within Georgia.

Loan maturities

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

10 Property and equipment

GEL'000	Land and buildings	Furniture and equipment	Leasehold improvements	Total
Cost				
Balance at 1 January 2017	-	382	257	639
Additions	755	267	23	1,045
Balance at 31 December 2017	**755**	**649**	**280**	**1,684**
Depreciation				
Balance at 1 January 2017	-	(128)	(52)	(180)
Depreciation for the year	(2)	(98)	(41)	(141)
Balance at 31 December 2017	**(2)**	**(226)**	**(93)**	**(321)**
Carrying amount				
At 31 December 2017	**753**	**423**	**187**	**1,363**

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

GEL'000	Land and buildings	Furniture and equipment	Leasehold improvements	Total
Cost				
Balance at 1 January 2016	-	247	160	407
Additions	-	135	97	232
Balance at 31 December 2016	**-**	**382**	**257**	**639**
Depreciation				
Balance at 1 January 2017	-	(72)	(22)	(94)
Depreciation for the year	-	(56)	(30)	(86)
Balance at 31 December 2016	**-**	**(128)**	**(52)**	**(180)**
Carrying amount				
At 31 December 2016	**-**	**254**	**205**	**459**

11 Other assets

	2017 GEL'000	2016 GEL'000
Repossessed assets	124	91
Cash collateral pledged under the credit lien agreement	1,282	2,073
Other receivables	147	13
Prepayments	1	3
Total other assets	**1,554**	**2,180**

(a) Analysis of movements in repossessed assets

Movements in the repossessed assets for the year ended 31 December 2017 and 2016 are as follows:

	2017 GEL'000	2016 GEL'000
Repossessed assets at the beginning of the year	**91**	**87**
Additions	66	105
Disposals	-	(37)
Impairment charge	(33)	(64)
Repossessed assets at the end of the year	**124**	**91**

12 Subordinated borrowings and other borrowed funds

	2017 GEL'000	2016 GEL'000
Principal	31,755	27,006
Accrued interest	191	194
	31,946	**27,200**

GEL'000	Currency	Nominal interest rate	Year of maturity	31 December 2017 Face value	Carrying amount
Secured loans from financial institutions	USD	7.50%	2027	519	519
Secured loans from financial institutions	GEL	14%-16%	2018-2020	7,608	7,608
Secured loans from financial institutions	GEL	Monetary Policy Rate +1%	2018	1,176	1,176
Unsecured loans from related parties	USD	6.25%-13%	2018-2020	14,761	14,761
Unsecured loan from related party	USD	3.25%	2018	519	519
Unsecured loans from related parties	GEL	16%	2018	36	36
Unsecured loans from related parties	EUR	7.5%-11%	2018-2019	94	94
Unsecured loans from individuals	USD	6.25%-13%	2018-2019	5,953	5,953
Unsecured loans from individuals	GEL	15%-20%	2018-2019	202	202
Unsecured loans from individuals	EUR	6%-7.5%	2018	113	113
Unsecured loans from other legal entities	USD	11%-12%	2018	965	965
				31,946	**31,946**

GEL'000	Currency	Nominal interest rate	Year of maturity	31 December 2016 Face value	Carrying amount
Secured loans from financial institutions	GEL	16%	2017-2019	1,024	1,024
Secured loans from financial institutions	GEL	Monetary Policy Rate +1%	2018	1,708	1,708
Unsecured loans from related parties	USD	5.25%-13.5%	2017-2022	12,507	12,507
Unsecured loans from related parties	GEL	7.25%-17.5%	2017	2,300	2,300
Unsecured loans from related parties	EUR	8%-11%	2017-2018	78	78
Unsecured loans from individuals	USD	5.25%-13.5%	2017-2019	5,726	5,726
Unsecured loans from individuals	GEL	15.5%-20%	2017-2018	163	163
Unsecured loans from individuals	EUR	6%-9.5%	2017	56	56
Unsecured loans from other legal entities	USD	11%	2017	2,653	2,653
Unsecured loans from other legal entities	USD	11%-12%	2017	985	985
				27,200	**27,200**

(a) Subordinated borrowings

As at 31 December 2017, subordinated borrowings in the amount of GEL 4,991 thousand (2016: GEL 3,823 thousand) comprise loans received from shareholders maturing in 2021-2023 (2016: 2017-2022) and carry an annual interest rate of 12.5% (2016: 12.5%). In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Company.

