MICROFINANCE ORGANIZATION
B.I.G. LLC

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 MICROFINANCE ORGANIZATION B.I.G. LLC

Opinion

We have audited the financial statements of Microfinance Organization B.I.G LLC, which comprise the statement of financial position as at 31 December 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Ivane Zhuzhunashvili

Tbilisi, Georgia

27 April 2018

MICROFINANCE ORGANIZATION B.I.G. LLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(In GEL)

	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	5	6,396,923	1,963,217
Financial instruments at fair value through profit or loss		-	360,437
Loans to customers	6	29,475,961	31,762,417
Other Assets	7	1,061,436	548,791
Property and equipment	8	2,574,239	1,787,168
Intangible assets	9	286,879	210,380
Investment property	10	198,450	202,861
Current income tax asset		256,137	513,874
Total assets		**40,250,025**	**37,349,145**
Liabilities			
Borrowed Funds	11	31,422,123	28,071,528
Other liabilities	12	322,465	339,632
Deferred tax liability	13	27,798	14,674
Total liabilities		**31,772,386**	**28,425,834**
Equity			
Charter capital	14	1,135,714	1,135,714
Retained earnings		7,341,925	7,787,597
Total equity		**8,477,639**	**8,923,311**
Total liabilities and equity		**40,250,025**	**37,349,145**

Financial Statements for the year ended 31 December 2017 were approved on behalf of management on 27 April 2018 by:

General Director _______________ G. Mariamidze

Deputy General Director _______________ S. Tikaradze

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

(In GEL)

	Note	2017	2016
Interest income	15	9,377,759	9,970,482
Interest expense	15	(3,131,817)	(2,554,603)
Net interest income		**6,245,942**	**7,415,879**
Other Operating Income	16	459,187	332,585
Loan impairment charge	6	(395,399)	(494,129)
Net operating income		**6,309,730**	**7,254,335**
Personnel expenses	17	(4,087,594)	(3,781,228)
Rent expense	18	(599,913)	(509,709)
Depreciation and amortization	8,9,10	(384,539)	(282,842)
Administrative and other operating expenses	19	(1,334,165)	(1,182,634)
Net gain (loss) on financial instruments at fair value through profit or loss		(42,073)	193,363
Expenses and fair value changes on derivative financial instruments	12	(350,698)	-
Gain (loss) from exchange rate difference, net		56,704	(642,865)
Total operating expenses		**(6,742,278)**	**(6,205,915)**
		-	-
Profit (loss) before income tax		**(432,548)**	**1,048,420**
		-	-
Income tax expense	20	(13,124)	(266,610)
Net profit (loss) and total comprehensive income (loss) for the year		**(445,672)**	**781,810**

The notes on pages 9-37 form an integral part of these financial statements.

MICROFINANCE ORGANIZATION B.I.G. LLC

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(In GEL)

	Charter capital	Retained Earnings	Total
31 December 2015	**1,135,714**	**7,241,057**	**8,376,771**
Dividend declared	-	(235,270)	**(235,270)**
Total comprehensive income for the year	-	781,810	**781,810**
31 December 2016	**1,135,714**	**7,787,597**	**8,923,311**
Total comprehensive loss for the year	-	(445,672)	**(445,672)**
31 December 2017	**1,135,714**	**7,341,925**	**8,477,639**

The notes on pages 9-37 form an integral part of these financial statements.

MICROFINANCE ORGANIZATION B.I.G. LLC

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		**(432,548)**	**1,048,420**
Adjustments to:			
Depreciation and amortisation	8,9,10	384,539	282,842
Interest income	15	(9,377,759)	(9,970,482)
Interest expense	15	3,131,817	2,554,603
Loan impairment charge	6	395,399	494,129
Net loss (gain) on financial instruments at fair value through profit or loss		42,073	(193,363)
Net loss (gain) from exchange rate difference		(56,704)	642,865
Loss from disposal of property and equipment		36,007	-
Cash outflow from operating activities before changes in operating assets and liabilities		**(5,877,176)**	**(5,140,986)**
Movements in working capital			
Decrease/ (increase) in loans to customers		598,467	(3,456,526)
Increase in other assets		(340,284)	(424,614)
Decrease in financial instruments at fair value through profit or loss		318,364	-
Increase in other liabilities		251,677	215,568
Cash outflow from operating activities before interest and taxation		**(5,048,952)**	**(8,806,558)**
Interest received		9,826,500	9,886,989
Interest paid		(3,135,252)	(1,211,212)
Income tax paid		(147,563)	(939,968)
Net cash inflow (outflow) from operating activities		**1,494,733**	**(1,070,749)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	8	(1,106,074)	(1,239,295)
Purchase of intangible assets	9	(173,632)	(123,533)
Net cash outflow from investing activities		**(1,279,706)**	**(1,362,828)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowed funds		20,652,038	12,237,061
Repayment of borrowed funds		(16,496,065)	(10,354,089)
Dividend paid		-	(235,270)
Net cash inflow from financing activities		**4,155,973**	**1,647,702**
Net increase (decrease) in cash and cash equivalents		**4,371,000**	**(785,875)**
Cash and cash equivalents at the beginning of the year	5	1,963,217	2,727,709
Effect of changes in foreign exchange rate on cash and cash equivalents		62,706	21,383
Cash and cash equivalents at the end of the year	5	**6,396,923**	**1,963,217**

The notes on pages 9-37 form an integral part of these financial statements.

