Joint Stock Company Georgian Credit

Financial Statements

Together with the

Independent Auditors' Report

Year ended 31 December 2012

Contents:

INDEPENDENT AUDITORS' REPORT 3
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS 4

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME 5
STATEMENT OF FINANCIAL POSITION 6
STATEMENT ON CHANGES IN EQUITY 7
STATEMENT OF CASH FLOWS 8

NOTES TO THE FINANCIAL STATEMENTS

1. General information 9
2. Summary of significant accounting policies 10
3. Critical accounting estimates and judgments 18
4. Prior period reclassifications 19
5. Net interest income 19
6. Provision for loan impairment 20
7. Fee and commission income 20
8. Staff costs including salaries and bonuses 20
9. Other expenses 21
10. (Loss)/ gain from exchange rate difference 21
11. Income tax expense 21
12. Cash and cash equivalents 22
13. Loans to customers 22
14. Investment properties 23
15. Property and equipment 24
16. Intangible assets 25
17. Other assets 25
18. Deferred income tax liability 26
19. Borrowings 27
20. Other liabilities 27
21. Contingencies and Commitments 27
22. Financial instruments – risk management 28
23. Transactions with related parties 33
24. Events after the reporting period 33

Independent auditors' report

To the Shareholders and Management of **Joint Stock Company Georgian Credit**

We have audited the accompanying financial statements of the **Joint Stock Company Georgian Credit** (hereinafter - the Company), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of **Joint Stock Company Georgian Credit** as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

7 May 2013

Tbilisi, Georgia

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Joint Stock Company Georgian Credit (hereinafter - the company).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company at 31 December 2012 and the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Company operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

Financial Statements for the year ended 31 December 2012 were approved on behalf of the management on 7 May 2013 by:

Director ____________________ G.Naskidashvili

Chief Accountant ____________________ N.Begeluri

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

(In GEL)

	Note	2012	2011
Interest income	5	2,353,654	1,842,613
Interest expense	5	(1,074,486)	(761,517)
Net interest income		**1,279,168**	**1,081,096**
Loan provision expenses	**6**	(34,804)	(20,018)
Loans written off	**6**	(323,911)	(105,814)
Net interest income after provision for loan impairment		**920,453**	**955,264**
Other income		38,770	17,520
Fee and commission income	7	241,695	134,262
Staff costs including salaries and bonuses	8	(739,080)	(528,708)
Other expenses	9	(493,536)	(367,215)
Gain on revaluation of investment property	14	256,486	-
(Loss)/gain from exchange rate difference	10	(46,175)	7,977
Profit before income tax		**178,613**	**219,100**
Income tax expense	11	(26,666)	(31,247)
Total comprehensive income for the year		**151,947**	**187,853**

Signed on behalf of management by:

Director ______________________ G.Naskidashvili

Chief Accountant ______________________ N.Begeluri

Notes on pages 9-33 are the integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(In GEL)

	Note	2012	2011
Assets			
Cash and cash equivalents	12	131,798	148,711
Loans to customers	13	8,476,966	5,669,924
Investment property	14	652,680	219,445
Property and equipment	15	558,283	518,872
Intangible assets	16	41,805	14,288
Current income tax prepayment		-	11,703
Other assets	17	116,885	51,712
Total assets		**9,978,417**	**6,634,655**
Liabilities and equity			
Liabilities			
Deferred income tax liability	18	62,869	72,443
Borrowings	19	8,550,560	5,388,073
Current income tax liability		6,308	-
Other liabilities	20	75,448	42,854
Total liabilities		**8,695,185**	**5,503,370**
Equity			
Share capital		725,546	725,546
Retained earnings		557,686	405,739
Total equity		**1,283,232**	**1,131,285**
Total liabilities and equity		**9,978,417**	**6,634,655**

Signed on behalf of management by:

Director _________________________ G.Naskidashvili

Chief Accountant _________________________ N.Begeluri

Notes on pages 9-33 are the integral part of these financial statements.

