JSC MICROFINANCE ORGANIZATION

GEORGIAN CREDIT

Financial Statements

Together with the Independent Auditors' Report

Year ended 31 December 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of **JSC Microfinance Organization Georgian Credit**

Opinion

We have audited the financial statements of JSC Microfinance Organization Georgian Credit, which comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the 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.

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

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

In preparing the financial statements, management is responsible for assessing the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

The engagement partner responsible for the audit resulting in this independent auditor's report is:

Ivane Zhuzhunashvili

Engagement Partner

Tbilisi, Georgia

1 June 2018

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(In GEL)

	Note	2017	2016
Interest income	5	8,823,798	7,521,047
Interest expense *	5	(4,206,468)	(3,096,009)
Net interest income		**4,617,330**	**4,425,038**
Provision for loan impairment	6	(312,551)	(691,630)
Net interest income after provision for loan impairment		**4,304,779**	**3,733,408**
Fee and commission income	7	578,735	652,436
Net gain on fair value measurement of derivative financial instruments *		56,693	-
Staff costs including salaries and bonuses	8	(2,651,414)	(2,674,316)
Administrative and other operating expenses	9	(1,896,200)	(1,876,013)
Other income, net *		42,227	33,199
Gain (loss) on revaluation and initial recognition of investment properties	14	(30,755)	448,791
Loss from exchange rate differences, net *		(117,267)	(40,868)
Profit before income tax		**286,798**	**276,637**
Income tax benefit(expense)	10	(81,784)	65,203
Net profit and total comprehensive income for the year		**205,014**	**341,840**

*For details about prior period reclassifications refer to Note 25.

Financial Statements for the year ended 31 December 2017 were approved on behalf of Management on 1 June 2018 by:

Director ______________ G.Naskidashvili

Financial Director ______________ I. Khorava

Notes on pages 9-38 are the integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(In GEL)

	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	11	3,201,345	1,068,785
Financial instruments at fair value through profit or loss	12	907,721	1,113,310
Loans to customers	13	35,265,472	30,193,905
Other assets	17	590,772	186,946
Investment property	14	2,425,224	2,329,228
Property and equipment	15	772,593	965,589
Intangible assets	16	121,506	137,699
Current income tax asset		-	105,238
Deferred tax asset	18	121,020	103,052
Total assets		**43,405,653**	**36,203,752**
Liabilities			
Borrowings	19	36,245,240	31,039,389
Subordinated borrowings	20	1,957,403	1,061,084
Other liabilities	21	285,794	291,077
Total liabilities		**38,488,437**	**32,391,550**
Equity			
Share capital	22	1,110,546	1,010,546
Share premium	22	2,287,350	1,487,350
Retained earnings		1,519,320	1,314,306
Total equity		**4,917,216**	**3,812,202**
Total liabilities and equity		**43,405,653**	**36,203,752**

Notes on pages 9-38 are the integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT ON CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(In GEL)

	Share capital	Share premium	Retained Earnings	Total
Balance at 31 December 2015	**935,546**	**962,350**	**972,466**	**2,870,362**
Issue of shares	75,000	525,000	-	600,000
Net profit and total comprehensive income for the year	-	-	341,840	341,840
Balance at 31 December 2016	**1,010,546**	**1,487,350**	**1,314,306**	**3,812,202**
Issue of share	100,000	800,000	-	900,000
Net profit and total comprehensive income for the year	-	-	205,014	205,014
Balance at 31 December 2017	**1,110,546**	**2,287,350**	**1,519,320**	**4,917,216**

Notes on pages 9-38 are the integral part of these financial statements.

JSC MICROFINANCE ORGANIZATION GEORGIAN CREDIT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(In GEL)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**286,798**	**276,637**
Adjustments for:			-
Provision for loan impairment	6	312,551	691,630
Provision for tax liabilities		-	55,913
Depreciation and amortization	9	285,460	273,695
Foreign exchange translation differences		117,267	(40,868)
Net gain on financial instruments at fair value through profit or loss		(56,693)	-
(Gain) loss on revaluation and initial recognition of investment properties	14	30,755	(448,791)
Interest income	5	(8,823,798)	(7,521,047)
Interest expense	5	4,206,468	3,096,009
Loss from disposal of fixed assets and intangible assets	15,16	30,823	64,955
Cash outflow from operating activities before changes in operating assets and liabilities		**(3,610,369)**	**(3,551,867)**
Decrease (increase) in operating assets:			
Loans to customers		(5,826,488)	(5,259,716)
Other assets		(217,668)	78,172
Financial instruments at fair value through profit or loss		262,282	(478,880)
Increase (decrease) in operating liabilities:			
Other liabilities		291,213	(25,677)
Cash outflow from operating activities before interest and taxation		**(9,104,496)**	**(9,237,968)**
Interest paid	19	(3,325,329)	(2,728,663)
Interest received		8,001,463	6,630,360
Net cash outflow from operating activities		**(4,424,896)**	**(5,336,271)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	15	(103,517)	(143,131)
Purchase of investment properties	14	(131,731)	(256,299)
Proceeds from sale of investment property	14	4,980	5,500
Purchase of intangible assets	16	(3,577)	(84,538)
Net cash outflow from investing activities		**(233,845)**	**(478,468)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of borrowings	19	(44,249,346)	(24,479,612)
Proceeds from borrowings	19	50,538,888	27,822,643
Proceeds from share issue	22	900,000	600,000
Net cash inflow from financing activities		**7,189,542**	**3,943,031**
Net increase (decrease) in cash and cash equivalents		**2,530,800**	**(1,871,708)**
Cash and cash equivalents at the beginning of the period	11	**1,068,785**	**1,864,479**
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies		(398,241)	1,076,014
Cash and cash equivalents at the end of the year		**3,201,345**	**1,068,785**

Notes on pages 9-38 are the integral part of these financial statements.