1. General information

Microfinance Organization B.I.G LLC (MFO B.I.G LLC) was founded in 2008 as a limited liability company. The Company's charter capital is GEL1,135,714. The legal address of the Company is: # 15 Marjanishvili Str., Tbilisi, Georgia. The Company is registered by Tbilisi Tax Inspection Department, under identification number 204559156.

The supreme governing body of the Company is the General Meeting of Partners. A supervision of the Company's operations is conducted by the Supervisory Board, members of which are appointed by the General Meeting of Partners. Daily management of the Company is carried out by the general director appointed by the Supervisory Board. General director of the Company is Mr. Giorgi Mariamidze.

The Company's mission is to support sustainable development of micro and small entrepreneurial activities by offering optimal financing solutions tailored to the financial position of their clients.

The Company aspires to become one of the leading micro lenders in Georgia by leveraging its customer tailored product mix, experience and dedicated staff. Main pillars of the Company's strategy at this stage are to expand geographically to Georgia's five largest regional centers, thus establishing a strong foundation for further development and full-scale entry into rural areas.

The main activity of the Company is satisfying the rural populations increasing demand on credit product. The Company's financial products are: individual business loans, agro loans and consumer loans.

The Company has a head office and 10 service centers in Tbilisi, Telavi, Kutaisi, Akhaltsikhe, Gori, Marneuli, Senaki and Rustavi (2016: 12 service centers).

2. Adoption of new IFRSs

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 11.

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 2017, 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.

2. Adoption of new IFRSs (Continued)

The five steps in the model are as follows:

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

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

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.

2. Adoption of new IFRSs (Continued)

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.

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.

3. Summary of significant accounting policies

Basis of preparation

Statement of compliance

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

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

Basis of measurement

The financial statements have been prepared under the historical cost bases.

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

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.

Foreign currency translation

The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The Company's functional and presentation currency is the national currency of Georgia, Lari.

Monetary assets and liabilities are translated into functional currency at the official exchange rate for the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities at year-end official exchange rates are recognized in profit or loss. Translation at year-end rates does not apply to nonmonetary items.

3. Summary of significant accounting policies (Continued)

At 31 December 2017 and 2016 the closing rates of exchange used for translating foreign currency balances to Georgian Lari were:

	Official rate of the National Bank of Georgia	
	USD	*EUR*
Exchange rate as at 31 December 2017	2.5922	3.1044
Exchange rate as at 31 December 2016	2.6468	2.7940

Financial Instruments

The following terms are used with the meanings specified:

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

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

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

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

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.

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.

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.

Cash and cash equivalents

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

3. Summary of significant accounting policies (Continued)

Impairment of financial assets

The Company assesses at the end of an accounting period an impairment reserve in respect of financial assets. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Reducing the asset's book value is achieved by creating the reserve account. Losses are recognized in the profit and loss account.

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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in the profit and loss account.

Derecognition of financial assets

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets have 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 while 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.

Financial liabilities

Financial liabilities are classified as borrowed funds and other financial liabilities. Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized 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 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.

3. Summary of significant accounting policies (Continued)

Offsetting

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

IFRS 13 fair value measurement hierarchy

IFRS 13 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

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

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

Derivative Financial instruments measured at fair value by the level 2 in the fair value hierarchy are presented in Notes 12.

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 Company 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. The Company makes individual estimation of mortgage and auto loan impairment and collective estimation for other loan groups.

3. Summary of significant accounting policies (Continued)

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

Impairment losses are always recognised through an allowance account to 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.

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

Repossessed collateral

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

Property and equipment

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

Subsequent costs are included in the asset's carrying amount or 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 is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Group	Useful life (year)
Office equipment	5
Fixtures and furniture	5-10
Vehicles	5
Leasehold improvement	According to lease contracts
Building	50

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.

3. Summary of significant accounting policies (Continued)

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

Intangible assets

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

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

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at historical cost less accumulated depreciation. Estimated useful life of the investment property is 50 years.

Taxation

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

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

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. 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.

Recognition of interest income and expense

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

3. Summary of significant accounting policies (Continued)

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.

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.