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2012

(In GEL)

	Share capital	Retained Earnings	Total
Balance at 31 December 2010	**725,546**	**283,528**	**1,009,074**
Dividends paid	-	(65,642)	(65,642)
Total comprehensive income for the year		187,853	187,853
Balance at 31 December 2011	**725,546**	**405,739**	**1,131,285**
Total comprehensive income for the year		151,947	151,947
Balance at 31 December 20112	**725,546**	**557,686**	**1,283,232**

Signed on behalf of management by:

Director ____________________ G.Naskidashvili

Chief Accountant ____________________ N.Begeluri

Notes on pages 9-33 are the integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

(In GEL)

	Note	2012	2011
Cash flows from operating activities:			
Profit before income tax		178,613	219,100
Adjustment for:			
Provision for loan impairment	6	358,715	125,832
Depreciation and amortization		56,836	53,719
Loss/(gain) from exchange rate difference	10	46,175	(7,977)
Interest expense	5	1,074,486	761,518
Gain on revaluation of investment property	14	(256,486)	-
Cash inflow from operating activities before changes in operating assets and liabilities		**1,458,339**	**1,152,192**
Changes in operating assets:			
(Increase) in loans to customers		(3,278,975)	(2,252,845)
(Increase)/Decrease in other assets		(53,470)	13,681
Changes in operating liabilities:			
Increase in Borrowings		2,107,418	850,411
(Decrease) in other liabilities		(152,111)	(20)
Cash outflow from operating activities before taxation		81,201	(236,581)
Income tax paid		(36,240)	-
Net cash inflow/(outflow) from operating activities		**44,961**	**(236,581)**
Investing activities			
Purchase of property and equipment		(91,614)	(60,006)
Proceeds from sale of investment property		-	10,131
Purchase of intangible assets		(32,150)	(45,751)
Purchase of investment property		(63,531)	(1,613)
Net cash outflow from investing activities		**(187,295)**	**(97,239)**
Cash flows from financing activities:			
Dividends paid		-	(62,360)
Net cash outflow from financing activities		**-**	**(62,360)**
Net (Decrease) in cash and cash equivalents		**(142,334)**	**(396,180)**
Cash and cash equivalents at beginning of year	12	**148,711**	**563,528**
Effect of changes in foreign exchange rate on cash and cash equivalents	10	60,402	(18,637)
Cash and cash equivalents at end of year	12	**66,779**	**148,711**

Director ____________________ G.Naskidashvili

Chief Accountant ____________________ N.Begeluri

Notes on pages 9-33 are the integral part of these financial statements.

1. General information

Microfinance Company Georgian Credit was established on September 12, 2006 in Tbilisi, Georgia, accordance with the Georgian legislation. The Company's legal form was Limited Liability Company.

At 14 March of 2011 legal form and the name of the Company have been changed. The Company was re-organized into the Joint Stock Company "Georgian Credit" in accordance with the Georgian legislation.

The director of the JSC Georgian Credit is Giorgi Naskidashvili.

Main objectives of the fund are support and development of micro, small and medium business to improve the social and economical conditions in Georgia and ensuing small entrepreneurs by fast, easy and high-grade financial services.

Scope of Activities:

Granting Micro-loans, including business, consumer, mortgage, unsecured, group and any other loans (credits) to legal entities and natural persons;

Investing in government and public securities;

Implementing of money transfer;

Discharging the function of an insurance agent;

Providing consultations as regards to micro-crediting;

Obtaining loans from resident and non-resident legal entities and natural persons.

The Company has a head office in Tbilisi and four branches. The address of the Company is 30 Kazbegi Avenue, Tbilisi, Georgia.

As at 31 December, 2012 and 2011, the following shareholders owned the capital of the Company:

	31-Dec 2012, %	31-Dec 2011, %
Shareholders		
Tim Meyer-Schell	25.50%	-
Philip Nitzsche	25.50%	-
Eastern Capital AS	22.00%	-
Alea Equity GBR	8.50%	-
Hansjoerg Brokmann	10.00%	-
EMIC Invest GBR	-	51%
Dimitri Gozalishvili	-	18.38%
Jochen Zimmermann	8.50%	8.50%
Gert Warneke	-	13.63%
Alea Equity GBR	-	8.50%
Total	**100%**	**100%**

Total authorized capital for 31 December 2012 totalled 725,564 shares with a nominal value of GEL 1 per share.

2. Summary of significant accounting policies

a) Change in accounting policies

Accounting for investment property

During the year ended 31 December 2012 the Company changed its accounting policy with respect to the subsequent measurement of investment property from the cost model to the fair value model, with changes in fair value recognized in profit or loss. The Company believes that subsequent measurement using the fair value model provides more relevant information about the financial performance of these assets.

Investment property includes land and buildings which are held for capital appreciation.

b) Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC Interpretations applicable to companies reporting under IFRS.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3.

