

JSC MFO Georgian Credit

Financial Statements

Together with the

Independent Auditors' Report

Year ended 31 December 2014

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JOINT STOCK COMPANY MFO GEORGIAN CREDIT

FINANCIAL STATEMENTS

For the year ended 31 December 2014

Independent auditors' report

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

We have audited the accompanying financial statements of the **Joint Stock Company MFO Georgian Credit** (hereinafter - the Company), which comprise the statement of financial position as at 31 December 2014, 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 MFO Georgian Credit** as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

28 May 2015

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 MFO 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 2014 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 2014 were approved on behalf of the management on 28 May 2015 by:

Director _____ G.Naskidashvili

Chief Accountant _____ N.Begheluri

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

(In GEL)

	Note	2014	2013
Interest income	5	4,289,010	3,435,767
Interest expense	5	(1,470,249)	(1,419,625)
Net interest income		2,818,761	2,016,142
Provision for loan impairment	6	(340,305)	(203,087)
Net interest income after provision for loan impairment		2,478,456	1,813,055
Fee and commission income	7	452,572	335,555
Staff costs including salaries and bonuses	8	(1,556,236)	(946,481)
General and administrative expenses	9	(1,048,874)	(616,611)
Net other income		35,625	58,172
Gain on revaluation of investment properties	10	462,524	31,352
Gain / (loss) from exchange rate differences	11	305,395	(116,023)
Profit before income tax		1,129,462	559,019
Income tax expense	12	(105,007)	(123,150)
Net profit for the year		1,024,455	435,869
Other comprehensive income		-	-
Total comprehensive income for the year		1,024,455	435,869

Signed on behalf of management on 28 May 2015 by:

Director _____ G.Naskidashvili

Chief Accountant _____ N.Begheluri

JOINT STOCK COMPANY MFO GEORGIAN CREDIT

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

(In GEL)

	Note	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	13	3,558,025	769,486
Loans to customers	14	14,817,829	10,999,139
Investment property	10	927,011	526,160
Property and equipment	15	616,830	620,621
Intangible assets	16	70,285	45,899
Other assets	17	204,908	205,599
Total assets		20,194,888	13,166,904
Liabilities			
Deferred income tax liability	18	43,610	66,471
Borrowings	19	16,812,936	10,700,111
Current income tax payable		701	76,603
Other liabilities	20	94,085	104,618
Total liabilities		16,951,332	10,947,803
Equity			
Statutory capital	21	850,546	850,546
Share premium	21	375,000	375,000
Retained earnings		2,018,010	993,555
Total equity		3,243,556	2,219,101
Total liabilities and equity		20,194,888	13,166,904

Signed on behalf of management on 28 May 2015 by:

Director _____ G.Naskidashvili

Chief Accountant _____ N.Begheluri

Notes on pages 9-41 are the integral part of these financial statements.

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2014

(In GEL)

	Share capital	Share premium	Retained Earnings	Total
Balance at 31 December 2012	725,546	-	557,686	1,283,232
Issue of shares	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
Total comprehensive income for the year	-	-	1,024,455	1,024,455
Balance at 31 December 2014	850,546	375,000	2,018,010	3,243,556

Signed on behalf of management on 28 May 2015 by:

Director _____ G.Naskidashvili

Chief Accountant _____ N.Begheluri

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

(In GEL)