Staff costs and related contributions

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.

Post balance sheet events

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

Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

(b) Legislation; or

(c) Other operation of law.

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

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

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

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.

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

• **Allowance for impairment of loans and receivables.** The Company regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets 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.

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

5. 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 in Georgian Lari	690,524	-
Cash on hand in other currencies	248,315	-
Cash on current accounts in banks in Georgian Lari	1,558,826	95,031
Cash on current accounts in banks in other currencies	3,847,414	1,868,186
Restricted cash for SWAP operations*	51,844	-
Total	**6,396,923**	**1,963,217**

*Restricted amounts with GEL51,844 is kept by the bank as a collateral for SWAP operations and is valid until 22 January 2018.

Additional information of cash and cash equivalents is disclosed in Note 22.

6. 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	29,230,061	31,456,913
Accrued interest	672,959	740,470
	29,903,020	**32,197,383**
Less: allowance for impairment losses	(427,059)	(434,966)
Total loans to customers	**29,475,961**	**31,762,417**

The Company signed Pledge Agreement with JSC PASHA Bank Georgia on 8 October 2015. According to the agreement, the liabilities undertaken by the Company are secured by the two times respective amount of loan portfolio. As at 31 December 2017, GEL8,435,228 (2016: GEL10,055,866) of loan portfolio was secured for JSC Pasha Bank Georgia borrowings.

Portfolio distribution by loan type is as follows:

	31 December 2017	31 December 2016
Business loan	22,287,771	24,835,463
Agriculture	6,953,967	6,905,101
Auto loan	661,282	456,819
Less: allowance for impairment losses	(427,059)	(434,966)
Total Loans to customers	**29,475,961**	**31,762,417**

6. Loans to customers (Continued)

Movements on allowance for impairment are as follows:

	31 December 2017	31 December 2016
At 1 January	**(434,966)**	**(406,290)**
Charge for the year	(395,399)	(494,129)
Recoveries for the year	(62,021)	(69,901)
Amount written off	465,327	535,354
At 31 December	**(427,059)**	**(434,966)**
Individual impairment	(36,382)	(95,876)
Collective impairment	(390,677)	(339,090)
Total	**(427,059)**	**(434,966)**

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

2017	Business loan	Auto loan	Agriculture	Total
Current and not impaired	21,253,309	652,447	6,628,771	**28,534,527**
Past due but not impaired				
1-30 days overdue	167,874	3,737	470	**172,081**
31-180 days overdue	71,949	4,189	-	**76,138**
More than 180 days overdue	-	-	-	**-**
Loans individually determined to be impaired:				
31-180 days overdue	66,781	-	9,882	**76,663**
More than 180 days overdue	30,289	909	251	**31,449**
Loans collectively determined to be impaired:				
1-30 days overdue	94,960	-	39,571	**134,531**
31-180 days overdue	292,062	-	146,849	**438,911**
More than 180 days overdue	310,547	-	128,173	**438,720**
	22,287,771	**661,282**	**6,953,967**	**29,903,020**
Less: allowance for impairment losses	(316,087)	(909)	(110,063)	**(427,059)**
Total loans to customers	**21,971,684**	**660,373**	**6,843,904**	**29,475,961**

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

2016	Business loan	Auto loan	Agriculture	Total
Current and not impaired	23,637,158	393,489	6,614,100	**30,644,747**
Past due but not impaired				
Less than 30 days overdue	45,783	2,699	6,398	**54,880**
31-180 days overdue	199,316	-	-	**199,316**
Loans individually determined to be impaired:				
31-180 days overdue	106,172	31,361	-	**137,533**
More than 180 days overdue	168,042	29,270	153,117	**350,429**

6. Loans to customers (Continued)

2016	Business loan	Auto loan	Agriculture	Total
Loans collectively determined to be impaired:				
Less than 30 days overdue	105,498	-	2,877	**108,375**
31-180 days overdue	189,900	-	49,979	**239,879**
More than 180 days overdue	383,594	-	78,630	**462,224**
	24,835,463	**456,819**	**6,905,101**	**32,197,383**
Less impairment provisions	(331,582)	(13,418)	(89,966)	**(434,966)**
Total loans to customers	**24,503,881**	**443,401**	**6,815,135**	**31,762,417**

The primary factors that the Company considers whether a loan is impaired are its overdue status, financial position of a borrower and reliability of related collateral, if any.