Basis of measurement

The financial statements have been prepared under the historical cost bases, except of measurement of investment property at fair value and the initial recognition of financial instruments based on fair value.

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

Going concern

These financial statements have been prepared on the assumption that the Company is a going concern and will continue its operations for the foreseeable future. The management and shareholder have the intention to further develop the business of the Company in Georgia. The management believes that the going concern assumption is appropriate for the Company.

Adoption of new or revised standards and interpretations

a) New standards, interpretations and amendments effective from 1 January 2012

None of the new standards, interpretations and amendments, effective for the first time from 1 January 2012, have had a material effect on the financial statements.

b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the company, except the following set out below:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

2. Summary of significant accounting policies (continued)

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Financial statements are presented in Georgian lari, which is the company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. Foreign

exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to notes payables and cash and cash equivalents are presented in the statement of comprehensive income within "Gain (loss) from exchange rate differences" with other foreign exchange gains and losses.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

2. Summary of significant accounting policies (continued)

At 31 December 2012 and 2011 the closing rate of exchange used for translating foreign currency balances was:

	Official rate of the National Bank of Georgia	
	USD	***EUR***
Exchange rate as at 31.12.12	1.6567	2.1825
Exchange rate as at 31.12.11	1.6703	2.1614

Financial Instruments

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

Fair value through profit or loss

This category comprises only in-the-money derivatives. They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income in the finance income or expense line other than derivative financial instruments which are not designated as hedging instruments, the Company does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Held to maturity investments

Non derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Company has positive intention and ability to hold them upon maturity.

The Company does not have any assets as being classified held to maturity investments.

Loans and receivables

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

Available-for-sale

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

Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available-for-sale

2. Summary of significant accounting policies (continued)

reserve. On sale, the cumulative gain or loss recognised in other comprehensive income is reclassified from the available-for-sale reserve to profit or loss.

The Company does not have any assets as being classified available for sale.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, are not presented separately and are included in the carrying values of related balance sheet items.

Derecognition of financial assets

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

Offsetting

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

IFRS 7 fair value measurement hierarchy

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

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

2. Summary of significant accounting policies (continued)

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

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Company considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- Any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

- The borrower experiences a significant financial difficulty as evidenced by borrower’s financial information that the Company obtains;

- The borrower considers bankruptcy or a financial reorganization;

- There is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;

- The value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

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

It should be noted that the evaluation of losses includes a subjective factor. The management of the Company believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is possible that in certain periods the Company can incur losses greater than recorded impairment.

2. Summary of significant accounting policies (continued)

Repossessed collateral

Repossessed collateral represents non-financial assets acquired by the Company in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or inventories within other assets depending on their nature and the Company's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Inventories of repossessed assets are recorded at the lower of cost or net realizable value.

Property and equipment

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives, as follows:

Group	Useful life (year)
Buildings	50
Vehicles	7
Furniture and office equipment	7
Computer and communication equipment	4

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Intangible assets

All of the Company’s intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised on a straight line basis over expected useful lives of four to five years.

Investment property

The company holds certain investment property to generate capital appreciation. Investment properties are measured initially at cost, including subsequent costs. Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in fair values are included in the statement of comprehensive income as “gain/loss from revaluation of investment properties”.

2. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash on hand, non-restricted cash on current accounts in banks, and non-restricted cash on bank deposits with original maturity of less than three months.

Taxation

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

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

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

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

Borrowings

Borrowings are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of operations over the period of the borrowings, using the effective interest method.

Recognition of income and expense

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

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

2. Summary of significant accounting policies (continued)

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

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

Provisions, Contingent Liabilities and Contingent Assets

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

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

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

(a) A contract (through its explicit or implicit terms);

(b) Legislation; or

(c) Other operation of law.

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

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Events after the reporting period

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

3. Critical accounting estimates and judgments

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

• **Fair value of financial instruments.** Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but if it is not feasible, a degree of judgment is required in establishing a fair value.

• **Determination of collateral value.** Management monitors market value of collateral on a regular basis. Management uses its experienced judgment to adjust the fair value to reflect current circumstances. The amount and type of collateral depends on the assessment of credit risk of the counterparty.

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

• **Initial recognition of related party transactions.** In the normal course of business the Company enters into transactions with related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party loans are disclosed in Note 23.