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		1,129,462	559,019
Adjustments for:			
Provision for loan impairment	6	340,305	203,087
Depreciation and amortization	9	98,217	67,051
Foreign exchange translation differences	11	(305,395)	116,023
Gain on revaluation of investment properties	10	(462,524)	(31,352)
Interest expense	5	1,470,249	1,419,625
Net other income		(41,037)	(58,172)
<i>Cash inflow from operating activities before changes in operating assets and liabilities</i>		2,229,277	2,275,281
Increase in loans to customers		(3,923,207)	(2,570,856)
Decrease / (increase) in other assets		43,498	(77,244)
Increase in other liabilities		334,740	83,731
<i>Cash outflow from operating activities before interest and tax</i>		(1,315,692)	(289,088)
Interest paid		(1,404,514)	(1,368,219)
Income tax paid		(203,770)	(58,541)
<i>Net cash outflow from operating activities</i>		(2,923,976)	(1,715,848)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(451,746)	(124,390)
Proceeds from sale of property and equipment		420,307	-
Purchase of investment properties	10	(29,210)	(16,485)
Proceeds from sale of investment property		26,743	221,059
Purchase of intangible assets		(29,155)	(9,093)
<i>Net cash (outflow) / inflow from investing activities</i>		(63,061)	71,091
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of borrowings		(13,505,185)	(5,383,986)
Proceeds from borrowings		19,187,516	6,947,539
Proceeds from share issue		-	500,000
<i>Net cash inflow from financing activities</i>		5,682,331	2,063,553
Net increase in cash and cash equivalents		2,695,294	418,796
Cash and cash equivalents at the beginning of the period	13	769,486	66,779
Effect of exchange rate fluctuations on cash		93,245	283,911
Cash and cash equivalents at the end of the year	13	3,558,025	769,486

Signed on behalf of management on 28 May 2015 by:

Director _____ G.Naskidashvili

Chief Accountant _____ N.Begheluri

Notes on pages 9-41 are the integral part of these financial statements.

1. GENERAL INFORMATION

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

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

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

The Company had 9 and 5 branches as at 31 December 2014 and 2013 respectively. Information about branches opened after the reporting period is given in note 25.

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

As at 31 December 2014 and 2013 following shareholders owned Company’s shares:

Shareholders	31 December 2014, %	31 December 2013, %
Eastern Capital AS	43.21%	34.68%
Tim Meyer-Schell	26.01%	26.01%
Hansjoerg Brokmann	16.28%	16.28%
Alea Equity GBR	7.25%	7.25%
Jochen Zimmermann	7.25%	7.25%
Philip Nitzsche	-	8.53%
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.

JOINT STOCK COMPANY MFO GEORGIAN CREDIT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

(In GEL)

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

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.

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

GOING CONCERN

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FINANCIAL INSTRUMENTS

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

Key measurement terms

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial liabilities

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

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

Derecognition of financial liabilities

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

(b) 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.

(c) 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.

(d) 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

impairment loss has occurred:

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

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

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

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

CASH AND CASH EQUIVALENTS

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

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Vehicles	7
Furniture and office equipment	7
Computer and communication equipment	4
Accounting and other software	7

INVESTMENT PROPERTY

The company holds certain investment property for capital appreciation. Investment properties are measured initially at cost. 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 substantively 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

income are recognized in the financial statements for the year, when the evaluation change occurred.

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

- A contract (through its explicit or implicit terms);
- Legislation; or
- Other operation of law.

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

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

INCOME AND EXPENSE RECOGNITION

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

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

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

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EVENTS AFTER THE REPORTING PERIOD

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

FOREIGN CURRENCY TRANSLATION

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

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

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

Table below presents the closing exchange rates by the National Bank of Georgia As at 31 December 2014 and 2013:

	USD / GEL	EUR / GEL
Exchange rate as at 31 December 2014	1.8636	2.2656
Exchange rate as at 31 December 2013	1.7363	2.3891

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The accounting policies adopted are consistent for the all periods presented. None of the new and amended IFRS and IFRIC interpretations which became effective during reporting periods has any material impact on the Company's financial Statements. The following new standards and interpretations became effective for the Company from 1 January 2014:

"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. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have a material impact on the Company.

IFRIC 21 - "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014)

The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on the Company.