Information about collateral at 31 December 2017 is as follows:

2017	Business loan	Auto loan	Agriculture	Total
Unsecured loans	9,700,898	2,232	5,908,380	**15,611,510**
Loans collateralized by:				
Real estate	12,497,064	-	1,024,835	**13,521,899**
Movable property	89,809	659,050	20,752	**769,611**
	22,287,771	**661,282**	**6,953,967**	**29,903,020**
Less: allowance for impairment losses	(316,087)	(909)	(110,063)	**(427,059)**
Total Loans to customers	**21,971,684**	**660,373**	**6,843,904**	**29,475,961**

Information about collateral at 31 December 2016 is as follows:

	Business loan	Auto loan	Agriculture	Total
Unsecured loans	11,110,670	-	5,824,323	**16,934,993**
Loans collateralized by:				
Real estate	13,723,945	-	1,062,526	**14,786,471**
Movable property	848	456,819	18,252	**475,919**
	24,835,463	**456,819**	**6,905,101**	**32,197,383**
Less impairment provisions	(331,582)	(13,418)	(89,966)	**(434,966)**
Total Loans to customers	**24,503,881**	**443,401**	**6,815,135**	**31,762,417**

Additional information of Loans to customers is disclosed in Note 22.

7. Other assets

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

	31 December 2017	31 December 2016
Receivable from portfolio sale	533,515	-
Inventories repossessed of collaterals	262,550	153,050
Receivable from penalty	106,940	106,469
Advance payment	40,784	130,930
Amounts paid for legal proceedings	113,187	125,367
Other	4,460	32,975
Total	**1,061,436**	**548,791**

8. Property and equipment

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

Historical cost	Building	Office and IT equipment	Lease hold improvement	Fixtures and furniture	Vehicles	Total
As at 31 December 2015	**338,930**	**564,219**	**137,206**	**130,067**	**64,173**	**1,234,595**
Additions	501,908	409,530	216,270	111,587	-	**1,239,295**
As at 31 December 2016	**840,838**	**973,749**	**353,476**	**241,654**	**64,173**	**2,473,890**
Additions	846,470	100,585	50,202	108,817	-	**1,106,074**
Disposals	-	(10,662)	(135,807)	(10,751)	-	**(157,220)**
As at 31 December 2017	**1,687,308**	**1,063,672**	**267,871**	**339,720**	**64,173**	**3,422,744**
Accumulated depreciation						
As at 31 December 2015	**(11,603)**	**(281,634)**	**(90,055)**	**(61,475)**	**(25,106)**	**(469,873)**
Depreciation charge for the year	(10,312)	(128,530)	(37,186)	(27,951)	(12,870)	**(216,849)**
As at 31 December 2016	**(21,915)**	**(410,164)**	**(127,241)**	**(89,426)**	**(37,976)**	**(686,722)**
Depreciation charge for the year	(21,499)	(155,411)	(50,000)	(43,251)	(12,835)	**(282,996)**
Accumulated depreciation of disposals	-	5,292	101,654	14,267	-	**121,213**
As at 31 December 2017	**(43,414)**	**(560,283)**	**(75,587)**	**(118,410)**	**(50,811)**	**(848,505)**
Net book value						
Balance as at 31 December 2016	**818,923**	**563,585**	**226,235**	**152,228**	**26,197**	**1,787,168**
Balance as at 31 December 2017	**1,643,894**	**503,389**	**192,284**	**221,310**	**13,362**	**2,574,239**

The company's immovable property that has been pledged as collateral for the loans as at 31 December 2017 includes the following:

Real estate located on Queen Tamar Ave. N6, Tbilisi with the net book value of GEL313,752 as at 31 December 2017 (GEL320,530 as at 31 December 2016), pledged to JSC PASHA Bank Georgia;

Real estate located on Gelati St. N6, Kutaisi with the net book value of GEL488,267 as at 31 December 2017 (GEL498,305), pledged to JSC Tera Bank.

Real estate located on 17 Shindiseli Gmiri St. N17, Tbilisi with the net book value of GEL841,788 as at 31 December 2017, pledged to JSC Tera Bank.

9. Intangible assets

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

Historical cost	Operating software	Other software	Total
As at 31 December 2015	**236,870**	**20,840**	**257,710**
Additions	111,088	12,445	**123,533**
As at 31 December 2016	**347,958**	**33,285**	**381,243**
Additions	-	173,632	**173,632**
As at 31 December 2017	**347,958**	**206,917**	**554,875**
Accumulated amortisation			
As at 31 December 2015	**(90,810)**	**(18,570)**	**(109,380)**
Amortisation charge for the year	(55,729)	(5,754)	**(61,483)**
As at 31 December 2016	**(146,539)**	**(24,324)**	**(170,863)**
Amortisation charge for the year	(82,563)	(14,570)	**(97,133)**
As at 31 December 2017	**(229,102)**	**(38,894)**	**(267,996)**
Net book value			
Balance as at 31 December 2016	**201,419**	**8,961**	**210,380**
Balance as at 31 December 2017	**118,856**	**168,023**	**286,879**

In 2017, the Company acquired Microsoft software licences which explains the increase of intangible assets.