(b) Covenants

The Company has complied with all the financial covenants stipulated by lending agreements as of 31 December 2017 and 31 December 2016.

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

GEL'000	Subordinated borrowings and other borrowed funds
Balance at 1 January 2017	27,200
Changes from financing cash flows	
Proceeds	50,284
Repayment	(45,290)
Total changes from financing cash flows	**4,994**
The effect of changes in foreign exchange rates	**(248)**
Other changes	
Interest expense	3,439
Interest paid	(3,439)
Balance at 31 December 2017	**31,946**

13 Share capital and reserves

(a) Issued capital

The authorised, issued and outstanding share capital comprises 2,155,000 ordinary shares (2016: 2,100,000). All shares have a nominal value of GEL 1. During 2017 55,000 ordinary shares (2016: 486,500) were issued.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Company.

(b) Externally imposed capital requirements

In accordance with the existing legislation of Georgia, the Company has to maintain issued capital of not less than GEL 1,000 thousand. The Company was in compliance with this requirement at 31 December 2017 and 2016.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Company, which are determined according to Georgian legislation. No dividends were declared by Company during 2017 and up to date of preparation of these financial statements.

14 Risk management, corporate governance and internal control

(a) Corporate governance framework

The Company is established as a joint stock company in accordance with Georgian law. The supreme governing body of the Company is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Company's operations.

The general shareholders' meeting elects the Board of Directors. The Board of Directors is responsible for overall governance of the Company's activities.

Georgian legislation and the charter of the Company establish lists of decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Management Board.

As at 31 December 2017 the Management Board includes:

Gia Petriashvili – Chairman of the Management Board and General Director
Giorgi Ghvaladze – Director of Credit Department
Eteri Chachibaia – Director of Operations
Tatia Jajanashvili – Director of Finance Department
Nino Devdariani – Director of Risk Management Department

General activities of the Company are managed by the sole executive body of the Company (the General Director and the Management Board). The general shareholders' meeting elects the General Director and the Management Board. The Management Board of the Company is responsible for implementation of decisions of the general shareholders' meeting. The Management Board of the Company report to the general shareholders' meeting.

(b) Internal control policies and procedures

The Board of Directors have responsibility for the development, implementation and maintaining of internal controls in the Company that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Company's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Company developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures

- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards and
- risk mitigation, including insurance where this is effective

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Company put in place a system of automated controls.

The internal control system in the Company comprises:

- the Management Board
- the Chief Accountant
- the risk management function
- the security function, including IT-security
- the human resource function
- other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
  - heads of branches
  - the legal officer – an employee responsible for compliance with the legal and regulatory requirements
  - other employees/divisions with control responsibilities

(c) Risk management policies and procedures

Management of risk is fundamental to the business of the Company and forms an essential element of the Company's operations. The major (significant) risks faced by the Company are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The risk management policies aim to identify, analyse 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 Board of Directors 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 Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Company operates within established risk parameters.

The management bodies of the Company have responsibility for controlling the Company's compliance with risk limits and capital adequacy ratios as established by the Company's internal documentation.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Management Board monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

(d) 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 arises from open positions in interest rate, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Company manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Management Board.

(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 is as follows:

GEL'000 '000	Less than 3 months	3-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2017					
ASSETS					
Cash and cash equivalents	1,134	-	-	-	1,134
Loans to customers	3,227	6,408	18,737	5,092	33,464
Cash collateral pledged under the credit line agreement	-	1,429	-	-	1,429
	4,361	**7,837**	**18,737**	**5,092**	**36,027**
LIABILITIES					
Subordinated borrowings and other borrowed funds	5,301	16,625	6,690	3,330	31,946
	5,301	**16,625**	**6,690**	**3,330**	**31,946**
	(940)	**(8,788)**	**12,047**	**1,762**	**4,081**
31 December 2016					
ASSETS					
Cash and cash equivalents	1,820	-	-	-	1,820
Loans to customers	7,683	2,176	9,882	8,016	27,757
Cash collateral pledged under the credit line agreement	-	2,086	-	-	2,086
	9,503	**4,262**	**9,882**	**8,016**	**31,663**
LIABILITIES					
Subordinated borrowings and other borrowed funds	3,657	4,830	9,633	9,080	27,200
	3,657	**4,830**	**9,633**	**9,080**	**27,200**
	5,846	**(568)**	**249**	**(1,064)**	**4,463**