Amendments to IAS 39 - “Novation of Derivatives and Continuation of Hedge Accounting” (issued in June 2013 and effective for annual periods beginning 1 January 2014)

The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have a material impact on the Company.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015, 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” (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

ALLOWANCE FOR IMPAIRMENT OF LOANS AND RECEIVABLES

The Company regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse

change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Delinquency status	Rate in %
31 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, 2014 there were no transactions

with related parties at other than market conditions. Terms and conditions of related party balances are disclosed in Note 25.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

INCOME TAXES

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

LEGAL PROCEEDINGS

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

5. NET INTEREST INCOME

Net interest income for the year ended 31 December 2014 and 2013 can be presented as follows:

	2014	2013
<i>Interest income on financial assets recorded at amortized cost:</i>		
Unimpaired loans to customers	4,186,416	3,090,729
Impaired loans to customers	102,594	345,038
Total interest income	4,289,010	3,435,767
<i>Interest expense on financial liabilities recorded at amortized cost comprise:</i>		
Borrowings	(1,470,249)	(1,419,625)
Total interest expense	(1,470,249)	(1,419,625)
Net interest income	2,818,761	2,016,142

6.

6. PROVISION FOR LOAN IMPAIRMENT

Provision for loan impairment for the year ended 31 December 2014 can be presented as follows:

	Business loan	Consumer loan	Pawnshop loan	Agricultural installment	Total
At 1 January 2014	(78,704)	(14,165)	-	(137)	(93,006)
Provision for impairment during the year	(278,704)	(45,275)	(47)	(16,279)	(340,305)
Amounts written off during the year as uncollectible	316,117	52,900	-	4,896	373,913
At 31 December 2014	(41,291)	(6,540)	(47)	(11,520)	(59,398)
Among which:					
Individual impairment	(11,654)	-	-	-	(11,654)
Collective impairment	(29,637)	(6,540)	(47)	(11,520)	(47,744)
Total provision for loan impairment	(41,291)	(6,540)	(47)	(11,520)	(59,398)

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

	Business loan	Consumer loan	Agricultural instalment	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)
Among which:				
Individual impairment	(9,182)	-	-	(9,182)
Collective impairment	(69,522)	(14,165)	(137)	(83,824)
Total provision for loan impairment	(78,704)	(14,165)	(137)	(93,006)

7.

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 2014 and 2013 can be presented as follows:

	2014	2013
Salary	1,154,271	713,000
Bonuses	374,321	217,456
Insurance expenses	27,644	16,025
Total staff costs including salaries and bonuses	1,556,236	946,481

9.

9. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended 31 December 2014 and 2013 can be presented as follows:

	2014	2013
Operating leases	302,286	199,156
Professional services *	266,051	88,135
Office maintenance	115,538	56,263
Depreciation and amortization	98,217	67,051
Communication expenses	49,562	63,713
Utilities	34,341	20,675
Business trips	41,875	29,231
Stationary	40,775	17,226
Bank fees	24,607	8,789
Taxes other than income tax	6,706	7,158
Other	68,916	59,214
Total general and administrative expenses	1,048,874	616,611

* Increase in 2014 was caused due to increased legal expenses related to doubtful receivables.

10. INVESTMENT PROPERTY

Investment property as at 31 December 2014 and 2013 can be presented as follows:

	2014	2013
Balance at the beginning of the year	526,160	652,680
Additions	29,210	16,485
Disposals	(90,882)	(174,357)
Gain on revaluation of investment property	462,523	31,352
Balance at the end of the year	927,011	526,160

10. INVESTMENT PROPERTY (continued)

Investment property is carried at fair value, derived from the current market prices for comparable real estate determined by an external valuer who is an industry specialist in valuing such kind of property. Observable market prices are used for valuation and if necessary relevant adjustments are made for any difference in the nature, location or condition of the specific asset under valuation. Changes in fair value are recognized as profit or loss.