10. Investment property

Investment property includes building on the Company's balance sheet. Total area of the building is 100.42 square meters. The building is located: # 15 Marjanishvili Str., Tbilisi, Georgia. The historical cost of investment property is GEL250,000, accumulated depreciation is GEL51,550 and GEL47,139 in 2017 and 2016 respectively. Asset's fair value at the end of the 2017 year was GEL290,326 which differs from its carrying amount by GEL91,876 (2016: GEL299,088).

Fair value of investment property was measured by Maia Babunashvili - the independent Appraiser (2016: COLLIERS INTERNATIONAL LTD).

Fair value of investment property was measured under Direct Sales Comparison Approach, which involves the analysis of market prices on similar property.

11. Borrowed funds

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

	31 December 2017	31 December 2016
Loans from financial institutions	23,272,847	14,304,560
Loans from individuals:		
Shareholders	6,893,163	11,729,572
Other	1,256,113	2,037,396
Total	**31,422,123**	**28,071,528**

The Company's major lenders are shareholders and financial institutions.

	31 December 2017		31 December 2016	
Long and short-term borrowings	**Current**	**Non-current**	**Current**	**Non-current**
Originated loans	21,907,886	9,213,338	15,414,451	12,447,043
Accrued interest	300,899	-	207,731	2,303
Total	**22,208,785**	**9,213,338**	**15,622,182**	**12,449,346**

In 2017 the interest rates on borrowed fund in GEL varied from 11.5% to 20%. All borrowings are at fixed interest rate except the borrowing from JSC Pasha Bank Georgia which has annual interest rate of 6.5% plus refinancing rate of the National Bank of Georgia. In 2017 the interest rates on the borrowed funds in USD vary from 7.5% to 10%.

In 2016 the interest rates on borrowed funds in GEL varied from 10% to 14.5%. All borrowings are at fixed interest rate except the borrowing from JSC PASHA Bank Georgia which has annual interest rate of 8% plus refinancing rate of the National Bank of Georgia. In 2016 the interest rates on the borrowed funds in USD vary from 9.25% to 13%. Average effective annual interest rate for borrowings in GEL and USD is 12.11% and 10.71%, respectively.

The majority of the Company's long-term loan contracts contain different financial and other covenants. Key covenants are concerned with portfolio quality, liquidity, capital adequacy, open foreign currency position, asset encumbrance and profitability. For example:

- Portfolio at Risk over 30 days <= 5%
- Annualized Write-off ratio <= 2%
- Current Ratio > 1.2
- Net un-headged foreign currency open position to equity between -25% and 50%
- Equity to Total Assets ratio > 20%
- ROA > 0.5%

There is regular communication between the lenders and the Company regarding fulfillment of the covenants. As at 31 December 2017 the Company was in compliance with all of the financial and non-financial covenants, except the ones concerned with profitability. Due to this breach, the Company classifies corresponding loans with total amount of GEL17,239,806 as current as at 31 December 2017.

As at 31 December 2016 the Company was in compliance with all the financial and other covenants as agreed with the lenders except JSC Pasha Bank Georgia over which the Company was not in compliance for one covenant: operating expenses to revenue to be less than 50%. Though the Company communicated this issue with bank, and the Bank gave the Company waiver regarding this covenant. and the Company is in compliance with all the financial and other covenants as agreed with the lenders.

Additional information of borrowed funds is disclosed in Note 22.

12. Borrowed funds (Continued)

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

	2017	2016
As at 1 January	**28,071,528**	**22,500,733**
New borrowings during the year	20,652,038	12,237,061
Payments made including interest payments	(19,631,317)	(11,565,301)
Non-cash flows		
Interest expense for the year	3,131,817	2,554,603
Non-cash flow - translation differences	(801,943)	2,344,432
As at 31 December	**31,422,123**	**28,071,528**

12. Other liabilities

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

	31 December 2017	31 December 2016
Trade payables	129,507	143,103
Salary payables	-	31,507
Taxes payables	155,055	165,022
Derivative financial instruments*	37,903	-
Total	**322,465**	**339,632**

*Foreign exchange risk arises when the Organisation enters into transactions denominated in a currency other than their functional currency. Where the risk to the Organisation is considered to be significant, the Organisation's treasury will enter into a USD/GEL exchange swap contract with local banks.

The principal amounts of outstanding forward foreign exchange contracts at 31 December 2017 is USD3,111,708. The Company did not have forward foreign exchange contract in 2016.

Total loss from fair value change of forward contracts amounted to GEL350,698 during the 2017 year.