1. GENERAL INFORMATION

Microfinance Organisation Georgian Credit (hereinafter - the Company) is a Joint Stock Company which was established on 12 September 2006 in Tbilisi, Georgia, accordance with the Georgian legislation.

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

As a principal business activity, the Company provides micro and small loans (up to GEL100,000, from end of December 2017; before December 2017 limit was GEL50,000) to customers in Georgia. Loans are disbursed GEL to individuals.

The Company had 14 branches as at 31 December 2017 and 2016.

Head office of JSC MFO Georgian Credit is located on 12 S. Tsintsadze str. Tbilisi, Georgia.

As at 31 December 2017 and 2016 following shareholders owned Company's shares:

Shareholders	31 December 2017, %	31 December 2016, %
Eastern Capital AS	39.78%	43.62%
Greeninvesti LLC	17.61%	19.31%
Thomas Schiffler	8.57%	-
Alea Equity GBR	6.01%	6.59%
Jochen Zimmermann	6.01%	6.59%
Seec Gmbh I.G.	5.42%	5.95%
Giorgi Khmaladze	5.00%	5.24%
Nikoloz Khmaladze	5.00%	5.24%
Klovningen AS	3.85%	4.22%
Enga Invest AS	2.74%	3.25%
Total	**100%**	**100%**

For more information about the Company's share capital, refer to Note 22.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

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

The principal accounting policies adopted in the preparation of the financial statements are set in the Note 3.

BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value and investment property subsequently measured at fair value.

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

The reporting period for the Company is the calendar year from January 1 to December 31.The areas where significant judgments and estimates have been made in preparing the financial statements and

2. BASIS OF PREPARATION (CONTINUED)

their effect are disclosed in Note 4.

The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in the most appropriate application in applying the Company's accounting policies.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FINANCIAL INSTRUMENTS

Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

Key measurement terms

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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

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.

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.

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.

Financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value through profit or loss

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

Loans and receivables

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

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally the 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 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 classified as available-for-sale.

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.

(a) Financial liabilities

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

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

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

(a) 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.

(b) IFRS 13 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:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
2. 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
3. Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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

The Company has financial assets or liabilities measured at fair value; accordingly they are presented under the IFRS 13 fair value measurement hierarchy.

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of sufficient historical loss experience and the success of recovery of overdue

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

amounts. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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

CASH AND CASH EQUIVALENTS

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

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation /amortisation and recognized impairment loss, if any.

Subsequent costs are included in the asset's carrying amount or recognized 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 derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation/amortisation is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. Depreciation/amortisation is calculated on a straight line basis at the following useful lives:

Group	Useful life (year)
Vehicles	7-10
Furniture and office equipment	3-7
Computer and communication equipment	3-7
Leasehold improvements	According to lease term
Accounting and other software	3-10

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

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.

INVESTMENT PROPERTY

The company holds certain investment property for capital appreciation. Investment properties are measured initially at cost. If the Company determines that the fair value at initial recognition differs from the transaction price, investment property is initially recognised at fair value. Subsequent to initial recognition investment property is stated at fair value. Gains or losses arising from changes in

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

fair values are included in the statement of profit or loss and other comprehensive income as "gain (loss) from revaluation of investment properties".

Impairment of assets other than goodwill

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of profit or loss and other comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

A reversal of an impairment loss is recognized immediately in statement of profit or loss and other comprehensive income.

BORROWINGS

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

TAXATION

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

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

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

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 origin and the amount of such liabilities can be reliably measured. The information on contingent liabilities is disclosed in the Notes to the financial statements with the exception of cases, when the outflow of economic benefits is 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 year, 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 contract (through its explicit or implicit terms);
- Legislation; or
- Other operation of law.

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

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

INCOME AND EXPENSE RECOGNITION

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the 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.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SALARIES AND OTHER EMPLOYEE BENEFITS

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

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. Post-balance sheet events 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.

FOREIGN CURRENCY TRANSLATION

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

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

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

Table below presents the closing exchange rates by the National Bank of Georgia As at 31 December 2017 and 2016:

	USD / GEL	EUR / GEL
Exchange rate as at 31 December 2017	2.5922	3.1044
Exchange rate as at 31 December 2016	2.6468	2.7940

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

a) New standards, interpretations and amendments effective from 1 January 2017

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2017 that had a significant effect on the Company's financial statements, although an amendment to IAS 7 *Statement of Cash Flows* has resulted in a reconciliation of liabilities disclosed for the first time in Note 19.

b) New standards, interpretations and amendments not yet effective

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018, and which the Company has not early adopted. This listing of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date, therefore intends to adopt those standards when they become effective:

IFRS 15 Revenue from Contracts with Customers.

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. This standard is effective for annual periods beginning on or after 1 January 2018.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The Company is currently assessing the possible impact of the new standard on its financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement"

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company is currently assessing the possible impact of the new standard on its financial statements. This standard is effective for annual periods beginning on or after 1 January 2018.

IFRS 16 "Leases"

IFRS 16 replaces the existing lease accounting guidance in IAS 17 Leases. IFRIC 4 Determining whether on Arrangement contains a lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees. It distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lessor accounting remains similar to current practice - i.e. lessors continue to classify leases as finance and operating leases.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue with Customers is also adopted.

The Company is currently assessing the possible impact of the new standard on its individual financial statements.

4. 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 in 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 scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Loans collateralised with real estate are not impaired considering the fact that the present value of the future cash flows exceeds the loan amount.