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

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

11.**11. GAIN / (LOSS) FROM EXCHANGE RATE DIFFERENCES**

Gain / (loss) from exchange rate differences for the year ended 31 December 2014 and 2013 can be presented as follows:

	2014	2013
Realized foreign exchange gain	93,245	283,911
Unrealized foreign exchange gain / (loss)	212,150	(399,934)
Total gain / (loss) from exchange rate difference	305,395	(116,023)

12.**12. INCOME TAX EXPENSE**

Income tax expense for the year ended 31 December 2014 and 2013 can be presented as follows:

	2014	2013
Income tax expense		
Current tax	(127,868)	(119,548)
Effect of temporary differences	22,861	(3,602)
Income tax expense	(105,007)	(123,150)

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

Income tax expense	2014	2013
Profit before tax	1,129,462	559,019
Applicable tax rate	15%	15%
Theoretical income tax	(169,419)	(83,853)
Effect of permanent differences	64,412	(39,297)
Income tax expense	(105,007)	(123,150)

13.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014	31 December 2013
Cash on hand	404,232	359,498
Cash on current accounts with banks in GEL	60,003	258,540
Cash on current accounts with banks in other currencies	3,093,790	151,448
Total cash and cash equivalents	3,558,025	769,486

14. LOANS TO CUSTOMERS

Loans to customers as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014	31 December 2013
Originated loans to customers	14,481,903	10,806,110
Accrued interest	395,324	286,035
Gross loans to customers	14,877,227	11,092,145
Less: allowance for impairment losses	(59,398)	(93,006)
Total loans to customers	14,817,829	10,999,139

Loans are issued at maximal amount of GEL 50,000 to customers in Georgia.

Analysis by loan type is as follows:	31 December 2014	31 December 2013
Business loan	11,049,550	9,428,320
Consumer loan	2,134,233	1,306,838
Agricultural installment	1,332,183	28,400

Pawnshop loan	361,261	328,587
Gross loans to customers	14,877,227	11,092,145
Less: allowance for impairment losses	(59,398)	(93,006)
Total loans to customers	14,817,829	10,999,139

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

Currency and maturity analysis of loans to customers is given in note 23.

14. LOANS TO CUSTOMERS (continued)

Analysis by credit quality of loans outstanding at 31 December 2014 is as follows:

	Business loan	Consumer loan	Pawnshop loan	Agricultural installment	Total
Current and not impaired	9,754,625	2,010,612	356,627	1,307,330	13,429,194
Past due but not impaired	1,047,241	98,489	2,715	24,854	1,173,299
Loans individually determined to be impaired	45,324	5,032	-	-	50,356
Loans determined to be collective impaired:					
31-45 days overdue	41,586	701	-	-	42,287
46-120 days overdue	75,780	5,165	188	-	81,133
121-180 days overdue	33,273	2,666	-	-	35,939
More than 180 days	51,719	11,568	1,732	-	65,019
Gross loans to customers	11,049,548	2,134,233	361,262	1,332,184	14,877,227
Less impairment provisions	(41,291)	(6,540)	(47)	(11,520)	(59,398)
Total Loans to customers	11,008,257	2,127,693	361,215	1,320,664	14,817,829

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

(In GEL)

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	(78,704)	(14,165)	-	(137)	(93,006)
Total Loans to customers	9,349,616	1,292,673	328,587	28,263	10,999,139

15. PROPERTY AND EQUIPMENT

Property and equipment as at 31 December 2014 and 2013 can be presented as follows:

	Leasehold improvements	Buildings	Furniture and office equipment	Computer and communication equipment	Vehicles	Total
Historical cost						
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
Additions	52,464	-	229,619	149,906	16,792	448,781
Disposals	-	(403,068)	-	-	-	(403,068)
Historical cost 31.12.2014	52,464	-	409,323	321,574	89,645	873,006
Accumulated depreciation						
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)
Depreciation for the year	(3,877)	(8,061)	(39,315)	(36,895)	(5,300)	(93,448)
Accumulated depreciation of disposals	-	43,944	-	-	-	43,944
Accumulated depreciation 31.12.2014	(3,877)	-	(115,420)	(122,936)	(13,943)	(256,176)
Net book value						
Net book value 31.12. 2013	-	367,185	103,599	85,627	64,210	620,621
Net book value 31.12. 2014	48,587	-	293,903	198,638	75,702	616,830