13. Deferred tax liability

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

	31 December 2017	31 December 2016
At 1 January	**(14,674)**	**105,710**
Recognised in profit and loss		
Tax expense	(13,124)	(120,384)
Recognised in other comprehensive income	-	-
At 31 December	**(27,798)**	**(14,674)**

Temporary differences 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	-	(267,066)	(267,066)	(107,295)
Intangible assets	-	(15,906)	(15,906)	(17,972)
Loans to customers	131,828	-	131,828	5,255
Other Assets	-	(16,041)	(16,041)	(71)
Borrowed Funds	16,800	-	16,800	(10,902)
Other liabilities	-	-	-	(4,726)
Tax loss carry-forward	122,587	-	122,587	122,587
Tax asset/(liabilities)	**271,215**	**(299,013)**	**(27,798)**	**(13,124)**
Set off of tax	(271,215)	271,215		
Net tax assets/(liabilities)	**-**	**(27,798)**	**(27,798)**	**(13,124)**

Temporary differences 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	-	(159,771)	(159,771)	(152,503)
Intangible assets	2,066	-	2,066	10,792
Loans to customers	126,573	-	126,573	5,929
Other Assets	-	(15,970)	(15,970)	(3,769)
Borrowed Funds	27,702	-	27,702	21,882
Other liabilities	4,726	-	4,726	(2,715)
Tax asset/(liabilities)	**161,067**	**(175,741)**	**(14,674)**	**(120,384)**
Set off of tax	(161,067)	161,067		
Net tax assets/(liabilities)	**-**	**(14,674)**	**(14,674)**	**(120,384)**

14. Charter capital

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

Shareholders	%	31 December 2017	%	31 December 2016
Simon Chetrit	56%	636,000	56%	636,000
Zurab Davlianidze	11%	124,929	11%	124,929
Giorgi Akhvlediani	11%	124,929	11%	124,929
Aleksandre Sokolovski	11%	124,928	11%	124,928
Natela Kekelidze	11%	124,928	11%	124,928
Total	**100%**	**1,135,714**	**100%**	**1,135,714**

15. Net interest income

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 comprise:		
Loans to customers	9,377,759	9,970,482
Total interest income	**9,377,759**	**9,970,482**

Interest income from overdue loans is GEL339,254 and GEL365,213 for the years ended 31 December 2017 and 2016, respectively.

Interest expense for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Interest expense on financial liabilities recorded at amortized cost comprise:		
Loans from individuals	(1,378,193)	(1,513,433)
Loans from financial institutions	(1,753,624)	(1,041,170)
Total interest expense	**(3,131,817)**	**(2,554,603)**
Net interest income	**6,245,942**	**7,415,879**

16. Other operating income

Other operating income represents penalties and commissions for early payment of loans to customers and amounted GEL459,187 and GEL332,585 in 2017 and 2016, respectively.

17. Personnel expenses

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

	2017	2016
Salary	(3,395,426)	(2,969,837)
Bonus	(612,782)	(728,761)
Insurance	(79,386)	(82,630)
Total	**(4,087,594)**	**(3,781,228)**

18. Rent expense

Rent expense for the years ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Front office	(432,447)	(351,457)
Back office	(154,691)	(139,811)
Other	(12,775)	(18,441)
Total	**(599,913)**	**(509,709)**

19. 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
Service fee *	(480,645)	(367,067)
Marketing and advertising	(212,987)	(118,357)
Communication expenses	(101,094)	(115,305)
Utility expenses	(92,213)	(82,134)
Repair and maintenance expenses	(84,494)	(75,327)
Representative expenses	(77,492)	(73,590)
Commission fees	(54,793)	(73,080)
Business trip expense	(51,096)	(72,457)
Personnel training and recruitment	(44,884)	(61,112)
Stationary expenses	(39,361)	(73,163)
Security expenses	(36,858)	(30,943)
Taxes other than income tax	(26,737)	(14,816)
Other	(31,511)	(25,283)
Total	**(1,334,165)**	**(1,182,634)**

In 2017 financial statement audit fee with amount GEL29,971 (2016: GEL28,257) is included in service fees. Service fees also include software maintenance expenses as well as different types of consultation costs.

20. Income tax expense

Income tax expense for the year ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Current tax	-	(146,226)
Effect of tax loss carry forward	122,587	-
Effect of temporary differences	(135,711)	(120,384)
Total	**(13,124)**	**(266,610)**

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

	2017	2016
Profit (loss) before income tax	**(432,548)**	**1,048,420**
Applicable tax rate	15%	15%
Theoretical income tax	64,882	(157,263)
Expenses not deductible for tax purposes	(78,006)	(109,347)
Total	**(13,124)**	**(266,610)**

21. Commitments and contingencies

Litigation

In the ordinary course of business, the Company is subject to legal actions and complaints. However, management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

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 should 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.

Financial commitments and contingencies

The Company leases a number of offices under operating leases. The leases typically run for a period of 3-5 years, with an option to renew the lease after that date.