Average effective interest rates

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

	2017 Average effective interest rate, %			2016 Average effective interest rate, %		
	GEL	**USD**	**Other currencies**	**GEL**	**USD**	**Other currencies**
Interest bearing assets						
Loans to customers	31%	22%	0%	25%	24%	0%
Interest bearing liabilities						
Subordinated borrowings and other borrowed funds	12%	11%	8%	11%	11%	11%

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 or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2017 and 2016, is as follows:

	2017 GEL'000	**2016 GEL'000**
100 bp parallel fall	9	14
100 bp parallel rise	(9)	(14)

(ii) Currency risk

The Company has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Company hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2017:

	GEL GEL'000	**USD GEL'000**	**Other currencies GEL'000**	**Total GEL'000**
ASSETS				
Cash and cash equivalents	266	632	236	1,134
Loans to customers	21,834	11,630	-	33,464
Cash collateral pledged under the credit line agreement	-	1,282	-	1,282
Total assets	**22,100**	**13,544**	**236**	**35,880**
LIABILITIES				
Subordinated borrowings and other borrowed funds	9,022	22,717	207	31,946
Total liabilities	**9,022**	**22,717**	**207**	**31,946**
Net position	**13,078**	**(9,173)**	**29**	**3,934**
The effect of derivatives held for risk management	**(16,646)**	**16,658**	**-**	**12**
Net position after derivatives held for risk management purposes	**(3,568)**	**7,485**	**29**	**3,946**

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

	GEL GEL'000	USD GEL'000	Other Currencies GEL'000	Total GEL'000
ASSETS				
Cash and cash equivalents	157	1,523	140	1,820
Loans to customers	3,433	24,324	-	27,757
Cash collateral pledged under the credit line agreement	-	2,073	-	2,073
Total assets	**3,590**	**27,920**	**140**	**31,650**
LIABILITIES				
Subordinated borrowings and other borrowed funds	5,195	21,871	134	27,200
Total liabilities	**5,195**	**21,871**	**134**	**27,200**
Net position	**(1,605)**	**6,049**	**6**	**4,450**
The effect of derivatives held for risk management	**(1,708)**	**2,073**	**-**	**365**
Net position after derivatives held for risk management purposes	**(3,313)**	**8,122**	**6**	**4,815**

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2017 and 2016, would have increased (decreased) equity and 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.

	2017 GEL'000	2016 GEL'000
10% appreciation of USD against GEL	636	545

A strengthening of the GEL against the above currencies at 31 December 2017 and 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(e) 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 in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers
- methodology for the credit assessment of counterparties
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures

Loan credit applications are originated by the relevant client managers and are then passed on to the branch managers, which are responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis, focusing on the customer's business and financial performance.

The Company continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Company.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2017 GEL'000	2016 GEL'000
ASSETS		
Cash and cash equivalents	1,134	1,820
Loans to customers	33,464	27,757
Cash collateral pledged under the credit line agreement	1,282	2,073
Total maximum exposure	**35,880**	**31,650**

(f) 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 honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining liquidity and funding contingency plans

The daily liquidity position is monitored. Decisions on liquidity management are made and implemented by the Management Board.

The following tables show the undiscounted cash flows on financial assets, liabilities and credit-related commitments 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 assets, liability.

