MFO JSC Georgian Credit

Financial Statements

Together with the

Independent Auditors' Report

Year ended 31 December 2013

Contents:

Independent auditors' report

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

We have audited the accompanying financial statements of the **Joint Stock Company Georgian Credit** (hereinafter - the Company), which comprise the statement of financial position as at 31 December 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of **Joint Stock Company Georgian Credit** as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

8 May 2014

Tbilisi, Georgia

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

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company at 31 December 2013 and the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

Financial Statements for the year ended 31 December 2013 were approved on behalf of the management on 8 May 2014 by:

Director ________________________ G.Naskidashvili

Chief Accountant ________________________ N.Begeluri

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

(In GEL)

	Note	2013	2012
Interest income	5	3,435,767	2,353,654
Interest expenses	5	(1,419,625)	(1,074,486)
Net interest income		**2,016,142**	**1,279,168**
Provision from loan impairment	6	(203,087)	(358,715)
Net interest income after provision for loan		**1,813,055**	**920,453**
Other income/(expenses) net		58,172	38,770
Fee and commission income	7	335,555	241,695
Staff costs including salaries and bonuses	8	(946,481)	(739,080)
Other expenses	9	(616,611)	(493,536)
Gain on revaluation of investment property	14	31,352	256,486
Loss from exchange rate difference	10	(116,023)	(46,175)
Profit before income tax		**559,019**	**178,613**
Income tax expenses	11	(123,150)	(26,666)
Net profit		**435,869**	**151,947**
Other comprehensive income		-	-
Total comprehensive income for the period		**435,869**	**151,947**

Signed on behalf of management by:

Director ____________________ G.Naskidashvili

Chief Accountant ____________________ N.Begeluri

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

(In GEL)

	Note	2013	2012
Assets			
Cash and cash equivalents	12	769,486	131,798
Loan to customers	13	10,999,139	8,476,966
Investment property	14	526,160	652,680
Property and equipment	15	620,621	558,283
Intangible assets	16	45,899	41,805
Other assets	17	205,599	116,885
Total assets		**13,166,904**	**9,978,417**
Liabilities and equity			
Liabilities			
Deferred income tax liability	18	66,471	62,869
Borrowings	19	10,700,111	8,550,560
Current income tax payable		76,603	6,308
Other liabilities	20	104,618	75,448
Total liabilities		**10,947,803**	**8,695,185**
Equity			
Share capital	21	850,546	725,546
Share premium	21	375,000	-
Retained earnings		993,555	557,686
Total equity		**2,219,101**	**1,283,232**
Total Liabilities and equity		**13,166,904**	**9,978,417**

Signed on behalf of management by:

Director ____________________ G.Naskidashvili

Chief Accountant ____________________ N.Begeluri

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

	Note	Share capital	Share premium	Retained Earnings	Total
Balance at 31 December 2011		**725,546**	**-**	**405,739**	**1,131,285**
Total comprehensive income for the year		-	-	151,947	**151,947**
Balance at 31 December 2012		**725,546**	**-**	**557,686**	**1,283,232**
Issue of shares	**21**	125,000	375,000	-	**500,000**
Total comprehensive income for the year		-	-	435,869	**435,869**
Balance at 31 December 2013		**850,546**	**375,000**	**993,555**	**2,219,101**

Signed on behalf of management by:

Director ____________________ G.Naskidashvili

Chief Accountant ____________________ N.Begeluri

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

(In GEL)