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.

USEFUL LIVES OF PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets are depreciated or amortised over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific period.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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 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.

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 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. For the years ended 31 December 2017 and 2016 the Company had no material legal cases.

5. NET INTEREST INCOME

Net interest income for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Interest income on financial assets recorded at amortized cost:		
Unimpaired loans to customers	8,815,058	7,238,182
Impaired loans to customers	8,740	282,865
Total interest income	**8,823,798**	**7,521,047**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Borrowings	(4,068,356)	(2,965,665)
Subordinated borrowings	(138,112)	(130,344)
Total interest expense	**(4,206,468)**	**(3,096,009)**
Net interest income	**4,617,330**	**4,425,038**

Interest income from overdue loans is GEL749,768 and GEL475,768 for the years ended 31 December 2017 and 2016, respectively.

6. PROVISION FOR LOAN IMPAIRMENT

Provision for loan impairment for the year ended 31 December 2017 can be presented as follows:

	Business loan	Consumer loan	Agro business loan	Total
At 1 January 2017	**(427,997)**	**(129,560)**	**(224,171)**	**(781,728)**
Provision for impairment during the year	(179,430)	(35,202)	(97,919)	**(312,551)**
Amounts written off during the year as uncollectible	229,678	64,746	94,871	**389,295**
At 31 December 2017	**(377,749)**	**(100,016)**	**(227,219)**	**(704,984)**
Among which:				
Collective impairment	(377,749)	(100,016)	(227,219)	**(704,984)**
Total provision for loan impairment	**(377,749)**	**(100,016)**	**(227,219)**	**(704,984)**

Provision for loan impairment for the year ended 31 December 2016 can be presented as follows:

	Business loan	Consumer loan	Agro business loan	Total
At 1 January 2016	**(290,637)**	**(124,010)**	**(107,715)**	**(522,362)**
Provision for impairment during the year	(214,544)	(139,841)	(337,245)	**(691,630)**
Amounts written off during the year as uncollectible	128,921	134,291	220,789	**484,001**
Recovery of previously written off loan	(51,737)	-	-	**(51,737)**
At 31 December 2016	**(427,997)**	**(129,560)**	**(224,171)**	**(781,728)**
Among which:				
Collective impairment	(427,997)	(129,560)	(224,171)	**(781,728)**
Total provision for loan impairment	**(427,997)**	**(129,560)**	**(224,171)**	**(781,728)**

7. FEE AND COMMISSION INCOME

Fee and Commission income includes penalties on early payments and other service fees, which in 2017 and 2016 amounted GEL578,735 and GEL652,436, respectively.

8. STAFF COSTS INCLUDING SALARIES AND BONUSES

Staff costs including salaries and bonuses for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Salary	2,479,925	2,062,246
Bonuses	121,918	561,748
Insurance expenses	49,571	50,322
Total	**2,651,414**	**2,674,316**

9. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Operating leases	917,420	931,151
Depreciation and amortization	285,460	273,695
Professional services	175,435	212,816
Office maintenance	134,502	113,037
Utilities	86,185	71,897
Communication expenses	84,160	76,841
Advertising and marketing expenses	37,349	23,574
Bank fees	26,280	37,441
Stationary	14,886	12,198
Business trips	12,400	18,227
Taxes other than income tax	8,691	8,638
Court related expenses	-	27,412
Other	113,432	69,086
Total	**1,896,200**	**1,876,013**

Audit fee in the year 2017 amounted GEL21,377 (2016:GEL18,984)

10. INCOME TAX BENEFIT (EXPENSE)

Income tax benefit (expense) for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Current tax	(99,752)	-
Effect of temporary differences	27,695	208,918
Tax-loss carry forward	(9,727)	(143,715)
Total	**(81,784)**	**65,203**

Reconciliation of income tax benefit (expense) based on statutory rate with actual income tax is as follows:

	2017	2016
Profit before income tax	**286,798**	**276,637**
Applicable tax rate	15%	15%
Theoretical income tax	(43,020)	(41,496)
Income not considered for tax purposes (expenses not deductible for tax purposes)	(38,764)	106,699
Total	**(81,784)**	**65,203**

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2017 and 2016 can be presented as follows:

	31 December 2017	31 December 2016
Cash on hand	715,804	838,962
Cash on current accounts with banks in GEL	90,775	115,605
Cash on current accounts with banks in other currencies	2,336,441	114,218
Restricted cash*	58,325	-
Total cash and cash equivalents	**3,201,345**	**1,068,785**

*Restricted amounts with GEL58,325 is kept by the bank as a collateral for SWAP operations and is valid until 5 February 2018.

12. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss as at 31 December 2017 and 2016 comprise foreign currency contracts with the amount of GEL907,721 and GEL1,113,310, respectively.

The Company aggregates non-derivative transactions of back to back loans from banks guaranteed by foreign currency deposits placed at the same banks as derivative instruments (foreign currency contracts), due to the fact that the transactions (placement of deposit and taking of the loan) result, in substance, in a derivative. The conclusion is based on the following indicators:

- they are entered into at the same time and in contemplation of one another
- they have the same counterparty
- they relate to the same risk
- there is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.
- there is an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and future settlement.

13. LOANS TO CUSTOMERS

Loans to customers as at 31 December 2017 and 2016 can be presented as follows:

	31 December 2017	31 December 2016
Originated loans to customers	34,548,943	29,795,955
Accrued interest	1,421,513	1,179,678
Gross loans to customers	**35,970,456**	**30,975,633**
Less: allowance for impairment losses	(704,984)	(781,728)
Total loans to customers	**35,265,472**	**30,193,905**

Loans during 2017 and 2016 were issued at maximum amount of GEL50,000 to customers in Georgia. According to new legislation, the Company can issue maximum GEL100,000 to customers beginning from 23 December 2017.