The maturity analysis for financial assets and liabilities as at 31 December 2017 is as follows:

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow	Carrying amount
Non-derivative assets							
Loans to customers	1,439	4,001	4,879	5 ,713	34,546	50,578	33,464
Derivative assets							
Gross settled derivatives							
- Inflow	(14,212)	(1,259)	-	(1,175)	-	(16,646)	(16,646)
- Outflow	14,140	1,236	-	1,282	-	16,658	16,658
Total financial assets	**1,367**	**3,978**	**4,879**	**5,820**	**34,546**	**50,590**	**33,476**
Non-derivative liabilities							
Subordinated borrowings and other borrowed funds	763	5,146	9,858	7,233	13,174	36,174	31,946
Total financial liabilities	**763**	**5,146**	**9,858**	**7,233**	**13,174**	**36,174**	**31,946**
Net liquidity gap on recognised financial assets and liabilities	**604**	**(1,168)**	**(4,979)**	**(1,413)**	**21,372**	**14,416**	**1,530**

The maturity analysis for financial assets and liabilities as at 31 December 2016 is as follows:

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount inflow (outflow)	Carrying amount
Non-derivative assets							
Loans to customers	3,522	3,414	3,182	5,285	23,163	38,566	27,757
Derivative assets							
Gross settled derivative assets							
- Inflow	(2)	(206)	-	(1,500)	-	(1,708)	(1,708)
- Outflow	-	250		1,823	-	2,073	2,073
Total financial assets	**3,520**	**3,458**	**3,182**	**5,608**	**23,163**	**38,931**	**28,122**
Non-derivative liabilities							
Subordinated borrowings and other borrowed funds	477	3,689	3,843	10,652	10,731	29,392	27,200
Total financial liabilities	**477**	**3,689**	**3,843**	**10,652**	**10,731**	**29,392**	**27,200**
Net liquidity gap on recognised financial assets and liabilities	**3,043**	**(231)**	**(661)**	**(5,044)**	**12,432**	**9,539**	**922**

Management expects that based on past experience cash flows from loans to customers will mature on average in one year (2016: one year). Management has the discretionary ability to manage the cash flows from subordinated borrowings and other borrowed funds either because it reaches agreement with the lenders over prolongation of existing facilities or has the ability to substitute existing facilities with alternative funding sources.

(g) Operational risk

Definition of operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and innovation. In all cases, the Company policy requires compliance with all applicable legal and regulatory requirements.

The Company manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

The Company defines as capital those items defined by statutory regulation as capital for microfinance groups. The Company monitors its capital adequacy levels calculated in accordance with the requirements of the National Bank of Georgia.

15 Operating leases

(a) Leases as lessee

Non-cancellable operating lease rentals as at 31 December are payable as follows:

	2017 GEL'000	2016 GEL'000
Less than 1 year	451	382
Between 1 and 5 years	947	542
	1,398	**924**

The Company leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five-to-ten years, with an option to then renew the lease. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

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 related 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.

Management is unaware of any significant actual, pending or threatened claims against the Company.

(c) Taxation contingencies

Taxation contingencies in Georgia

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. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

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

17 Related party transactions

(a) Transactions with members of the Shareholder Group

Total remuneration included in personnel expenses for the years ended 31 December 2017 and 2016 is as follows:

	2017 GEL'000	2016 GEL'000
Short-term employee benefits	657	447
	657	**447**

These amounts include cash and non-cash benefits in respect of members of the Board of Directors and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2017 and 2016 for transactions with all related parties are as follows:

	2017 GEL'000	Average effective interest rate, %	2016 GEL'000	Average effective interest rate, %
Statement of financial position				
Subordinated borrowings and other borrowed funds	15,410	10%	14,885	12%

Amounts included in profit or loss in relation to transactions with members of all related parties for the year ended 31 December are as follows:

	2017 GEL'000	2016 GEL'000
Profit or loss		
Interest expense	(1,585)	(898)

18 Fair value hierarchy

The Company measures fair values using the following fair value hierarchy, which 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 quotes 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 following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2017:

GEL'000	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	1,134	-	-	1,134	1,134
Loans to customers	-	-	34,947	34,947	33,464
Cash collateral pledged under the credit line agreement	1,282	-	-	1,282	1,282
LIABILITIES					
Subordinated borrowings and other borrowed funds	-	-	31,946	31,946	31,946

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2016:

GEL'000	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	1,820	-	-	1,820	1,820
Loans to customers	-	-	27,757	27,757	27,757
Cash collateral pledged under the credit line agreement	2,073	-	-	2,073	2,073
LIABILITIES					
Subordinated borrowings and other borrowed funds	-	-	27,200	27,200	27,200