	Note	2013	2012
Cash flows from operating activities:			
Profit before income tax		559,019	178,613
Adjustment for:			
Provision for loan impairment	6	203,087	358,715
Depreciation and amortization	15,16	67,051	56,836
Loss from exchange rate difference	10	116,023	46,175
Interest expenses	5	1,419,625	1,074,486
Gain on revaluation of investment property	14	(31,352)	(256,486)
Interest income	5	(3,435,767)	(2,353,654)
Other income		(58,172)	(38,770)
Cash outflow from operating activities before changes in operating assets and liabilities		**(1,160,486)**	**(934,085)**
Movements in working capital			
Increase in loans to customers		(2,293,760)	(3,079,675)
Increase in other assets		(77,244)	(14,700)
Increase/(decrease) in other liabilities		83,731	(152,111)
Cash outflow from operating activities		**(3,447,759)**	**(4,180,571)**
Inerest received		3,158,671	2,154,354
Interest paid		(1,368,219)	(967,129)
Income tax paid		(58,541)	(36,240)
Net cash outflow from operating activities		**(1,715,848)**	**(3,029,586)**
Cash flows from investing activities			
Purchase of property and equipments		(124,390)	(91,614)
Proceeds from sale of investment property		221,059	-
Purchase of intangible assets		(9,093)	(32,150)
Purchase of investment property		(16,485)	(63,531)
Net cash inflow/(outflow) from investing activities		**71,091**	**(187,295)**
Cash flows from financing activities:			
Repayment of borrowings		(5,383,986)	(4,115,695)
Proceeds from borrowings		6,947,539	7,190,242
Proceeds from share issue		500,000	-
Net cash inflow from financing activities		**2,063,553**	**3,074,547**
Net inflow/(outflow) in cash and cash equivalents		**418,796**	**(142,334)**
Cash and cash equivalents at beginning of the year	12	**66,779**	**148,711**
Effect of changes in foreign exchange rate on cash and cash equivalents	10	283,911	60,402
Cash and cash equivalents at the end of the year	12	**769,486**	**66,779**

Signed on behalf of management by:

Director ________________________ G.Naskidashvili

Chief Accountant ________________________ N.Begeluri

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

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 the Company's principal business activity the Company provides micro and small loans (up to GEL 50,000) to customers in Georgia. Loans are disbursed in EUR, USD and GEL.

The Company's head office is located on 30 Kazbegi Avenue, Tbilisi, Georgia.

The Company had 5 branches as at 31 December 2013.

As at 31 December, 2013 and 2012, the following shareholders owned the capital of the Company:

	31-Dec 2013, %	31-Dec 2012, %
Shareholders		
Tim Meyer-Schell	26.01%	25.50%
Philip Nitzsche	8.53%	25.50%
Eastern Capital AS	34.68%	22.00%
Alea Equity GBR	7.25%	8.50%
Hansjoerg Brokmann	16.28%	10.00%
Jochen Zimmermann	7.25%	8.50%
Total	**100%**	**100%**

For more information about the Company's share capital, refer to Note 21.

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 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.

2. Basis of preparation (continued)

The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 4.

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

Key measurement terms

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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.

(a) Financial assets

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

Fair value through profit or loss

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

3. Summary of significant accounting policies (continued)

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

Held to maturity investments

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

(b) 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.

3. **Summary of significant accounting policies (continued)**

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

(c) Offsetting

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

(d) IFRS 7 fair value measurement hierarchy

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

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

(e) Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the 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.

3. Summary of significant accounting policies (continued)

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

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

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

Cash and cash equivalents

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

Amounts due from banks

Amounts due from banks are recorded when the Company advances money to banks with original maturity of more than three months and with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from banks are carried at amortised cost.

Property, equipment and intangible assets

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

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

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

3. Summary of significant accounting policies (continued)

Investment property

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

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 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

3. Summary of significant accounting policies (continued)

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.

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.

3. Summary of significant accounting policies (continued)

Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the 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 each 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 each 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.

The results and financial position of the Company are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- Components of equity are translated at the historic rate; and
- All resulting exchange differences are recognised in other comprehensive income.

Table below presents the closing exchange rates by the National Bank of Georgia As at 31 December 2013 and 2012:

	USD	***EUR***
Exchange rate As at 31 December 2013	1.7363	2.3891
Exchange rate as at 31 December 2012	1.6567	2.1825

New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013. But none of the new standards and interpretations have any material impact on the Company’s financial Statements as at 31 December 2013.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, 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 9, “Financial Instruments: Classification and Measurement”. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

3. Summary of significant accounting policies (continued)

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- 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.
- 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 amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Company does not intend to adopt the existing version of IFRS 9.