13. LOAN TO CUSTOMERS (CONTINUED)

Analysis by loan type is as follows:	31 December 2017	31 December 2016
Business loan	15,541,393	13,264,217
Consumer loan	2,492,824	1,888,781
Agricultural installment	17,646,396	15,380,696
Pawnshop loan	289,843	441,939
Gross loans to customers	**35,970,456**	**30,975,633**
Less: allowance for impairment losses	(704,984)	(781,728)
Total loans to customers	**35,265,472**	**30,193,905**

Information about movements in provision for loan impairment is given in Note 6.

Currency and maturity analysis of loans to customers is given in Note 24.

Analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

	Business loan	Consumer loan	Pawnshop loan	Agro business loan	Total
Current and not impaired	13,610,495	2,263,626	277,570	15,776,752	**31,928,443**
Past due but not impaired - Fully secured loans	1,123,160	16,304	12,273	1,107,816	**2,259,553**
Loans determined to be collective impaired:					
Performing - rehabilitated loans	324,490	83,362	-	229,101	**636,953**
31-90 days overdue	82,141	14,484	-	277,022	**373,647**
91-180 days overdue	55,641	15,625	-	102,022	**173,288**
181-365 days overdue	139,519	12,159	-	63,876	**215,554**
More than 365 days	205,947	87,264	-	89,807	**383,018**
Gross loans to customers	**15,541,393**	**2,492,824**	**289,843**	**17,646,396**	**35,970,456**
Less impairment provisions	(377,749)	(100,016)	-	(227,219)	**(704,984)**
Total Loans to customers	**15,163,644**	**2,392,808**	**289,843**	**17,419,177**	**35,265,472**

Analysis by credit quality of loans outstanding at 31 December 2016 is as follows:

	Business loan	Consumer loan	Pawnshop loan	Agro business loan	Total
Current and not impaired	12,112,722	1,594,081	436,719	14,720,649	**28,864,171**
Past due but not impaired - Fully secured loans	357,130	17,947	3,185	148,663	**526,925**
Loans determined to be collective impaired:					
Performing - rehabilitated loans	368,202	105,774	1,580	198,896	**674,452**
31-90 days overdue	73,545	15,931	455	123,471	**213,402**
91-180 days overdue	8,976	36,918	-	10,630	**56,524**
181-365 days overdue	64,115	61,596	-	45,431	**171,142**
More than 365 days	279,527	56,534	-	132,956	**469,017**
Gross loans to customers	**13,264,217**	**1,888,781**	**441,939**	**15,380,696**	**30,975,633**
Less impairment provisions	(427,997)	(129,560)	-	(224,171)	**(781,728)**
Total Loans to customers	**12,836,220**	**1,759,221**	**441,939**	**15,156,525**	**30,193,905**

13. LOAN TO CUSTOMERS (CONTINUED)

Loans with collaterals and without collaterals outstanding at 31 December 2017 and 2016 can be presented as follows:

	31 December 2017	31 December 2017
Loans with Collaterals	33,795,035	29,403,490
Loans with no Collaterals	2,196,980	1,572,143
Less: allowance for impairment losses	(704,984)	(781,728)
Total loans to customers	**35,265,472**	**30,193,905**

Loans with collaterals by collateral's type as at 31 December 2017 and 2016 can be presented as follows:

Collateral Type	31 December 2017	31 December 2016
Personal	17,289,994	14,859,164
Real Estate	15,838,799	13,949,205
Machinery	331,377	155,252
Jewelry	311,574	439,869
Marketable Securities	23,291	-
Total loans with Collaterals	**33,795,035**	**29,403,490**

14. INVESTMENT PROPERTY

Investment property as at 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Balance at beginning of year	**2,329,228**	**1,551,439**
Additions	230,738	438,598
Disposals	(4,980)	(3,692)
Gain (loss) on revaluation of investment property	(129,762)	342,883
Balance at the end of year	**2,425,224**	**2,329,228**

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. Observable market prices are used for valuation and if necessary relevant adjustments are made for any difference in the nature, location or condition of the specific asset under valuation. Changes in fair value are recognized as profit or loss.

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

Investment properties are pledged as collateral for borrowings from TBC bank.

Gain (loss) on revaluation and initial recognition of investment properties for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Net gain at initial recognition of repossessed inventory	99,007	105,908
Gain (loss) on revaluation of investment property	(129,762)	342,883
Balance at 31 December	**(30,755)**	**448,791**

15. PROPERTY AND EQUIPMENT

Property and equipment as at 31 December 2017 and 2016 can be presented as follows:

Historical cost	Leasehold improvements	Furniture and office equipment	Computer and communication equipment	Vehicles	Total
Historical cost 31.12.2015	**212,769**	**425,485**	**891,554**	**100,017**	**1,629,825**
Additions	50,383	14,452	78,297	-	**143,132**
Disposals	(40,235)	(13,071)	(28,162)	-	**(81,468)**
Historical cost 31.12.2016	**222,917**	**426,866**	**941,689**	**100,017**	**1,691,489**
Additions	43,717	16,665	6,935	36,200	**103,517**
Disposals	(4,658)	(52,489)	(224,834)	(37,612)	**(319,593)**
Historical cost 31.12.2017	**261,976**	**391,042**	**723,790**	**98,605**	**1,475,413**
Accumulated depreciation					
Accumulated depreciation 31.12.2015	**(16,769)**	**(151,495)**	**(290,365)**	**(18,866)**	**(477,495)**
Depreciation for the year	(18,019)	(73,323)	(162,514)	(7,596)	**(261,452)**
Accumulated depreciation of disposals	4,038	3,552	5,457	-	**13,047**
Accumulated depreciation 31.12.2016	**(30,750)**	**(221,266)**	**(447,422)**	**(26,462)**	**(725,900)**
Depreciation for the year	(31,058)	(33,035)	(192,572)	(12,549)	**(269,214)**
Accumulated depreciation of disposals	4,657	47,699	213,588	26,350	**292,294**
Accumulated depreciation 31.12.2017	**(57,151)**	**(206,602)**	**(426,406)**	**(12,661)**	**(702,820)**
Net book value					
Net book value 31.12.2016	192,167	205,600	494,267	73,555	965,589
Net book value 31.12.2017	204,825	184,440	297,384	85,944	772,593