• **Income taxes.** During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result the Company minimizes the risks related to this fact. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

• **Legal proceedings.** The Company only recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be

3. Critical accounting estimates and judgments (continued)

estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realization of any contingent liabilities not currently recognized or disclosed in the financial statements could have a material effect on the Company's financial position. Application of these accounting principles to legal cases requires the Company's management to make determinations about various factual and legal matters beyond its control. The Company reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Company's management as to how it will respond to the litigation, claim or assessment.

4. Prior period reclassifications

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

	2011 As previously stated	Reclassification	2011 As reclassified
Administrative expenses	(895,923)	895,923	-
Staff costs including salaries and bonuses	-	(528,708)	(528,708)
Other expenses	-	(367,215)	(367,215)

5. Net interest income

Net interest income for the year ended 31 December, 2012 and 2011 can be presented as follows:

	2012	2011
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
Interest income on unimpaired financial assets	2,235,693	1,707,333
Interest income on impaired financial assets	117,961	141,280
Total	**2,353,654**	**141,280**
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	2,353,654	1,824,361
Other	-	18,252
Total interest income on financial assets recorded at amortized cost	**2,353,654**	**1,842,613**
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on borrowings	(1,074,486)	(761,517)
Total interest income on financial liabilities recorded at amortized cost	**(1,074,486)**	**(761,517)**
Net interest income	**1,279,168**	**1,081,096**

6. Provision for loan impairment

Provision for loan impairment for the year ended 31 December, 2012 and 2011 can be presented as follows:

	Business loan	Consumer loan	Agricultural installment	Other	Total
At 1 January 2011	(11,410)	(40,972)	(378)	(42)	**(52,802)**
Provision for impairment during the year	(75,171)	(280,702)	(2,559)	(283)	**(358,715)**
Amounts written off during the year	19,217	304,110	584	-	**323,911**
At 31 December 2012	**(67,364)**	**(17,564)**	**(2,353)**	**(325)**	**(87,606)**
Individual impairment	36,973	8,899	1,551	-	**47,423**
Collective impairment	30,391	8,665	802	325	**40,183**
	67,364	**17,564**	**2,353**	**325**	**87,606**

7. Fee and commission income

Fee and Commission income includes penalties on early payments and other service fees.

8. Staff costs including salaries and bonuses

Staff costs including salaries and bonuses for the year ended 31 December, 2012 and 2011 can be presented as follows:

	2012	**2011**
Salary	(533,888)	(417,508)
Bonuses	(188,977)	(98,146)
Insurance	(16,215)	(13,054)
	(739,080)	**(528,708)**

9. Other expenses

Other expenses for the year ended 31 December, 2012 and 2011 can be presented as follows:

	2012	2011
Operating leases	(130,894)	(85,817)
Depreciation and amortization	(56,834)	(53,717)
Business trip expenses	(35,988)	(32,457)
Office maintenance	(45,732)	(34,482)
Communication expenses	(41,722)	(28,453)
Professional services	(51,136)	(19,092)
Audit and consulting service fees	(17,255)	(15,489)
Bank fees	(5,667)	(6,082)
Utilities	(16,765)	(15,902)
Stationary	(9,417)	(7,715)
Taxes other than income tax	(6,535)	(6,279)
Other	(75,591)	(61,730)
	(493,536)	**(367,215)**

10. (Loss)/ gain from exchange rate difference

(Loss)/gain from exchange rate difference for the year ended 31 December, 2012 and 2011 can be presented as follows:

	2012	2011
Realized foreign exchange gain/(loss)	60,402	(18,637)
Unrealized foreign exchange (loss)/gain	(106,577)	26,614
	(46,175)	**7,977**

11. Income tax expense

Income tax expense for the year ended 31 December, 2012 and 2011 can be presented as follows:

	2012	2011
Current tax charge	(36,240)	(9,287)
Deferred tax credit/(charge)	9,574	(21,960)
	(26,666)	**(31,247)**

Reconciliation between the expected and the actual taxation charge is provided below.