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set off' and that some gross settlement systems may be considered equivalent to net settlement.

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

4. Critical accounting estimates and judgments (continued)

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.

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

Delinquency status	Rate in %
30 to 45 days overdue	5
46 to 120 days overdue	25
121 to 180 days overdue	50
More than 180 days overdue	100

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 periods.

Initial recognition of related party transactions

In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at December 31, 2013 there were no transactions with related parties at other than market conditions. Terms and conditions of related party balances are disclosed in Note 22.

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

4. Critical accounting estimates and judgments (continued)

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.

5. Net interest income

Net interest income for the year ended 31 December, 2013 and 2012 can be presented as follows:

	2013	2012
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
Interest income on unimpaired financial assets	3,090,729	2,235,693
Interest income on impaired financial assets	345,038	117,961
Total	**3,435,767**	**2,353,654**
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	3,435,767	2,353,654
Total interest income on financial assets recorded at amortized cost	**3,435,767**	**2,353,654**
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on borrowings	(1,419,625)	(1,074,486)
Total interest income on financial liabilities recorded at amortized cost	**(1,419,625)**	**(1,074,486)**
Net interest income	**2,016,142**	**1,279,168**

6. Provision for loan impairment

Provision for loan impairment for the year ended 31 December, 2013 can be presented as follows:

	Business loan	Consumer loan	Agricultural installment	Total
At 1 January 2013	**(67,364)**	**(17,889)**	**(2,353)**	**(87,606)**
Provision for impairment during the year	(156,612)	(44,126)	(2,349)	**(203,087)**
Amounts written off during the year as uncollectible	145,272	47,850	4,566	**197,688**
At 31 December 2013	**(78,704)**	**(14,165)**	**(137)**	**(93,006)**
Individual impairment	9,182	-	-	**9,182**
Collective impairment	69,522	14,165	137	**83,824**
	78,704	**14,165**	**137**	**93,006**

6. Provision for loan impairment (continued)

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

	Business loan	Consumer loan	Agricultural installment	Total
At 1 January 2011	(11,410)	(41,014)	(378)	**(52,802)**
Provision for impairment during the year	(75,171)	(280,985)	(2,559)	**(358,715)**
Amounts written off during the year	19,217	304,110	584	**323,911**
At 31 December 2012	**(67,364)**	**(17,889)**	**(2,353)**	**(87,606)**
Individual impairment	36,973	8,899	1,551	**47,423**
Collective impairment	30,391	8,990	802	**40,183**
	67,364	**17,889**	**2,353**	**87,606**

7. Fee and commission income

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

8. Staff costs including salaries and bonuses

Staff costs including salaries and bonuses for the year ended 31 December, 2013 and 2012 can be presented as follows:

	2013	**2012**
Salary	(713,000)	(533,888)
Bonuses	(217,456)	(188,977)
Insurance	(16,025)	(16,215)
	(946,481)	**(739,080)**

9. Other expenses

Other expenses for the year ended 31 December, 2013 and 2012 can be presented as follows:

	2013	**2012**
Operating leases	(199,156)	(130,894)
Professional services	(72,332)	(51,136)
Depreciation and amortization	(67,050)	(56,834)
Communication expenses	(63,713)	(41,722)
Office maintenance	(56,263)	(45,732)
Business trip expenses	(29,231)	(35,988)
Utilities	(20,675)	(16,765)
Stationary	(17,226)	(9,417)
Audit and consulting service fees	(15,803)	(17,255)
Bank fees	(8,789)	(5,667)
Taxes other than income tax	(7,158)	(6,535)
Other	(59,215)	(75,591)
	(616,611)	**(493,536)**

10. Loss from exchange rate difference

Loss from exchange rate difference for the year ended 31 December, 2013 and 2012 can be presented as follows:

	2013	2012
Realized foreign exchange gain	283,911	60,402
Unrealized foreign exchange loss	(399,934)	(106,577)
	(116,023)	**(46,175)**