16. INTANGIBLE ASSETS

Intangible assets as at 31 December 2014 and 2013 can be presented as follows:

Historical cost	Accounting and other software	Other intangible assets	Total
Historical cost 31.12.2012	50,780	9,980	60,760
Additions	-	9,093	9,093
Disposals	-	-	-
Historical cost 31.12.2013	50,780	19,073	69,853
Additions	19,095	10,060	29,156
Disposals	-	-	-
Historical cost 31.12.2014	69,875	29,133	99,008
Accumulated amortization			
Accumulated amortization 31.12.2012	(16,060)	(2,895)	(18,955)
Amortization charge for the year	(3,157)	(1,842)	(4,999)
Accumulated amortization of disposals	-	-	-
Accumulated amortization 31.12.2013	(19,217)	(4,737)	(23,954)
Amortization charge for the year	(3,069)	(1,700)	(4,769)
Accumulated amortization of disposals	-	-	-
Accumulated amortization 31.12.2014	(22,286)	(6,437)	(28,723)
Net book value			
Net book value 31.12. 2013	31,563	14,336	45,899
Net book value 31.12. 2014	47,555	22,696	70,285

17. OTHER ASSETS

Other assets as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014	31 December 2013
Prepayments	180,369	197,864
Tax assets	23,889	6,069
Other assets	650	1,666
Total other assets	204,908	205,599

18.

18. DEFERRED INCOME TAX LIABILITY

Deferred income tax as at 31 December 2014 and 2013 can be presented as follows:

	2014	2013
At 1 January	(66,471)	(62,869)
Recognized in profit and loss		
Tax income (expense)	22,861	(3,602)
At 31 December	(43,610)	(66,471)

Temporary differences at a rate of 15% as at December 31 2014 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss
	2014	2014	2014	2014
Property and equipment	-	(92,525)	(92,525)	(3,660)
Investment property	-	(40,995)	(40,995)	7,402
Loans to customers	46,540	-	46,540	2,907
Other assets	4,665	-	4,665	3,616
Borrowings	34,593	-	34,593	11,437
Other liabilities	4,112	-	4,112	1,159
Tax asset/(liabilities)	89,910	(133,520)	(43,610)	22,861
Set off of tax	(89,910)	89,910	-	-
Net tax assets/(liabilities)	-	(43,610)	(43,610)	22,861

Temporary differences at a rate of 15% as at December 31 2013 can be presented as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss
	2013	2013	2013	2013
Property and equipment	-	(88,865)	(88,865)	(5,123)
Investment property	-	(48,397)	(48,397)	6,735
Loans to customers	43,633	-	43,633	(18,095)
Other assets	1,049	-	1,049	1,049
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)

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(In GEL)

Set off of tax	(70,791)	70,791	-	-
Net tax assets/(liabilities)	-	(66,471)	(66,471)	(3,602)

19.

19.

19. BORROWINGS

Borrowings as at 31 December 2014 and 2013 can be presented as follows:

Borrower	Interest rate	Currency	31 December 2014	31 December 2013
JSC TBC bank	12%	GEL	625,085	521,048
Others *	8-17%	GEL-USD-EUR	16,187,851	10,179,063
Total borrowings			16,812,936	10,700,111

*Other includes borrowings from resident and nonresident individuals.

Current and non-current portions of borrowings as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014	31 December 2013
Current	9,978,995	10,628,957
Non-current	6,833,941	71,154
Total borrowings	16,812,936	10,700,111

Accrued interest and principal balances as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014	31 December 2013
Principal balance	16,582,314	10,535,224
Accrued interest	230,622	164,887
Total borrowings	16,812,936	10,700,111

Currency and maturity analysis of borrowings is given in Note 23.