	2012	2011
Profit before tax	178,613	219,100
Applicable tax rate	15%	15%
Theoretical income tax	(22,792)	(32,865)
Expenses not deductible for tax purposes	(3,874)	1,618
	(26,666)	**(31,247)**

12. Cash and cash equivalents

Cash and cash equivalents as at 31 December, 2012 and 2011 can be presented as follows:

	2012	2011
Cash on hand	128,985	140,345
Cash on current accounts with banks in GEL	2,709	6,118
Cash on current accounts with banks in other currencies	104	2,248
	131,798	**148,711**

Cash, cash equivalents and bank overdrafts include the following for the purposes of the statement of cash flows:

	2012	2011
Cash and cash equivalents	131,798	148,711
Bank overdraft (Note 19)	(65,019)	-
	66,779	**148,711**

13. Loans to customers

Loans to customers as at 31 December, 2012 and 2011 can be presented as follows:

	2012	2011
Originated loans to customers	8,288,885	5,531,936
Accrued interest	275,687	190,790
	8,564,572	**5,722,726**
Less: allowance for impairment losses	(87,606)	(52,802)
Total loans to customers	**8,476,966**	**5,669,924**

Analysis by loan type:	2012	2011
Business loan	6,791,765	3,915,224
Consumer loan	1,271,133	1,479,599
Pawnshop loan	342,107	317,435
Agricultural installment	68,705	10,468
Other	90,862	-
	8,564,572	**5,722,726**
Less: allowance for impairment losses	(87,606)	(52,802)
Total loans to customers	**8,476,966**	**5,669,924**

13. Loans to customers (continued)

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

	Business loan	Consumer loan	Pawnshop loan	Agricultural installment	Other	Total
Current and not impaired	5,941,392	902,355	323,385	53,182	87,853	**7,308,167**
Past due but not impaired	302,261	66,569	18,722	6,559	1,709	**395,820**
Loans individually determined to be impaired	309,382	250,892	-	2,135	-	**562,409**
Loans determined to be impaired:						
31-45 days overdue	32,654	8,145	-	2,008	-	**42,807**
46-120 days overdue	116,088	17,013	-	3,223	1,299	**137,623**
121-180 days overdue	89,990	26,158	-	1,598	-	**117,746**
	6,791,767	**1,271,132**	**342,107**	**68,705**	**90,861**	**8,564,572**
Less impairment provisions	(70,317)	(14,611)	-	(2,353)	(325)	**(87,606)**
Total Loans to customers	**6,721,450**	**1,256,521**	**342,107**	**66,352**	**90,536**	**8,476,966**

14. Investment property

Investment property as at 31 December, 2012 and 2011 can be presented as follows:

	2012 Fair value	2011 Book value
Balance at beginning of year	**219,445**	**185,323**
Additions	176,749	44,253
Disposals	-	(10,131)
Gain on revaluation of investment property	256,486	-
Balance at the end of year	**652,680**	**219,445**

Investment property is carried at fair value, derived from the current market prices for comparable real estate determined by an external valuer who is an industry specialist in valuing such kind of property. Used Observable market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset, formed the basis for valuations. Changes in fair value are recognised as profit or loss.

The Company has not received any rental income from investment properties.

15. Property and equipment

Property and equipment as at 31 December, 2012 and 2011 can be presented as follows:

Historical cost	Buildings	Furniture and office equipment	Computer and communication equipment	Vehicles	Total
Historical cost 01.01.2010	403,068	82,552	56,773	11,258	**553,651**
Additions	-	10,387	49,616	-	**60,003**
Disposals	-	-	-	-	**-**
Historical cost 31.12.2011	**403,068**	**92,939**	**106,389**	**11,258**	**613,654**
Additions	-	28,833	36,427	26,354	**91,614**
Disposals	**-**	**-**	**(2,365)**	**-**	**(2,365)**
Historical cost 31.12.2012	**403,068**	**121,772**	**140,451**	**37,612**	**702,903**
Accumulated depreciation					
Accumulated depreciation 31.12.2010	**(8,712)**	**(21,480)**	**(16,474)**	**(395)**	**(47,061)**
Depreciation for the year	(8,061)	(16,477)	(20,931)	(2,252)	**(47,721)**
Accumulated depreciation 31.12.2011	**(16,773)**	**(37,957)**	**(37,405)**	**(2,647)**	**(94,782)**
Depreciation for the year	(9,842)	(17,088)	(22,275)	(2,998)	**(52,203)**
Accumulated depreciation on disposals	-	-	2,365	-	**2,365**
Accumulated depreciation 31.12.2012	**(26,615)**	**(55,045)**	**(57,315)**	**(5,645)**	**(144,620)**
Net book value					
Net book value 31.12. 2011	**386,295**	**54,982**	**68,984**	**8,611**	**518,872**
Net book value 31.12. 2012	**376,453**	**66,727**	**83,136**	**31,967**	**558,283**