11. Income tax expense

Income tax expense for the year ended 31 December, 2013 and 2012 can be presented as follows:

	2013	2012
Current tax charge	(119,548)	(36,240)
Effect of temporary differences	(3,602)	9,574
	(123,150)	**(26,666)**

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

	2013	2012
Profit before tax	559,019	178,613
Applicable tax rate	15%	15%
Theoretical income tax	(83,853)	(22,792)
Expenses not deductible for tax purposes	(39,297)	(3,874)
	(123,150)	**(26,666)**

12. Cash and cash equivalents

Cash and cash equivalents as at 31 December, 2013 and 2012 can be presented as follows:

	2013	2012
Cash on hand	359,498	128,985
Cash on current accounts with banks in GEL	258,540	2,709
Cash on current accounts with banks in other currencies	151,448	104
	769,486	**131,798**

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

	2013	2012
Cash and cash equivalents	769,486	131,798
Bank overdraft (Note 19)	-	(65,019)
	769,486	**66,779**

13. Loans to customers

Loans to customers as at 31 December, 2013 and 2012 can be presented as follows:

	2013	2012
Originated loans to customers	10,806,110	8,288,885
Accrued interest	286,035	275,687
	11,092,145	**8,564,572**
Less: allowance for impairment losses	(93,006)	(87,606)
Total loans to customers	**10,999,139**	**8,476,966**

Analysis by loan type:	2013	2012
Business loan	9,428,320	6,791,767
Consumer loan	1,306,838	1,361,993
Pawnshop loan	328,587	342,107
Agricultural installment	28,400	68,705
	11,092,145	**8,564,572**
Less: allowance for impairment losses	(93,006)	(87,606)
Total loans to customers	**10,999,139**	**8,476,966**

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

	Business loan	Consumer loan	Pawnshop loan	Agricultural instalment	Total
Current and not impaired	7,982,097	1,017,565	310,022	15,318	**9,325,002**
Past due but not impaired	757,137	121,188	12,376	4,145	**894,846**
Loans individually determined to be impaired	392,106	91,140	6,189	4,776	**494,211**
Loans determined to be collective impaired:					
31-45 days overdue	40,790	11,396	-	62	**52,248**
46-120 days overdue	89,708	30,018	-	-	**119,726**
121-180 days overdue	77,458	6,638	-	-	**84,096**
More than 180 days	89,024	28,893	-	4,099	**122,016**
	9,428,320	**1,306,838**	**328,587**	**28,400**	**11,092,145**
Less impairment provisions (note 6)	(78,704)	(14,165)	-	(137)	**(93,006)**
Total Loans to customers	**9,349,616**	**1,292,673**	**328,587**	**28,263**	**10,999,139**

13. Loans to customers (continued)

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

	Business loan	Consumer loan	Pawnshop loan	Agricultural installment	Total
Current and not impaired	5,941,392	990,208	323,385	53,182	**7,308,167**
Past due but not impaired	302,261	68,278	18,722	6,559	**395,820**
Loans individually determined to be impaired	309,382	250,892	-	2,135	**562,409**
Loans determined to be impaired:					
31-45 days overdue	32,654	8,145	-	2,008	**42,807**
46-120 days overdue	116,088	18,312	-	3,223	**137,623**
121-180 days overdue	89,990	26,158	-	1,598	**117,746**
	6,791,767	**1,361,993**	**342,107**	**68,705**	**8,564,572**
Less impairment provisions (note 6)	(67,364)	(17,564)	(2,353)	(325)	**(87,606)**
Total Loans to customers	**6,724,403**	**1,344,429**	**339,754**	**68,380**	**8,476,966**

14. Investment property

Investment property as at 31 December, 2013 and 2012 can be presented as follows:

	2013 Fair value	2012 Fair value
Balance at beginning of year	**652,680**	**219,445**
Additions	**16,485**	176,749
Disposals	**(174,357)**	-
Gain on revaluation of investment property	**31,352**	256,486
Balance at the end of year	**526,160**	**652,680**

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

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

15. Property and equipment

Property and equipment as at 31 December, 2013 and 2012 can be presented as follows:

Historical cost	Buildings	Furniture and office equipment	Computer and communication equipment	Vehicles	Total
Historical cost 31.12.2011	**403,068**	**92,939**	**106,389**	**11,258**	**613,654**
Additions	-	28,833	36,427	26,354	**91,614**
Disposals	-	-	(2,365)	-	**(2,365)**
Historical cost 31.12.2012	**403,068**	**121,772**	**140,451**	**37,612**	**702,903**
Additions	-	57,932	31,217	35,241	**124,390**
Disposals	-	-	-	-	**-**
Historical cost 31.12.2013	**403,068**	**179,704**	**171,668**	**72,853**	**827,293**
Accumulated depreciation					
Accumulated depreciation 31.12.2011	**(16,773)**	**(37,957)**	**(37,405)**	**(2,647)**	**(94,782)**
Depreciation for the year	(9,842)	(17,088)	(22,275)	(2,998)	**(52,203)**
Accumulated depreciation of disposals	-	-	2,365	-	**2,365**
Accumulated depreciation 31.12.2012	**(26,615)**	**(55,045)**	**(57,315)**	**(5,645)**	**(144,620)**
Depreciation for the year	(9,268)	(21,060)	(28,726)	(2,998)	**(62,052)**
Accumulated depreciation of disposals	-	-	-	-	**-**
Accumulated depreciation 31.12.2013	**(35,883)**	**(76,105)**	**(86,041)**	**(8,643)**	**(206,672)**
Net book value					
Net book value 31.12. 2012	**376,453**	**66,727**	**83,136**	**31,967**	**558,283**
Net book value 31.12. 2013	**367,185**	**103,599**	**85,627**	**64,210**	**620,621**

16. Intangible assets

Intangible assets as at 31 December, 2013 and 2012 can be presented as follows:

Historical cost	*Accounting and other software*	*Other intangible assets*	Total
Historical cost 31.12.2011	**23,880**	**4,730**	**28,610**
Additions	26,900	5,250	**32,150**
Historical cost 31.12.2012	**50,780**	**9,980**	**60,760**
Additions	-	9,093	**9,093**
Historical cost 31.12.2013	**50,780**	**19,073**	**69,853**
Accumulated amortisation			
Accumulated amortisation 31.12.2011	**(12,768)**	**(1,554)**	**(14,322)**
Amortization for the year	(3,292)	(1,341)	**(4,633)**
Accumulated amortisation 31.12.2012	**(16,060)**	**(2,895)**	**(18,955)**
Amortization for the year	(3,157)	(1,842)	**(4,999)**
Accumulated amortisation 31.12.2013	**(19,217)**	**(4,737)**	**(23,954)**
Net book value			
Net book value 31.12. 2012	**34,720**	**7,085**	**41,805**
Net book value 31.12. 2013	**31,563**	**14,336**	**45,899**

17. Other assets

Other assets as at 31 December, 2013 and 2012 can be presented as follows:

	2013	2012
Prepayments	197,864	105,669
Tax assets	6,069	1,940
Other assets	1,666	9,276
	205,599	**116,885**

18. Deferred income tax liability

Deferred income tax as at 31 December, 2013 and 2012 can be presented as follows:

	2013	2012
At 1 January	**(62,869)**	**(72,443)**
Recognised in profit and loss		
Tax (expense)/benefit	(3,602)	9,574
Recognized in other comprehensive income	-	-
At 31 December	**(66,471)**	**(62,869)**

18. Deferred income tax liability (continued)

Temporary differences as at December 31, 2013 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to equity
	2013	2013	2013	2013	2013
Property and equipment	-	(88,865)	(88,865)	(5,123)	-
Other assets	1,049	-	1,049	1,049	-
Investment property	-	(48,397)	(48,397)	6,735	-
Loan to customers	43,633	-	43,633	(18,095)	-
Borrowings	23,156	-	23,156	11,871	-
Other liabilities	2,953	-	2,953	(39)	-
Tax asset/(liabilities)	**70,791**	**(137,262)**	**(66,471)**	**(3,602)**	**-**
Set off of tax	(70,791)	70,791			
Net tax assets/(liabilities)	**-**	**(66,471)**	**(66,471)**	**(3,602)**	**-**