16. INTANGIBLE ASSETS

Intangible assets as at 31 December 2017 and 2016 can be presented as follows:

Historical cost	Accounting and other software	Other intangible assets	Total
Historical cost 31.12.2015	**75,139**	**29,133**	**104,272**
Additions	84,538	-	**84,538**
Disposals	-	-	-
Historical cost 31.12.2016	**159,677**	**29,133**	**188,810**
Additions	-	3,577	**3,577**
Disposals	(18,523)	(3,421)	**(21,944)**
Historical cost 31.12.2017	**141,154**	**29,289**	**170,443**
Accumulated amortization			
Accumulated amortization 31.12.2015	**(30,716)**	**(8,152)**	**(38,868)**
Amortization	(10,932)	(1,311)	**(12,243)**
Accumulated amortization of disposals	-	-	-
Accumulated amortization 31.12.2016	**(41,648)**	**(9,463)**	**(51,111)**
Amortization	(15,132)	(1,114)	**(16,246)**
Accumulated amortization of disposals	11,934	6,486	**18,420**
Accumulated amortization 31.12.2017	**(44,846)**	**(4,091)**	**(48,937)**
Net book value			
Net book value 31.12.2016	**118,029**	**19,670**	**137,699**
Net book value 31.12.2017	**96,308**	**25,198**	**121,506**

17. OTHER ASSETS

Other assets as at 31 December 2017 and 2016 can be presented as follows:

	31 December 2017	31 December 2016
Prepayments	525,414	183,062
Other	65,358	-
Prepaid tax	-	3,884
Total	**590,772**	**186,946**

Amount of prepayments as at 31 December 2017 contains advance payment for software purchase with amount GEL337,457.

18. DEFERRED TAX ASSET

Deferred tax asset as at 31 December 2017 and 2016 can be presented as follows:

	31 December 2017	31 December 2016
At 1 January	103,052	37,849
Recognized in profit and loss		
Tax income	17,968	65,203
At 31 December	**121,020**	**103,052**

Temporary differences at a rate of 15% as at 31 December 2017 can be presented as follows:

	Asset 2017	Liability 2017	Net 2017	(Charged)/ credited to profit or loss 2017
Property and equipment & Intangible assets	-	(108,298)	(108,298)	16,460
Loans to customers	149,904	-	149,904	11,752
Other assets	-	(4,392)	(4,392)	(8,504)
Borrowings	78,466	-	78,466	(647)
Other liabilities	5,340	-	5,340	8,634
Tax-loss carry forward	-	-	-	(9,727)
Tax asset/(liabilities)	**233,710**	**(112,690)**	**121,020**	**17,968**
Set off of tax	(112,690)	112,690		
Net tax assets/(liabilities)	**121,020**	**-**	**121,020**	**17,968**

Temporary differences at a rate of 15% as at 31 December 2016 can be presented as follows:

	Asset 2016	Liability 2016	Net 2016	(Charged)/ credited to profit or loss 2016
Property and equipment & Intangible assets	-	(124,758)	(124,758)	17,660
Investment property*	-	-	-	98,279
Loans to customers	138,152	-	138,152	52,374
Other assets	4,112	-	4,112	4,112
Borrowings	79,113	-	79,113	33,211
Other liabilities	-	(3,294)	(3,294)	3,282
Tax-loss carry forward	9,727	-	9,727	(143,715)
Tax asset/(liabilities)	**231,104**	**(128,052)**	**103,052**	**65,203**
Set off of tax	(128,052)	128,052		
Net tax assets/(liabilities)	**103,052**	**-**	**103,052**	**65,203**

*As the Company does not hold these properties for sale and instead, considers them as a source of acquiring long term capital, those assets could not cause any temporary differences.

19. BORROWINGS

Borrowings as at 31 December 2017 and 2016 can be presented as follows:

	Interest rate	Currency	31 December 2017	31 December 2016
JSC TBC bank - GEL	15%	GEL	2,215,712	1,151,459
JSC TBC bank - USD	8%	USD	778,001	531,482
Non-resident financial institutions *	8.3-10%	USD	23,073,439	17,118,527
Shareholders	9% - 12%	USD	1,895,358	2,713,488
Non-resident individuals	6%-9.5%	USD-EUR	3,233,606	3,364,502
Resident individuals	7-15%	GEL-USD-EUR	5,049,124	6,159,931
Total			**36,245,240**	**31,039,389**

* Details for borrowings from non-resident financial institutions as at 31 December 2017 and 2016 can be presented as follows:

	31 December 2017	31 December 2016
BLUEORCHARD MICROFINANCE FUND	7,810,905	-
Global impact investments Sarl as the Holder	2,661,087	-
INVEST IN VISION	5,272,247	2,723,033
KOLIBRI KAPITAL ASA	1,055,523	1,061,533
SME Finance Loans for Growth	2,346,692	-
Triple Jump Innovation Fund	2,623,864	-
WALLBERG INVEST S.A	1,303,121	2,661,651
COMMERZ BANK	-	2,666,100
GUEVOURA FUND LTD	-	8,006,210
Total	**23,073,439**	**17,118,527**