16. Intangible assets

Intangible assets as at 31 December, 2012 and 2011 can be presented as follows:

Historical cost	Computer software	Other	Total
Historical cost 31.12.2010	**22,267**	**4,730**	**26,997**
Additions	1,613	-	1,613
Disposals	-	-	-
Historical cost 31.12.2011	**23,880**	**4,730**	**28,610**
Additions	26,900	5,250	**32,150**
Disposals	-	-	**-**
Historical cost 31.12.2012	**50,780**	**9,980**	**60,760**
Accumulated amortization			
Accumulated amortization 31.12.2010	**(9,206)**	**(1,127)**	**(10,333)**
Amortization for the year	(3,562)	(427)	**(3,989)**
Accumulated amortization 31.12.2011	**(12,768)**	**(1,554)**	**(14,322)**
Amortization for the year	(3,292)	(1,341)	**(4,633)**
Accumulated amortization 31.12.2012	**(16,060)**	**(2,895)**	**(18,955)**
Net book value			
Net book value 31.12. 2011	**11,112**	**3,176**	**14,288**
Net book value 31.12. 2012	**34,720**	**7,085**	**41,805**

17. Other assets

Other assets as at 31 December, 2012 and 2011 can be presented as follows:

	2012	2011
Prepayments	105,669	45,237
Tax assets	1,940	6,475
Other assets	9,276	-
	116,885	**51,712**

18. Deferred income tax liability

Deferred income tax as at 31 December, 2012 and 2011 can be presented as follows:

	2012	2011
At 1 January	(72,443)	(50,483)
Recognised in profit and loss		
Tax expense	9,574	(21,960)
Recognized in other comprehensive income	-	-
At 31 December	**(62,869)**	**(72,443)**

Temporary differences as at December 31, 2012 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged/ credited to equity
	2012	2012	2012	2012	2012
Property and equipment	-	(83,742)	**(83,742)**	(6,036)	-
Investment properties	-	(55,132)	**(55,132)**	(55,132)	-
Loans to customers	61,727	-	**61,727**	55,089	-
Borrowings	11,285	-	**11,285**	11,285	-
Other liabilities	2,993	-	**2,993**	4,275	-
Intangible assets	-	-	**-**	93	-
Tax asset/(liabilities)	**76,005**	**(138,874)**	**(62,869)**	**9,574**	**-**
Set off of tax	(76,005)	76,005	**-**	-	-
Net tax assets/(liabilities)	**-**	**(62,869)**	**(62,869)**	**9,574**	**-**

Temporary differences as at December 31, 2011 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged/ credited to equity
	2011	2011	2011	2011	2011
Property and equipment	-	(77,706)	**(77,706)**	(1,816)	-
Intangible assets	-	(93)	**(93)**	36	-
Other liabilities	-	(1,282)	**(1,282)**	(1,282)	-
Loan to customers	6,638	-	**6,638**	6,638	-
Tax loss carry-forwards	-	-	**-**	(25,536)	-
Tax asset/(liabilities)	**6,638**	**(79,082)**	**(72,443)**	**(21,960)**	**-**
Set off of tax	(6,638)	6,638			
Net tax assets/(liabilities)	**-**	**(72,443)**	**(72,443)**	**(21,960)**	**-**

19. Borrowings

Borrowings as at 31 December, 2012 and 2011 can be presented as follows:

	Interest rate	Currency	2012	2011
JSC BTA bank	18%	USD	1,468,376	609,268
JSC BTA bank	18%	GEL	164,968	-
JSC BTA bank (overdraft)	20%	USD	65,019	-
JSC BTA bank	16%	USD	-	1,225,860
JSC Kor Standard Bank	24%	USD	-	29,895
JSC BTA bank	20%	GEL	-	40,263
JSC BTA bank	17%	USD		
Other*	13-18%	USD- GEL	6,852,197	3,482,787.00
Total			**8,550,560**	**5,388,073**

*Other includes borrowings from resident and nonresident individuals. The interest rates fluctuate between 13-18 %.

Current and noncurrent borrowings as at 31 December, 2012 and 2011 can be presented as follows:

	2012	2011
Due from one to twelve months	2,866,533	-
Due from one to five years	5,684,027	5,388,074
Total Borrowings	**8,550,560**	**5,390,085**

These liabilities are measured at amortized cost. As at 31 December, 2012 and 2011 accrued interests on borrowings amounted to GEL127,495 and GEL59,179 respectively.