21. Commitments and contingencies (Continued)

Non-cancelable operating lease commitments for 2017 and 2016 year are payable as follows:

	31 December 2017	31 December 2016
Within 1 year	569,099	631,218
Within 1-5 years	1,001,152	1,617,530
Total	**1,570,251**	**2,248,748**

22. Financial instruments – risk management

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

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

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

Principal financial instruments

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

	31 December 2017	31 December 2016
Cash and cash equivalents	6,396,923	1,963,217
Loans to customers	29,475,961	31,762,417
Other assets	640,455	106,469
Borrowed funds	31,422,123	28,071,528
Other liabilities	167,410	174,610

General objectives, policies and processes

The Supervisory Board have 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 overall objective of the 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 the lending and other transactions with counterparties giving rise to financial assets.

22. Financial instruments – risk management (Continued)

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

The Company's credit policy is determined by the Credit Manual, where all the related procedures and requirements, along with respective controls are clearly defined, including loan disbursement, monitoring of delinquent loans, etc.

The Company established a number of credit committees which are responsible for approving credit limits.

The Credit Committee is the analytical body responsible for analysing the information in the loan applications, assessing and reducing the credit risks as far as possible. The Credit Committee is the independent body with MFO authorized to make the final decision about financing or rejecting the loan application.

Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks. Eventually the Credit Committee members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees.

Assessment of the applicant's creditworthiness through complete monitoring of its business allows timely avoiding the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. 10% of total loans are monitored by the manager of service center on monthly basis. After, the results are documented and presented to the top management. Also, from 2013 monitoring and quality management department was created in the Company. It provides monitoring on the 10% of total loans. For timely response to potential risks, monitoring results are presented to the top management on monthly basis. New monitoring system helps to manage credit risks and timely neutralize them.

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 (excluding cash on hand)	5,458,084	1,963,217
Loans to customers	29,475,961	31,762,417
Other Assets	640,455	106,469
Total	**35,574,500**	**33,832,103**

The Company's credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 6.

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).

22. Financial instruments – risk management (Continued)

Interest Rate Risk

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

The table below summarises The Organisation's exposure to interest rate risks. The table presents the aggregated amounts of The Organisation's interest bearing financial assets and interest bearing financial liabilities at carrying amounts as at 31 December 2017 and 2016.

	31 December 2017	31 December 2016
Total interest bearing financial assets	29,475,961	31,762,417
Total interest bearing financial liabilities	(31,422,123)	(28,071,528)
Net interest sensitivity gap	**(1,946,162)**	**3,690,889**

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

The Organisation performs analysis of interest rate risk sensitivity.

Organisation's all interest-bearing assets and liabilities are at fixed interest rates except for one borrowing, therefore market interest rate fluctuations do not affect Organisation's income or expenses. The only borrowing with variable interest rate (refinancing rate of National Bank of Georgia+6.5%-8.25%-8.75% (2016: refinancing rate of National Bank of Georgia+6.25%) is the one from JSC PASHA Bank Georgia. If interest rate increases by 1%, interest expense will increase by GEL32,262 (2016: GEL24,541) and vice versa.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the 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:

	GEL	USD	EUR	Total
Financial assets				
Cash and cash equivalents	2,249,350	3,937,277	210,296	**6,396,923**
Loans to customers	22,640,587	6,835,374	-	**29,475,961**
Other assets	640,455	-	-	**640,455**
Total financial assets	**25,530,392**	**10,772,651**	**210,296**	**36,513,339**
Financial liabilities				
Borrowed funds	12,878,042	18,544,081	-	**31,422,123**
Other liabilities	165,687	1,723	-	**167,410**
Total financial liabilities	**13,043,729**	**18,545,804**	**-**	**31,589,533**
Open balance sheet position	**12,486,663**	**(7,773,153)**	**210,296**	
Currency swap*	(8,104,073)	8,066,169	**-**	

22. Financial instruments – risk management (Continued)

When foreign currency risk is deemed to be significant, the Company's treasury enters into a USD/GEL exchange swap contract with local banks. The principal amounts of outstanding contracts at 31 December 2017 is USD3,111,708.

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

	GEL	USD	EUR	Total
Financial assets				
Cash and cash equivalents	95,031	1,865,279	2,907	**1,963,217**
Bank deposits*	-	1,874,409	-	**1,874,409**
Loans to customers	12,294,933	19,467,484	-	**31,762,417**
Other assets	106,469	-	-	**106,469**
Total financial assets	**12,496,433**	**23,207,172**	**2,907**	**35,706,512**
Financial liabilities				
Borrowed funds	2,819,193	25,252,335	-	**28,071,528**
Borrowings collateralized with bank deposits*	1,513,973	-	-	
Other liabilities	172,887	1,723	-	**174,610**
Total financial liabilities	**4,506,053**	**25,254,058**	**-**	**28,246,138**
Open balance sheet position	**7,990,380**	**(2,046,886)**	**2,907**	

* The Company enters into the agreement with local banks on providing financing in local currency with guarantee of foreign currency deposits placed at the same banks. All transactions related to such instruments are aggregated and presented as derivative instruments resulting recognition of fair value of instruments in the statement of financial position with relevant effect in profit/loss.