20. OTHER LIABILITIES

Other liabilities as at 31 December 2014 and 2013 can be presented as follows:

	31 December 2014	31 December 2013
Tax payables	40,390	18,941
Accounts payable to employees	27,414	19,687
Other accounts payable	26,281	65,990
Total other liabilities	94,085	104,618

21.

21. SHARE CAPITAL AND SHARE PREMIUM

Share capital as at 31 December 2014 and 2013 can be presented as follows:

Company's share capital as at 31 December 2014 and 2013 comprises of 850,546 ordinary shares in issue with a value of GEL 1 each.

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 and issued capital for 31 December 2014 and 2013 totalled 850,546 shares.

Information about Company's shareholders is presented in Note 1.

22. CONTINGENCIES AND COMMITMENTS**LITIGATION**

In the ordinary course of business, Companies are usually subject to legal actions and complaints. Following the Company's customers' failure to meet repayment obligations the Company is involved in legal disputes against such customers. The highest possible outcome from such legal disputes is the amount of loan from such customers (including accrued interest and charges). As it is not certain that all the customers will meet the repayment obligations, the Company recognises provision for impairment for such loans to customers. See notes 14 and 6 for more information.

TAX LEGISLATION

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

OPERATING LEASE COMMITMENTS

At 31 December 2014 and 2013 the Company operated nine and five branches respectively. All of them are leased from various parties under operating leases. At year-end, the Company had outstanding commitments under non-cancellable operating leases that fall due as follows:

	31 December 2014	31 December 2013
Up to 1 month	14,443	8,773

(In GEL)

1 month to 3 months	25,159	15,282
3 months to 1 year	96,441	58,582
Between 1 and 2 years	128,588	78,110
Between 2 and 5 years	385,765	234,329
Financial commitments and contingencies, net	650,396	395,077

During the year ended 31 December 2014 and 2013 GEL 302,286 and GEL 199,156 respectively were recognised as expense in the statement of comprehensive income in respect of operating leases.

23.

23. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

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

PRINCIPAL FINANCIAL INSTRUMENTS

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

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

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

GENERAL OBJECTIVES, POLICIES AND PROCESSES

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

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

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

- Credit risk
- Liquidity risk
- Market risk:
 - Currency risk

- Interest rate risk

CREDIT RISK

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

23. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

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

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

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

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

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

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

	Note	31 December 2014	31 December 2013
Cash and cash equivalents (excluding cash on hand)	13	3,153,793	409,988
Loans to customers	14	14,817,829	10,999,139
Total credit risk exposure		17,971,622	11,409,127

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 14.

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.

23. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**- CURRENCY RISK**

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

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

Financial assets	Note	GEL	USD	EUR	Total at 31 December 2014
			USD 1 = 1.8636 GEL	EUR 1 = 1.8636 GEL	
Cash and cash equivalents	13	155,944	3,340,538	61,543	3,558,025
Loans to customers	14	3,329,227	11,486,937	1,665	14,817,829
Total financial assets		3,485,171	14,827,475	63,208	18,375,854
Financial liabilities					
Borrowings	19	651,920	13,442,427	2,718,589	16,812,936
Other liabilities	20	53,695	-	-	53,695
Total financial liabilities		705,615	13,442,427	2,718,589	16,866,631
Open balance sheet position		2,779,556	1,385,048	(2,655,381)	1,509,223

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

Financial assets	Note	GEL	USD	EUR	Total at 31 December 2013
			USD 1 = 1.7363 GEL	EUR 1 = 2.3891 GEL	
Cash and cash equivalents	13	339,092	355,989	74,405	769,486
Loans to customers	14	1,016,503	9,953,210	29,426	10,999,139
Total financial assets		1,355,595	10,309,199	103,831	11,768,625
Financial liabilities					
Borrowings	19	99,982	7,593,877	3,006,252	10,700,111
Other liabilities	20	85,677	-	-	85,677
Total financial liabilities		185,659	7,593,877	3,006,252	10,785,788
Open balance sheet position		1,169,936	2,715,322	(2,902,421)	982,837

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.

23. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency exchange rates.

Impact on net profit and equity based on asset values as at 31 December 2014 and 2013:

Currency rate sensitivity	31 December 2014		31 December 2013	
	+10%	-10%	+10%	-10%
USD impact	138,505	(138,505)	271,532	(271,532)
EUR impact	(265,538)	265,538	(290,242)	290,242
Total net impact	(127,033)	127,033	(18,710)	18,710

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 2014 can be presented as follows:

Financial assets	Note	Up to 1 month	1 month to 3 months	3 months to 1 year	Between 1 and 2 years	Between 2 and 5 years	Total as at 31 December 2014
Cash and cash equivalents	13	3,558,025	-	-	-	-	3,558,025
Loans to customers	14	590,377	569,684	3,782,824	4,993,677	4,881,267	14,817,829
Total financial assets		4,148,402	569,684	3,782,824	4,993,677	4,881,267	18,375,854
Financial liabilities							
Borrowings	19	493,242	1,734,125	7,716,787	4,063,962	2,804,820	16,812,936
Other liabilities	20	27,414	26,281	-	-	-	53,695
Total financial liabilities		520,656	1,760,406	7,716,787	4,063,962	2,804,820	16,866,631
Lease commitments	22	14,443	25,159	96,441	128,588	385,765	650,396
Liquidity gap		3,613,303	(1,215,881)	(4,030,404)	801,127	1,690,682	858,827
Cumulative liquidity gap		3,613,303	2,397,423	(1,632,982)	(831,855)	858,827	

23. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

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

Financial assets	Note	GEL	USD	EUR	Total at 31 December 2013
			USD 1 = 1.7363 GEL	EUR 1 = 2.3891 GEL	
Cash and cash equivalents	13	339,092	355,989	74,405	769,486
Loans to customers	14	1,016,503	9,953,210	29,426	10,999,139
Total financial assets		1,355,595	10,309,199	103,831	11,768,625
Financial liabilities					
Borrowings	19	99,982	7,593,877	3,006,252	10,700,111
Other liabilities	20	85,677	-	-	85,677
Total financial liabilities		185,659	7,593,877	3,006,252	10,785,788
Open balance sheet position		1,169,936	2,715,322	(2,902,421)	982,837

CAPITAL DISCLOSURES

The Company's objectives when maintaining capital are:

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

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

	31 December 2014	31 December 2013
Borrowings	16,812,936	10,700,111
Less: cash and cash equivalents	(3,558,025)	(769,486)
Net debt	13,254,911	9,930,625
Total equity	3,243,556	2,219,101

23. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

Debt to equity ratio (%)	409%	448%
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

(In GEL)

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 and related parties are disclosed below.

Related party balances and transactions as and for the year ended 31 December 2014:

Financial statement caption	Note	Shareholders	Key management personnel	Other related parties	Total as per the financial statements caption
Borrowings	19	1,108,262	-	2,898,197	16,812,936
Interest expense	5	30,868	-	108,823	1,470,249
Staff costs including salaries and bonuses	8	-	252,574	-	1,556,236

Related party balances and transactions as and for the year ended 31 December 2013:

Financial statement caption	Note	Shareholders	Key management personnel	Other related parties	Total as per the financial statements caption
Borrowings	19	3,573,610	-	1,738,049	10,700,111
Interest expense	5	440,942	-	210,192	1,419,625
Staff costs including salaries and bonuses	8	-	205,743	-	946,481

25. EVENTS AFTER THE REPORTING PERIOD

Post balance sheet events occurred in the Company:

- Company opened four new branches in different towns of Georgia including Tsnori, Kvareli, Lagodekhi and Akhmeta and total number of offices reached 13. The Company plans to increase number of offices to 21 by the end of the year.
- Company’s shareholder Hansjoerg Brokmann sold all of his shares in 2015. The shares were purchased by Eastern Capital.