20. Other liabilities

Other liabilities as at 31 December, 2012 and 2011 can be presented as follows:

	2012	2011
Accounts payable to suppliers	34,058	17,026
payable to employees	16,809	6,840
Taxes payable	9,851	17,022
Other liabilities	14,730	1,966
	75,448	**42,854**

21. Contingencies and Commitments

At 31 December 2012 the Company operated four branches. All of them are leased from various parties under operating leases. At year-end, the Company had outstanding commitments under non-cancellable operating leases that fall due as follows:

	2012	2011
Within one year	171,468	130,894
Later than one year but within five years	170,433	37,269
Later than five years	-	-
	341,901	**168,163**

22. Financial instruments – risk management

The Company is exposed through its operations to the following financial risks:

- Credit risk
- Liquidity risk
- Interest rate risk
- Currency risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Cash at bank;
- Loans to customers (with fixed interest rates);
- Borrowings (with fixed interest rates);

General objectives, policies and processes

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

The Supervisory Board and appropriate committees receive monthly reports from the Company Managers through which they review the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Company's internal auditor also reviews the risk management policies and processes and reports its findings to the management.

The overall objective of the Supervisory Board is to set polices that seek to reduce risks as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

Credit Risk

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

The main business of the Company is to provide micro-loans. Respectively credit risk is of crucial importance in the Company's risk management. To avoid significant financial damage caused by this the Company uses various methods to identify and manage effectively the credit risks.

Based on experience the Company uses an established credit policy which establishes the following basic stages of credit risk management:

22. Financial instruments – risk management (continued)

- Tasks of the Credit Committee
- Monitoring of issued loans
- Ways of working on delinquent loans.

The Credit Committee is the body responsible for analyzing the information contained in loan applications and assessing and reducing the credit risks as far as possible. The Committee is an independent body authorized to make the final decision about approving or rejecting a loan application.

Accuracy and correctness of information presented to the Committee is the responsibility of the credit officer, who fills in the initial application after due scrutiny of the applicant's business and its credit risks. Committee members assess the application against established criteria (applicant's credit history, financial condition, competitive ability, etc.) and will frequently ask the credit officer for more information about the applicant before making a decision.

Mitigation of credit risk is also achieved in some cases through securing loan with real estate or other material assets.

Assessment of the applicant's creditworthiness through careful analysis of its business reduces the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. The Company does not maintain a strictly determined schedule for monitoring.

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

	2012	2011
Loans to customers	8,476,966	5,669,924
Cash at bank	2,813	8,366
	8,479,779	**5,678,290**

The Company's credit department reviews ageing analysis of outstanding loans and takes action to recover past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 12, 13.

Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

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

Interest Rate Risk

The interest rate risk is the risk, arising from changes in interest rates during the life of a financial instrument. The Company extends all loans at fixed interest rates all borrowings are also obtained at fixed interest rates.

22. Financial instruments – risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates, which can have adverse effects if there are mismatches by currency of financial assets and liabilities. The Company is exposed to the risks of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows.

The Company's exposure to foreign currency exchange rate risk as at 31 December, 2012 is presented in the table below:

	GEL	USD USD 1.00 = GEL**1.6567**	EUR EUR 1.00 = GEL**2.1825**	
Financial assets				
Loans to customers	738,840	7,619,139	118,987	**8,476,966**
Cash and cash equivalents	35,705	82,579	13,514	**131,798**
Total financial assets	**774,545**	**7,701,718**	**132,501**	**8,608,764**
Financial liabilities				
Borrowings	251,157	6,496,720	1,737,130	**8,485,007**
Total financial liabilities	**251,157**	**6,496,720**	**1,737,130**	**8,485,007**
Open balance sheet position	**523,388**	**1,204,998**	**(1,604,629)**	

The Company's exposure to foreign currency exchange rate risk as at 31 December, 2011 is presented in the table below:

	GEL	USD USD 1 = **1.6703** GEL	EUR USD 1 = **2.1614** GEL	
Financial assets				
Loan to customers	432,387	5,095,931	141,606	5,669,924
Cash and cash equivalents	32,086	94,941	21,684	148,711
Total financial assets	**464,473**	**5,190,872**	**163,290**	**5,818,635**
Financial liabilities				
Borrowings	102,572	4,184,563	1,100,938	5,388,073
Total financial liabilities	**102,572**	**4,184,563**	**1,100,938**	**5,388,073**
Open balance sheet position	**361,901**	**1,006,309**	**(937,648)**	

22. Financial instruments – risk management (continued)

Currency risk sensitivity

The following table details the Company's sensitivity to a 10% increase and 10% decrease in the exchange rate of GEL per USD and per EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency exchange rates.