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

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

19. Borrowings

Borrowings as at 31 December, 2013 and 2012 can be presented as follows:

	Interest rate	Currency	2013	2012
JSC TBC bank	12%	USD	521,048	-
JSC BTA bank	18%	USD	-	1,468,376
JSC BTA bank	18%	GEL	-	164,968
JSC BTA bank (overdraft)	20%	USD	-	65,019
Other*	13-18%	EUR-USD-GEL	10,179,063	6,852,197
			10,700,111	**8,550,560**

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

19. Borrowings (continued)

Current and noncurrent borrowings as at 31 December, 2013 and 2012 can be presented as follows:

	2013	2012
Current	10,628,957	2,866,533
Non-current	71,154	5,684,027
Total Borrowings	**10,700,111**	**8,550,560**

As at 31 December, 2013 and 2012 accrued interests on borrowings amounted to GEL164,886 and GEL127,495 respectively.

20. Other liabilities

Other liabilities as at 31 December, 2013 and 2012 can be presented as follows:

	2013	2012
Accounts payable to suppliers	62,519	34,058
Payable to employees	19,687	16,809
Taxes payable	18,941	9,851
Other liabilities	3,471	14,730
	104,618	**75,448**

21. Share capital

In October, 2013 the Company issued the 125,000 common shares with a nominal value of GEL 1 per share, placement price for per share defined as GEL 4 and total authorized capital for 31 December 2013 totalled 850,546 shares.

22. Contingencies and Commitments

At 31 December 2013 the Company operated five branches. All of them are leased from various parties under operating leases. At year-end, the Company had outstanding commitments under non-cancellable operating leases that fall due as follows:

	2013	2012
Within one year	224,504	171,468
Later than one year but within five years	185,567	170,433
Later than five years	-	-
	410,071	**341,901**

23. Financial instruments - risk management

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

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

23. Financial instruments – risk management (continued)

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

Principal financial instruments

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

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

General objectives, policies and processes

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

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

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

Credit Risk

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

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

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

- 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.

23. Financial instruments – risk management (continued)

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:

	2013	2012
Loans to customers	10,999,139	8,476,966
Cash at bank	409,988	2,813
	11,409,127	**8,479,779**

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

Market Risk

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

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

Interest Rate Risk

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

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.

23. Financial instruments – risk management (continued)

The Company's exposure to foreign currency exchange rate risk as at 31 December, 2013 is presented in the table below:

	GEL	USD USD 1.00 = GEL**1.7363**	EUR EUR 1.00 = GEL**2.3891**	
Financial assets				
Loans to customers	1,016,503	9,953,210	29,426	**10,999,139**
Cash and cash equivalents	339,092	355,989	74,405	**769,486**
Total financial assets	**1,355,595**	**10,309,199**	**103,831**	**11,768,625**
Financial liabilities				
Borrowings	99,982	7,593,877	3,006,252	**10,700,111**
Total financial liabilities	**99,982**	**7,593,877**	**3,006,252**	**10,700,111**
Open balance sheet position	**1,255,613**	**2,715,322**	**(2,902,421)**	

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

	GEL	USD USD 1.00 = GEL**1.6567**	EUR EUR 1.00 = GEL**2.1825**	
Financial assets				
Loans to customers	738,840	7,619,139	118,987	**8,476,966**
Cash and cash equivalents	35,705	82,579	13,514	**131,798**
Total financial assets	**774,545**	**7,701,718**	**132,501**	**8,608,764**
Financial liabilities				
Borrowings	316,710	6,496,720	1,737,130	**8,550,560**
Total financial liabilities	316,710	6,496,720	1,737,130	**8,550,560**
Open balance sheet position	**457,835**	**1,204,998**	**-1,604,629**	

Currency risk sensitivity

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

23. Financial instruments – risk management (continued)

Impact on net profit and equity based on asset values as at 31 December 2013:

	USD impact		EUR impact	
2013	**GEL/USD + 10%**	**GEL/USD - 10%**	**GEL/EUR + 10%**	**GEL/EUR - 10%**
Profit/(loss)	271,532	(271,532)	290,242	(290,242)

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

	USD impact		EUR impact	
2012	**GEL/USD + 10%**	**GEL/USD - 10%**	**GEL/EUR + 10%**	**GEL/EUR - 10%**
Profit/(loss)	120,499	(120,499)	160,462	(160,462)

Liquidity Risk

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

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

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

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

Liquidity of Financial assets and liabilities as at 31 December 2013 can be presented as follows:

	Up to 1 month	1 month to 3 months	3 months to 1 year	Between 1 and 5 years	Total
Financial assets					
Loans to customers	428,843	478,574	2,757,494	7,334,228	**10,999,139**
Total interest bearing financial assets	**428,843**	**478,574**	**2,757,494**	**7,334,228**	**10,999,139**
Cash and cash equivalents	769,486	-	-	-	769,486
Total financial assets	**1,198,329**	**478,574**	**2,757,494**	**7,334,228**	**11,768,625**
Liabilities					
Borrowings	1,072,748	2,066,534	6,593,491	967,338	**10,700,111**
Total interest bearing financial liabilities	**1,072,748**	**2,066,534**	**6,593,491**	**967,338**	**10,700,111**
Total financial liabilities	**1,072,748**	**2,066,534**	**6,593,491**	**967,338**	**10,700,111**
Net liquidity gap	125,581	(1,587,960)	(3,835,997)	6,366,890	
Cumulative liquidity gap	**125,581**	**(1,462,379)**	**(5,298,376)**	**1,068,514**	

23. Financial instruments – risk management (continued)

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

	Up to 1 month	1 month to 3 months	3 months to 1 year	Between 1 and 5 years	Total
Financial assets					
Loans to customers	331,202	317,675	2,167,559	5,660,530	**8,476,966**
Total interest bearing financial assets	**331,202**	**317,675**	**2,167,559**	**5,660,530**	**8,476,966**
Cash and cash equivalents	148,711	-	-	-	**148,711**
Total financial assets	**479,913**	**317,675**	**2,167,559**	**2,747,788**	**5,712,934**
Liabilities					
Borrowings	254,140	134,763	2,477,630	5,684,027	**8,550,560**
Total interest bearing financial liabilities	**254,140**	**134,763**	**2,477,630**	**5,684,027**	**8,550,560**
Total financial liabilities	**254,140**	**134,763**	**2,477,630**	**5,684,027**	**8,550,560**
Net liquidity gap	225,773	182,912	(310,072)	(2,936,240)	
Cumulative liquidity gap	**225,773**	**408,685**	**98,614**	**(2,837,626)**	

Capital disclosures

The Company's objectives when maintaining capital are:

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

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

24. Transactions with related parties

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

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

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

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

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

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

24.Transactions with related parties (continued)

and related parties are disclosed below:

Balance sheet caption	Relationship	Related party transactions	Total category as per the financial statements caption
Borrowings			
Individuals	Share holder	3,573,610	10,700,111
Individuals	Part of supervision board	1,738,049	
		5,311,659	**10,700,111**

Included in the statement of comprehensive income for the years ended 31 December 2013 are the following amounts which were recognized as transactions with related parties:

Income Statement caption	Relationship	Related party transactions	Total category as per the financial statements caption
Interest expenses			
Individuals	share holders	440,942	1,419,625
Individuals	Part of supervision board	210,192	
		651,135	**1,419,625**

The remuneration of key management was as follows:

	2013		2012	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Key management personnel compensation:				
Short-term employee benefits	205,743	**946,481**	177,861	**739,080**

25. Events after the reporting period

Post balance sheet events occurred in the Company:

- In February 2014 the founder Philip Nitzsche completely sold his shares of the company. The shares were purchased by Eastern Capital.
- In April 2014 the Company opened a branch in Gori.