Current and non-current portions of borrowings as at 31 December 2017 and 2016 can be presented as follows:

	31 December 2017	31 December 2016
Current	16,598,273	24,078,992
Non-current	19,646,967	6,960,397
Total borrowings	**36,245,240**	**31,039,389**

Accrued interest and principal balances as at 31 December 2017 and 2016 can be presented as follows:

	31 December 2017	31 December 2016
Principal balance	35,463,280	30,538,805
Accrued interest	781,960	500,584
Total borrowings	**36,245,240**	**31,039,389**

Currency and maturity analysis of borrowings is given in Note 24.

The Company has financial as well as non-financial covenants regarding the borrowings from non-resident financial institutions. There is a regular communication between the lenders and the Company regarding the covenants and the Company is in compliance with all the financial and other covenants as agreed with the lenders as at 31 December 2017. The Company was in compliance with the covenants as at 31 December 2016 except the following: adjusted equity to assets ratio to be minimum 12.5%, provisioning to be maximum 10% and liquidity surplus ratio to be minimum 0%. Though the Company communicated this issue with the lenders, and the lenders gave the Company waiver regarding this covenant.

19. BORROWINGS (CONTINUED)

Changes in borrowings arising from financing activities, including both changes arising from cash flows and non-cash flows can be presented as follows:

	Financial Institutions	Shareholders	Other	Subordinated	Total
As at 31 December 2016	**18,801,468**	**2,713,488**	**9,524,433**	**1,061,084**	**32,100,473**
Cash flow					
New borrowings during the year	45,741,964	528,380	3,349,804	918,740	**50,538,888**
Interest expense for the year	3,039,847	260,538	767,971	138,112	**4,206,468**
Interest payments	(2,450,892)	(254,317)	(519,641)	(100,479)	**(3,325,329)**
Payments of principal	(38,536,451)	(371,120)	(5,341,775)	-	**(44,249,346)**
Non-cash flows					
Set off	(533,898)	35,026	498,872	(36,692)	**(36,692)**
Translation differences	5,114	(1,016,637)	3,066	(23,362)	**(1,031,819)**
As at 31 December 2017	**26,067,152**	**1,895,358**	**8,282,730**	**1,957,403**	**38,202,643**

20. SUBORDINATED BORROWINGS

Subordinated borrowings as at 31 December 2017 and 2016 can be presented as follows:

	31 December 2017	31 December 2016
Principal balance	1,928,402	1,030,929
Accrued interest	29,001	30,155
Total borrowings	**1,957,403**	**1,061,084**

The majority of Company's subordinated borrowings are denominated in USD, with equivalent value of GEL1,037,842 and GEL1,061,084 as at 31 December 2017 and 2016, respectively. The rest of the borrowings as at 31 December 2017 are all denominated in GEL (GEL 919,561). Interest rates for USD denominated borrowings are 14% and in GEL denominated borrowings - 16.3%. All the subordinated borrowings are repayable in 2021 and 2022.

In the event of a bankruptcy principal payments as well as interest payments rank junior to any claim senior creditors are entitled to. The payments shall rank pari passu among subordinated debts and to other claims of junior creditors but remain senior to equity.

21. OTHER LIABILITIES

Other liabilities as at 31 December 2017 and 2016 can be presented as follows:

	31 December 2017	31 December 2016
Received advances	65,733	27,936
Tax payables*	155,789	6,517
Accounts payable to employees	35,600	39,837
Provision for tax liabilities	-	155,913
Payable related to portfolio purchase	-	12,887
Other accounts payable	28,672	47,987
Total	**285,794**	**291,077**

Provisions as at 31 December 2016 were recorded for certain tax positions that were determined by the Management as more likely than not to result in additional taxes being levied by the tax authorities. The assessment was based on interpretation of the tax laws that have been enacted or substantively enacted by the end of the reporting period. In 2017, the Company released provision and paid its liability for tax positions.

*According to the Georgian Tax Legislation, the Company should pay taxes on unified treasury code applicable for all taxes. As a result, as at 31 December 2017 the Company presents tax assets and liabilities on net basis.

22. SHARE CAPITAL AND SHARE PREMIUM

Organization's share capital as at 31 December 2017 and 2016 comprise of 1,110,548 and 1,010,548 ordinary shares in issue with a value of GEL1 each, respectively. On 24 February 2017 company issue 100,000 shares with nominal value of GEL1 per share. Placement price was defined as GEL9 per share and total authorized and placed capital for 31 December 2017 totaled GEL1,110,548. As at 31 December 2017 the company has share premium of GEL2,287,348, the sum of current year's share premium(GEL800,000) an the past year's share premium's balance(GEL1,487,348).

The authorised, issued and outstanding share capital as at 31 December 2017 can be presented as follows: All shares have a nominal value of GEL 1.

Shareholders	Number of shares in 2017	Type	31 December 2017, %	Share capital GEL
Eastern Capital AS	441,762	Ordinary	39.778770%	441,762
Greeninvesti LLC	195,604	Ordinary	17.613260%	195,604
Thomas Schiffler	95,211	Ordinary	8.573300%	95,211
Alea Equity GBR	66,763	Ordinary	6.011690%	66,763
Jochen Zimmermann	66,763	Ordinary	6.011690%	66,763
Seec Gmbh I.G.	60,214	Ordinary	5.422030%	60,214
Giorgi Khmaladze	55,527	Ordinary	4.999950%	55,527
Nikoloz Khmaladze	55,527	Ordinary	4.999950%	55,527
Klovningen AS	42,741	Ordinary	3.848600%	42,741
Enga Invest AS	30,437	Ordinary	2.740750%	30,437
Total	**1,110,548**		**100.000%**	**1,110,548**

All shares have a nominal value of GEL1.