Currency risk sensitivity

The following table details the Company's sensitivity to a 20% increase and decrease in the USD against the GEL. 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.

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

2017	**GEL/USD 20%**	**GEL/USD - 20%**	**GEL/EUR 20%**	**GEL/EUR - 20%**
Profit/(loss) including currency swap effect	58,603	(58,603)	42,059	(42,059)

2016	**GEL/USD 20%**	**GEL/USD - 20%**	**GEL/EUR 20%**	**GEL/EUR - 20%**
Profit/(loss)	(409,377)	409,377	581	(581)

22. Financial instruments – risk management (Continued)

Liquidity risk

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

In order to manage liquidity risk, the Company performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process.

An analysis of the liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Company.

Liquidity of financial assets and liabilities as at 31 December 2017 can be presented as follows:

	Up to 1 year	1 year to 5 years	Over 5 years	Total
Financial assets				
Loans to customers	18,504,278	10,883,871	87,812	**29,475,961**
Total interest bearing financial assets	**18,504,278**	**10,883,871**	**87,812**	**29,475,961**
Other assets	106,940	533,515	-	**640,455**
Cash and cash equivalents	6,396,923	-	-	**6,396,923**
Total financial assets	**25,008,141**	**11,417,386**	**87,812**	**36,513,339**
Financial liabilities				
Borrowed funds	22,208,785	9,213,338	-	**31,422,123**
Total interest bearing financial liabilities	**22,208,785**	**9,213,338**	**-**	**31,422,123**
Other liabilities	167,410	-	-	**167,410**
Total financial liabilities	**22,376,195**	**9,213,338**	**-**	**31,589,533**
Liquidity gap	**2,631,946**	**2,204,048**	**87,812**	
Cumulative liquidity gap	**2,631,946**	**4,835,994**	**4,923,806**	

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

	Up to 1 year	1 year to 5 years	Over 5 years	Total
Financial assets				
Loans to customers	17,403,093	14,332,258	27,066	**31,762,417**
Total interest bearing financial assets	**17,403,093**	**14,332,258**	**27,066**	**31,762,417**
Other assets	106,469	-	-	**106,469**
Cash and cash equivalents	1,963,217	-	-	**1,963,217**
Total financial assets	**19,472,779**	**14,332,258**	**27,066**	**33,832,103**

22. Financial instruments – risk management (Continued)

	Up to 1 year	1 year to 5 years	Over 5 years	Total
Financial liabilities				
Borrowed funds	15,622,182	12,449,346	-	**28,071,528**
Total interest bearing financial liabilities	**15,622,182**	**12,449,346**	**-**	**28,071,528**
Other liabilities	174,610	-	-	**174,610**
Total financial liabilities	**15,796,792**	**12,449,346**	**-**	**28,246,138**
Liquidity gap	**3,675,987**	**1,882,912**	**27,066**	
Cumulative liquidity gap	**3,675,987**	**5,558,899**	**5,585,965**	

Management of capital

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 dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

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.

23. Transactions with related parties

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

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

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

Related party balances and transactions as of 31 December 2017 and 2016 can be presented as follows:

		31 December 2017		31 December 2016	
	Relationship	**Related party balance**	**Total category as per the financial statements caption**	**Related party balance**	**Total category as per the financial statements caption**
Borrowed Funds	**Borrowed Funds**	**6,893,163**	**31,422,123**	**11,756,040**	**28,071,528**
	Shareholders	6,893,163		11,729,572	
	Family member of shareholder	-		26,468	

The remuneration of directors and other members of key management were as follows:

	2017		2016	
	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:	**(610,113)**	**(4,087,594)**	**(456,213)**	**(3,781,228)**
- Short-term employee benefits	(610,113)		(456,213)	

Included in the statement of comprehensive income for the years ended 31 December 2017 and 2016 are the following amounts which were recognized as transactions with related parties:

		2017		2016	
	Relationship	**Related party transactions**	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest expense		**(869,749)**	**(3,131,817)**	**(1,339,866)**	**(2,554,603)**
	Shareholders	(868,165)		(1,337,513)	
	Family member of shareholder	(1,584)		(2,353)	

24. Post balance sheet events

In March 2018, Success Investment LLC became the 56% shareholder of The Company instead of Simon Chetrit. 100% shareholder and director of Success Investment LLC is Mr. Simon Chetrit's son Mr. Juda Chetrit.