Impact on net profit and equity based on asset values as at 31 December 2012:

	USD impact		EUR impact	
2012	**GEL/USD + 10%**	**GEL/USD - 10%**	**GEL/EUR + 10%**	**GEL/EUR - 10%**
Profit/(loss)	649,672	(649,672)	173,713	(173,713)

Impact on net profit and equity based on asset values as at 31 December 2011:

	USD impact		EUR impact	
2011	**GEL/USD + 10%**	**GEL/USD - 10%**	**GEL/EUR + 10%**	**GEL/EUR - 10%**
Profit/(loss)	418,457	(418,457)	110,094	(110,094)

Liquidity Risk

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

The Management board controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period.

In order to manage liquidity risk, the Company performs regular monitoring of future expected cash flows, which is a part of Company's asset and liability management process.

An analysis of the liquidity risk is presented in the following table. The presentation below is based upon the information provided by key management personnel of the Company.

Liquidity of Financial assets and liabilities as at 31 December 2012 can be presented as follows:

	Up to 1 month	1 month to 3 months	3 months to 1 year	Between 1 and 5 years	Total
Financial assets					
Loans to customers	331,202	317,675	2,167,559	5,660,530	**8,476,966**
Total interest bearing financial assets	**331,202**	**317,675**	**2,167,559**	**5,660,530**	**8,476,966**
Cash and cash equivalents	148,711	-	-	-	**148,711**
Total financial assets	**479,913**	**317,675**	**2,167,559**	**2,747,788**	**5,712,934**

22. Financial instruments – risk management (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	Between 1 and 5 years	Total
Liabilities					
Borrowings	254,140	134,763	2,477,630	5,684,027	**8,550,560**
Total interest bearing financial liabilities	**254,140**	**134,763**	**2,477,630**	**5,684,027**	**8,550,560**
Total financial liabilities	**254,140**	**134,763**	**2,477,630**	**5,684,027**	**8,550,560**
Net liquidity gap	225,773	182,912	(310,072)	(2,936,240)	
Cumulative liquidity gap	**225,773**	**408,685**	**98,614**	**(2,837,626)**	

Liquidity of Financial assets and liabilities as at 31 December 2011 can be presented as follows:

	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Total
Financial assets					
Loans to customers	178,652	380,853	1,325,440	3,784,979	**3,823,488**
Total interest bearing financial assets	**178,652**	**380,853**	**1,325,440**	**3,784,979**	**3,823,488**
Cash and cash equivalents	148,711	-	-	-	**148,711**
Total financial assets	**479,913**	**317,675**	**2,167,559**	**2,747,788**	**5,712,934**
Liabilities					
Borrowings	-	-	-	5,388,073	5,388,073
Total interest bearing financial liabilities	**-**	**-**	**-**	**5,388,073**	**5,388,073**
Total financial liabilities	**-**	**-**	**-**	**5,388,073**	**5,388,073**
Net liquidity gap	**479,913**	**317,675**	**2,167,559**	**(2,640,285)**	
Cumulative liquidity gap	**479,913**	**797,588**	**2,965,146**	**324,861**	

Capital disclosures

The Company's objectives when maintaining capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders; and
- To provide an adequate return to shareholders by pricing services commensurately with the level of risk.

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

23. Transactions with related parties

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

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

b) Members of key management personnel of the Company or its parent;

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

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

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

Balance sheet caption	Relationship	Related party transactions	Total category as per the financial statements caption
Borrowings			
Individuals	Share holder	1,438,967	8,550,560
Individuals	Part of supervision board	1,231,697	
		2,670,664	**8,550,560**

Included in the statement of comprehensive income for the years ended 31 December 2012 and 2011 are the following amounts which were recognized as transactions with related parties:

Income Statement caption	Relationship	Related party transactions	Total category as per the financial statements caption
Interest expenses			
Individuals	share holders	360,595	1,074,486
Individuals	Part of supervision board	124,704	
		485,299	**1,074,486**

The remuneration of key management was as follows:

	2012		2011	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Key management personnel compensation:				
- short-term employee benefits	177,861	**739,080**	64,732	**518,794**

24. Events after the reporting period

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