23.CONTINGENCIES AND COMMITMENTS (CONTINUED)

The authorised, issued and outstanding share capital as at 31 December 2016 and 1 January 2016 can be presented as follows:

Shareholders	Number of shares in 2016	Type	31 December 2016, %	Share capital GEL
Eastern Capital AS	440,795	Ordinary	43.619360%	440,795
Greeninvesti LLC	195,175	Ordinary	19.313800%	195,175
Alea Equity GBR	66,616	Ordinary	6.592110%	66,616
Jochen Zimmermann	66,616	Ordinary	6.592110%	66,616
Seec Gmbh I.G.	60,082	Ordinary	5.945520%	60,082
Giorgi Khmaladze	52,905	Ordinary	5.235290%	52,905
Nikoloz Khmaladze	52,905	Ordinary	5.235290%	52,905
Klovningen AS	42,647	Ordinary	4.220180%	42,647
Enga Invest AS	32,806	Ordinary	3.246330%	32,806
Total	**1,010,548**		**100.000%**	**1,010,548**

All shares have a nominal value of GEL1.

23. CONTINGENCIES AND COMMITMENTS

LITIGATION

In the ordinary course of business, Companies are usually subject to legal actions and complaints. Following the Company's customers' failure to meet repayment obligations the Company is involved in legal disputes against such customers. The highest possible outcome from such legal disputes is the amount of loan from such customers (including accrued interest and charges). As it is not certain that all the customers will meet the repayment obligations, the Company recognises provision for impairment for such loans to customers. See Notes 13 and 6 for more information.

TAX LEGISLATION

Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. As per currently effective tax legislation in Georgia fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the period of review. The Company's management believes that Georgian tax legislation does not give raise to any further obligation other than already recorded and the Company's tax positions will be sustained.

OPERATING LEASE COMMITMENTS

At 31 December 2017 and 2016 the Company operated 14 branches respectively. 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:

	31 December 2017	31 December 2016
Up to 1 month	77,186	122,096
1 month to 3 months	154,372	244,192
3 months to 1 year	583,770	878,023
Between 1 and 2 years	608,957	1,023,800
Between 2 and 5 years	383,260	758,096
Financial commitments and contingencies, net	**1,807,545**	**3,026,207**

23. CONTINGENCIES AND COMMITMENTS (CONTINUED)

During the year ended 31 December 2017 and 2016 GEL917,420 and GEL931,151 respectively were recognised as expense in the statement of profit or loss and other comprehensive income in respect of operating leases.

CHANGES IN GEORGIAN LEGISLATION

On 23 December 2017 the President of Georgia signed decision regarding the following amendments to the Law of Georgia on Microfinance Organisations:

- The maximum total amount of a microcredit extended by a Microfinance Organisation to a single borrower may not exceed GEL100,000 (instead of GEL50,000 as stated before);
- At the moment of registration, minimal paid in share capital in an authorised capital of a Microfinance Organisation may not be less than GEL1,000,000 (instead of GEL250,000 as stated before). For the existing Microfinance Organisations' defined minimal amount of authorised capital must be filled up till 1 July 2019 by the following manner:
  - Not less than GEL500,000 - till 1 September 2018;
  - Not less than GEL1,000,000 - till 1 July 2019.

The total amount of authorised capital must be filled up by monetary way only.

24. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

As a financial institution, 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:

	31 December 2017	31 December 2016
Cash and cash equivalents	3,201,345	1,068,785
Loans to customers	35,265,472	30,193,905
Borrowings	36,245,240	31,039,389
Subordinated borrowings	1,957,403	1,061,084
Other liabilities	64,272	52,724

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

GENERAL OBJECTIVES, POLICIES AND PROCESSES

The 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.

24. FINANCIAL INSTRUMETS AND RISK MANAGEMENT (CONTINUED)

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

CREDIT RISK

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

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: 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:

	31 December 2017	31 December 2016
Cash and cash equivalents	2,485,541	229,823
Loans to customers	35,265,472	30,193,905
Total credit risk exposure	**37,751,013**	**30,423,728**

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 aging and other information about credit risk as disclosed in Note 13.

24. FINANCIAL INSTRUMETS AND RISK MANAGEMENT (CONTINUED)

MARKET RISK

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

Market risk arises from the 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.

- 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 2017 is presented in the table below:

Financial assets	GEL	USD	EUR	Total
Cash and cash equivalents	590,690	2,606,677	3,978	**3,201,345**
Loans to customers	25,225,510	10,007,956	32,006	**35,265,472**
Total financial assets	**25,816,200**	**12,614,633**	**35,984**	**38,466,817**
Financial liabilities				
Borrowings	2,349,606	31,797,655	2,097,979	**36,245,240**
Subordinated borrowings	919,561	1,037,842	-	**1,957,403**
Other liabilities	285,794	-	-	**285,794**
Total financial liabilities	**3,554,961**	**32,835,497**	**2,097,979**	**38,488,437**
Open balance sheet position	**22,261,239**	**(20,220,864)**	**(2,061,995)**	**(21,620)**

	GEL	USD	EUR	Total
Restricted cash in banks*	-	19,441,165	2,179,288	**21,620,453**
Borrowings collateralised with restricted cash in banks*	20,656,040	56,692	-	**20,712,732**

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

Financial assets	GEL	USD	EUR	Total
Cash and cash equivalents	313,690	730,822	24,273	**1,068,785**
Loans to customers	8,982,239	21,158,071	53,595	**30,193,905**
Total financial assets	**9,295,929**	**21,888,893**	**77,868**	**31,262,690**
Financial liabilities				
Borrowings	1,240,017	26,877,015	2,922,357	**31,039,389**
Subordinated borrowings	-	1,061,084	-	**1,061,084**
Other liabilities	-	-	-	**100,711**
Total financial liabilities	**1,240,017**	**27,938,099**	**2,922,357**	**32,201,184**
Open balance sheet position	**8,055,912**	**(6,049,206)**	**(2,844,489)**	**(938,494)**

24. FINANCIAL INSTRUMETS AND RISK MANAGEMENT (CONTINUED)

	GEL	USD	EUR	Total
Restricted cash in banks*	-	6,127,342	1,961,947	**8,089,289**
Borrowings collateralised with restricted cash in banks*	6,975,979	-	-	**6,975,979**

* For details about bank deposits and borrowings collateralized with bank deposits refer to Note 12.

CURRENCY RISK SENSITIVITY

The following table details the Company's sensitivity to a 20% increase and 20% decrease in the exchange rate of GEL per USD and per EUR. 20% 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 20% change in foreign currency exchange rates.

Impact on net profit and equity based on asset values as at 31 December 2017 and 2016:

	31 December 2017		31 December 2016	
Currency rate sensitivity including effects of restricted cash in bank and borrowings collateralized with restricted cash in banks	**+20%**	**-20%**	**+20%**	**-20%**
USD impact	(167,278)	167,278	15,627	(15,627)
EUR impact	23,459	(23,459)	(176,508)	176,508
Total net impact	**(143,819)**	**143,819**	**(160,881)**	**160,881**

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 liabilities as at 31 December 2017 can be presented as follows:

Financial liabilities	Up to 1 month	1 month to 3 months	3 months to 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Borrowings	1,039,669	4,864,566	10,694,037	17,456,566	2,190,402	**36,245,240**
Subordinated borrowings	6,555	-	22,446	232,002	1,696,400	**1,957,403**
Other liabilities	64,272	-	-	-	-	**64,272**
Total financial liabilities	**1,110,496**	**4,864,566**	**10,716,483**	**17,688,568**	**3,886,802**	**38,266,915**
Lease commitments	77,186	154,372	583,770	608,957	383,260	**1,807,545**

24. FINANCIAL INSTRUMETS AND RISK MANAGEMENT (CONTINUED)

Liquidity of Financial assets and liabilities as at 31 December 2016 can be presented as follows:

Financial liabilities	Up to 1 month	1 month to 3 months	3 months to 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Borrowings	2,296,654	2,831,969	18,950,369	6,675,230	285,167	**31,039,389**
Subordinated borrowings	17,313	12,842	-	-	1,030,929	**1,061,084**
Other liabilities	52,724	-	-	-	-	**52,724**
Total financial liabilities	**2,366,691**	**2,844,811**	**18,950,369**	**6,675,230**	**1,316,096**	**32,153,197**
Lease commitments	122,096	244,192	878,023	1,023,800	758,096	**3,026,207**

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;
- To comply with the capital requirements set by NBG and borrowers; 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.

	31 December 2017	31 December 2016
Total liabilities	38,488,437	32,391,550
Total equity	4,917,216	3,812,202
Debt to equity ratio (%)	**783%**	**850%**

The Company is in compliance with minimum statutory capital requirements of GEL250,000 as defined by the National Bank of Georgia as at 31 December 2017 and 31 December 2016.

25. PRIOR PERIOD RECLASSIFICATION

For presentation purposes, the Company decided to present certain items related to financial instruments at fair value through profit or loss in interest expense and loss from exchange rate differences, net.

	As previously reported	Reclassification	As restated
Interest expense	(2,898,550)	(197,459)	(3,096,009)
Net other income	23,540	9,659	33,199
Net gain (loss) on financial instruments at fair value through profit or loss	516,451	(516,451)	-
Loss from exchange rate differences, net	(745,119)	704,251	(40,868)

26. 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 andfellow 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.

Related party balances and transactions as and for the year ended 31 December 2017:

Financial statement caption	Note	Shareholders	Key management personnel	Other related parties	Total as per the financial statements caption
Borrowings	19	1,895,358	-	374,331	**36,245,240**
Subordinated borrowings	20	1,718,846	-	238,557	**1,957,403**
Interest expense	5	367,102	-	69,954	**4,206,468**
Staff costs including salaries and bonuses	8	-	291,000	-	**2,651,414**

26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

Financial statement caption	Note	Shareholders	Key management personnel	Other related parties	Total as per the financial statements caption
Borrowings	19	2,713,488	-	500,046	**31,039,389**
Subordinated borrowings	20	816,019	-	245,065	**1,061,084**
Interest expense	5	421,564	-	99,130	**3,096,009**
Staff costs including salaries and bonuses	8	-	266,375	-	**2,674,316**

27. EVENTS AFTER THE REPORTING PERIOD

During February-May 2018, the Company obtained additional funding from the following funds: Frankfurt School Financial Services, BlueOrchard Microfinance Fund and Triple Jump Innovation Fund with amount USD2,000,000, USD2,000,000 and USD1,000,000, respectively. Interest rates on these loans range between 8.25%-8.5%.

In April 2018, the Company implemented new soft Alta, which will make the crediting process far more flexible and easier. The new program will help diversify credit and non-credit products, such as plastic cards, money transfers, Internet and mobile banking, while the sales procedure will improve through tablets.